

## Entrepreneurship: overcoming barriers to scaling up

### Background

Innovation is crucial to the engineering and technology sector, the wider business community and the UK economy as a whole. By the end of 2022 there were 33,955 scaleups in place that were contributing £1.2 trillion to the UK economy (Source: ScaleUp Institute, ScaleUp Index 2022).

Entrepreneurship and innovation are the key pillars of the UK economy, making it a cornerstone of any industrial strategy, bringing ideas to life and presenting new ways for products, services and processes to advance society. Small and medium enterprises (SMEs) are often able to operate with more agility than their large company counterparts but do need to take calculated risks. Access to resources remains a key challenge to SMEs progressing their ideas. Often, companies will develop a 'prototype' to prove their technology is effective with early adopters but then struggle to take the next step to scaleup. Ensuring we are supporting the most promising SME's can reduce the total of failed startups and help them scaleup, particularly with their potential to grow the economy.

The UK's innovation and entrepreneurship landscape is complex. However, instead of seeing growth, we are seeing a decreasing number of companies seeking investment for growth (Small Business Barometer, Q4 2023, Enterprise Nation). This is a trend seen globally, as there has been a sharp downturn in global funding activity for 2024 when compared to 2023 (Vestd, The Global Investment Report 2024: A deep dive into global funding activity), for the UK to continue being a world leader in innovation, this needs to be addressed. Unclear pathways and a lack of multi-sector support exacerbates financial and communicational disconnects, further hindering growth. While incubators, accelerators, government schemes, and regional initiatives can provide crucial support, more is needed to streamline the process of bringing innovative ideas to market and supporting them through their journey.

Providing more SMEs with the opportunities and ecosystem to grow into scaleups could present a huge boost for the UK economy, with a sustained positive impact on jobs, local economies and skills development. Launching more SMEs on the path to scaleup will create a knock-on positive effect for smaller companies striking out on the entrepreneurial journey.

### Recommendations

- **Scaleup pathways:** Government, Innovate UK and venture capitalists (VCs) should develop pathways for scaleup that are suitable for a variety of sized businesses to support the entrepreneurial journey. There are resources available through Innovate UK, however these need to be built on key milestones and be intertwined with knowledge sharing, showcasing success, connecting with commercial opportunities, promoting networking opportunities and establishing mentorship programmes.
- **Information and development:** Academia has a crucial role in supporting more spin outs and startups. Alongside apprenticeships, T Levels and university courses, there should be information on how to develop scalable, efficient and environmental design practices embedded into the curriculums and culture. Further, information on the VC schemes available to innovators, what tax relief is available and how to navigate tax rules in preparation for accounting and submitting taxes should be streamlined through the networks that are already available to entrepreneurs.

- **Collaboration:** Academia, industry, and government entities must have more joined up collaboration in order to provide entrepreneurs with access to cutting-edge research, technological advancements, and a highly skilled workforce. It is important to build a cohesive infrastructure that enables SMEs to overcome the barriers of scaling up. Building on Business Connect is key to this, but the offering needs to be strengthened to appropriate levels of entry and communicating what is available more clearly.
- **Diversity:** Government, funding bodies, educational institutions and professional organisations should champion diversity in entrepreneurship (race, gender, socio-economic, disability, neurodiversity) through a cross-industry charter VCs and other interested parties highlighting their commitment to diversity in funding in the entrepreneurship and innovation space.
- **Taxation:** Government should consider the tax regime for SMEs to avoid challenges faced by other countries, who have high levels of entrepreneurship, but whose tax laws run the risk of losing those innovators and VCs.

## The entrepreneur community

Running a successful business requires training and knowledge that extends beyond the technical. Entrepreneurs need to be able to identify markets, make sales pitches and manage finances. Scaleups and potential scaleups need specialist managerial, sectoral and technical skills and knowledge, but this needs to be applied within a larger business knowledge framework and combined with a much deeper and better understanding of client challenges and issues (Source: The IET, Bridging the innovation gaps). It may also be the case that entrepreneurs and managers don't recognise that they need training.

