

Examining the innovation funding lifecycle: selection, reapplication and firm outcomes in Innovate UK funding

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OVERVIEW

» Innovate UK (IUK) is a major source of support for innovative businesses, but little has been known about how firms enter the funding system, respond to rejection, and may benefit from funding over time.

» IUK funding plays an important role in attracting private investment into innovative firms, particularly startups. The results suggest that more effort is needed to broaden participation and support unsuccessful applicants.

PURPOSE

This project examined the innovation funding lifecycle from application through to the impact of funding. It explored three questions:

- » Which firms apply for Innovate UK funding
- » How firms respond when applications are rejected or accepted
- » What effect grant funding has on subsequent business outcomes.

APPROACH

The study combined Innovate UK application records with data on startups, venture capital investment, scientific publications, research collaborations, employment and open-source software activity. This enabled an assessment of both applicant behaviour and the causal impacts of funding.



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FINDINGS

» Which firms apply for Innovate UK funding

- Entry into the IUK applicant pool is uneven. Among AI startups, application is associated with geography, prior venture funding, university spinout status and engagement with IUK communication channels.

» How firms respond when applications are rejected or accepted

- Rejected firms are more likely to reapply within 12 months, as 45.8% of rejected firms reapplied, compared with 32.5% of funded firms. However, these patterns fade out over time, suggesting that most firms bounce back from rejection.
- Among startups, the pattern reversed. Within 36 months, 65.1% of rejected startups reapplied, compared with 80.3% of funded startups, indicating that rejection has a 'scarring effect' on new firms.

» What effect grant funding has on subsequent business outcomes.

- The evidence supports a 'crowding-in' interpretation: IUK funding appears to help firms attract additional private finance after receiving public support.
- £1 of Innovate UK funding generated approximately £1.68 of additional private venture investment.
- Evidence of impacts on other outcomes like publications, research collaborations, hiring, and firm survival is more limited and less consistent.

DISCUSSION/IMPLICATIONS

» Widening the funnel, not just the funding

AI startups with certain locations, origins and prior funding histories have a "head start" over others in the decision to apply. IUK needs to increase its efforts to onboard startups and broaden its engagement with startups that lack these relationships.

» Established firms shrug off rejection; startups carry the scar

Most companies do not appear to be discouraged from reapplying in the long term. However, rejected startups may feel the "sting of failure" for many years afterwards.

» Grants attract capital, not additional research activity

Startups receiving a grant are more likely to obtain private funding and raise larger amounts than those rejected. However, there is little evidence that it increases publications, open-source software contributions, R&D hiring or firm survival among startups.

IUK funding plays a key role in leveraging additional private funding for startups.

Extra support and attention should be given to build rejected startups' ability to bounce back.