Access to good mentors, with in-depth knowledge of business environments across a range of sectors, is critical for any innovative SME. Although mentoring may have negative connotations, due to associations with poor value consultancy, SME managers are eager to hear from people who have recently overcome similar challenges in their sectors. Equally, many successful businesspeople want to pass on their knowledge to others.

Peer-to-peer mentoring, local networking and showcasing innovation can all lead to strengthened partnerships across all sectors of the UK economy. It is key to ensure that activities are embedded into a coherent ecosystem. Innovate UK has set up the [Business Connect](#) that can help entrepreneurs find project partners and hold funding-specific webinars and events. Government, alongside Innovate UK and other funding bodies, should aim to strengthen the offering to appropriate levels of entry and communicate what is available more clearly, especially for those wishing to scale up. This can be achieved by putting together an in-depth repository of videos and other educational resources to guide entrepreneurs and innovators to creating successful startups that can be scaled up. Innovate UK has a wide reach, but it only captures a certain number of entrepreneurs, there needs to be more collaboration with academia, industry, and government to access a wider pool of applicants.

Access to good mentors, with in-depth knowledge of business environments across a range of sectors, is critical for any innovative SME. Having a mentor provides emotional and strategic support, crucial to overcoming setbacks. Mentoring schemes need to be carefully managed and assessed to ensure consistency, for example matching experienced entrepreneurs with early-stage founders. There is a role for wider industry, larger companies, academia, government, catapults and VCs to facilitate these mentorship schemes in order to share knowledge, successful ventures and best practices. It can be achieved as part of Innovate UK's platform by providing a digital offer to match entrepreneurs with mentors. This can be either through an app or forum, which will provide ready access to mentors with the right expertise depending on the needs of the applicant.

It is important to showcase successful ventures, but more importantly the challenges of the beginning of these ventures and the failures that come before these successes. Risk-taking is an important part of innovation, this needs to be an accepted part of the culture in the UK, so that entrepreneurs will learn from these setbacks as well as the successes and continue to innovate. Bringing together cohorts of founders in similar geographic regions and/or technical areas can achieve this as a support system.

Building a cohesive infrastructure through local and national networks, that enables even just a small proportion of SMEs to overcome the barriers of scaling up, will result in a swift and measurable positive impact on the UK economy. By building on Business Connect to achieve this, alongside our other recommendations, will transform SMEs into scaleups and can also be used to launch existing scaleups into the next stages of success. There is huge value to be derived from developing local networks of like-minded SMEs with similar technologies or supply chains to build links between businesses, as well as supporting the sharing of knowledge and expertise. Beyond this, it is vital for SMEs with innovative products to network with the wider industry, larger companies, academia, government and VCs.

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### **Educating in scalable, efficient & environmentally designed practices**

In the UK, entrepreneurs are a key source of innovation, establishing new and successful SME startups through innovative ideas. These enterprises are responsible for most new, marketable ideas and have created an innovation pipeline with the potential to drive strong economic expansion and create high-value employment. However, there may be a lack of adequate support for entrepreneurs and SMEs as they begin to reach scaleup stage.

Scaleup businesses drive significant economic growth. They generate twice the turnover per head compared to the UK average, and the UK has one of the highest rates of business startups in the world – nearly 660,000 companies were established in 2016 (Source: Centre for Entrepreneurs, 2016 Breaks Business Formation Records). However, this groundswell of startups is not translating into scaleups. When compared with international peers, in terms of the numbers of jobs created by scaleups, the UK is fourth globally, behind the United States (US), France and Brazil (Source: ScaleUp Institute, Annual Review Highlights 2024).

It is important to showcase successful ventures, building on previous recommendations, case studies should be made available about how successful ventures were able to scaleup as part of the educational resources that Government, Innovate UK and other funding bodies should make available to entrepreneurs through Business Connect.

Academia has a crucial role in supporting more spinouts and startups. Universities have the right environment for innovation, having scalability and business sustainability built into university curriculums is important. By including this early in degrees before optional modules, this can provide entrepreneurs the key skills and knowledge across subject areas that would cultivate entrepreneurship in the future.

The United States (U.S.) is ahead of the UK as it has an infrastructure that supports growth and development of startups. For example, Massachusetts Institute of Technology (MIT), not only produces cutting-edge research and innovation, but also provides a steady stream of graduates who go on to become successful entrepreneurs, who contribute to a growing economy, creating two-thirds of new jobs and contribute to 44% of U.S. economic activity (Source: U.S. Small Business Administration, Small Businesses Generate 44 Percent of U.S. Economic Activity). This is achieved through collaboration between academia, industry, and

government entities, which provide entrepreneurs with access to cutting-edge research, technological advancements, and a highly skilled workforce. This meeting of intellectual capital creates an ecosystem where innovative ideas can flourish and shape the future. There is also a risk-taking culture in the U.S., which significantly contributes to the success of their entrepreneurial ecosystem. This culture enables entrepreneurs to celebrate success stories, whilst seeing failure as a learning opportunity.

### **Diversity in entrepreneurship**

SMEs and entrepreneurs can face significant inequalities in access to finance and entrepreneurial outcomes dependent on characteristics including gender, ethnicity, and disability (Unlocking the potential of diverse entrepreneurs – Factsheet, British Business Bank). There is a competitive advantage to addressing equality, diversity, and inclusion (EDI) across industry. Diversity of opinion and backgrounds promotes innovative thinking, resulting in more original and creative ideas. It will grow the UK economy as well as making UK businesses more desirable to work for if they take visible and effective action to improve EDI.

In a NESTA report on diversity in entrepreneurship it found that women and minority ethnic entrepreneurs combined contribute around £130 billion to the UK economy (Source: NESTA, What works to boost diversity in entrepreneurship?). However, comparatively they struggle to access to finance, are less likely to rely on formal support and are less likely to secure government or corporate contracts. Tackling these barriers could add at least £250 billion of additional value to the economy.

Visibility and representation matters. We need ensure real life role models are represented in the university curriculums for the next generation to look up to and to tell them first-hand about their experiences and how to get into the sector. Both the IET and WISE are working to highlight role models in the sector via the IET Young Woman Engineer of the Year Awards and WISE's My Skills My Life platform – both showcasing the breadth and depth of people and roles in the sectors.

There is a role for Government, Innovate UK and industry to initiate a cross-industry charter for VCs and other interested parties, similar to the [Tech Talent Charter](#) (TTC). Following a similar structure to the TTC, the charter should include a playbook of best practice to signatories and agree to an annual data collection from signatories on their diversity practices that VCs and other interested parties are able to sign up to.

### **The UK tax environment**

High-income tax rates and inefficient tax structures can discourage innovation and encourage entrepreneurs to move to areas with lower tax rates. Norway is currently facing a departure of innovators and entrepreneurs due to high taxation on unrealised gains on assets such as shares if their net worth exceeds 1 billion Norwegian kroner (~£7.2 million), preferring countries such as Switzerland that have lower tax rates (Tax Natives, What is behind Norway's wealth tax exodus?). Income tax rates are shown to affect the quality of innovative ideas, the number of startup businesses and patent applications, and where entrepreneurs decide to locate (The Centre for Growth and Opportunity, How Do Taxes Affect Entrepreneurship, Innovation, and Productivity?).

In the UK there are a number of VC schemes that can help SMEs grow by attracting investment as well as offering tax relief to individuals who buy and hold new shares, bonds or assets for a specific period of time (GOV.UK, Use a venture capital scheme to raise money for your company). However, these schemes, such as the Enterprise Investment Scheme (EIS), come with a raise limit that can hinder startups, rather than help them. Government should consider the tax regime for SMEs, in order to not fall into the same traps that other countries, who have high levels of entrepreneurship, but their tax laws run the risk of losing those innovators and VCs.

This can also be a daunting landscape to navigate for innovators when first approaching how to raise funds. There is a lot of disjointed advice from different bodies on what tax relief incentives there are, how to register for tax and how to account and submit taxes. Expanding on the education resources made available in the Business Connect, Innovate UK alongside academia and other interested parties should streamline the information on the VC schemes available to innovators, what tax relief is available and how to navigate tax rules in preparation for accounting and submitting taxes.