



Arbenigwyr mewn Busnes
Experts in Business

1st October 2018

Russell George AM
Chair, Economy, Infrastructure and Skills Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Dear Russell

RE: Research and Innovation in Wales Inquiry

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

FSB Wales welcomes the opportunity to comment on the Economy, Infrastructure and Skills Committee's inquiry into research and innovation in Wales. We have carried out several pieces of research of relevant to this inquiry both in Wales and across our wider UK organisation.

In our recent report *The Missing Middle* FSB Wales suggested there needed to be significant change in terms of the governance and funding of research and innovation policy in Wales, aimed at bringing closer alignment between PCET institutions and companies who could commercialise IP.¹ In particular, our recommendations reflected recent evidence gathered by the Innovation Advisory Council for Wales on a potential innovation body for Wales, and the UK Government's industrial strategy that committed a 20 per cent increase in funding for research and innovation.

We are pleased to see that this is being developed through the creation of Research and Innovation Wales (RIW) within the PCET proposals. However, it is vital that Welsh Government focuses funding on this area, particularly in relation to knowledge transfer and exchange between higher education and businesses of all sizes.

On the whole, this area of policy has been poorly coordinated in the past and as a result the links between universities and businesses have not been properly funded, developed and promoted to ensure maximum economic value for Wales. This is clear from the recommendations of the Reid review, which we would encourage Welsh Government to adopt and implement within its proposals for RIW. Furthermore, both the Diamond and Reid reviews have provided significant evidence upon which to base decisions around the funding of QR and innovation related activities.

In particular, we feel that further funding should be targeted at the point where businesses and universities interact, through funds similar to Higher Education Innovation Funding (HEIF). The Reid review identifies this

¹ FSB Wales. 2017. *The Missing Middle* [Online]. Available at: http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_missing_middle_eng.pdf?sfvrsn=0



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funding as ceasing to exist in Wales from around 2014 onwards with European funding largely filling the gaps.² Given the uncertainty around European funding going forward, Welsh Government should act in this area as a priority and seek to develop the St David's Investment Fund as per the Reid recommendations.

SMEs and Innovation

Recent research undertaken by our Westminster office highlights the relationship between SMEs and innovation related activities³. In summary, the following key themes emerge:

- 76 per cent of smaller businesses have introduced a new innovation in the past three years.
- Of those who have innovated, 25 per cent have introduced a **new to market product** and 95 per cent a **new to firm** innovation.
- 40 per cent of those bringing new products to market are not aware of any R & D tax relief relevant to their business.
- Just 10 per cent of innovating smaller firms have accessed financial support from government.
- 43 per cent see lack of time as a barrier to innovation.
- 37 per cent see lack of staff or skilled employees as a barrier to innovation.

In the first instance, it is important to recognise that innovation is a far broader term than simply university led research activity. We found that firms fall in to two camps with those innovating by introducing new innovations to their business on the one side and those bringing new product innovations to market on the other. In the context of links between research funding and innovation, it is the latter group that will be most relevant.

SMART Cymru

SMART Cymru is Welsh Government's support programme for innovation activity in businesses.

Anecdotally, we have heard accounts of barriers being created preventing businesses from access funding relating to innovation in Wales. For instance, a member recently approached us about Welsh Government's SMART Cymru funding for innovation saying they were unable to access it as they employed fewer than 10 people and did not anticipate growth that would lead to employment of 50 people or more. This suggests that some innovation support is being withheld for those who are on the Accelerated Growth Programme and not for the broader SME community.

This appears to run contrary to the Welsh Government's own advice on the issue with its SMART Cymru guidance suggesting *"Our support is aimed at small and medium-sized enterprises (SMEs), as well as start-up businesses. We provide financial support and innovation advice. We direct you to specialists and help you create connections. In short, we support you by sharing the risk."*⁴ We are concerned by this and would urge the committee to investigate this further with a view to ensuring innovation funding is genuinely available to all small businesses.

² Reid Review. 2018. <https://gov.wales/docs/det/publications/reid-review-en.pdf> P.43

³ <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/innovation-report-final.pdf?sfvrsn=0>

⁴ https://businesswales.gov.wales/sites/business-wales/files/documents/Growing%20a%20business/SMARTCymru%20Brochure%20Eng_growing.pdf



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Challenge-led research

FSB Wales broadly welcomes the notion of challenge-led research. However, this can only succeed in an environment where there is sufficient funding through traditional QR funding to create the capacity needed within universities to be able to bid for any challenge funding. Fundamentally, QR funding provides institutions with the base level of investment to allow them to attract more challenge-based funding through UKRI, the research councils or a proposed Future of Wales Fund highlighted in the Reid Review.⁵ We agree with the assessment in the Reid Review that challenge funding should not detract from QR but should seek to promote more competitive institutions.

If this succeeds, one would expect more quality research in Wales that would deliver opportunities for commercialisation through SMEs and economic development.

Business links with universities

FSB Wales welcomes Welsh Government's intention to broaden out funding so that SMEs are able to access it. However, it is likely that the capacity to do so in the short term will be limited given the nature of QR and the proposed challenge funding. At present, universities are likely to be the only organisations with the research quality to succeed in this regard.

That said, FSB Wales believes more needs to be done to increase the links between universities and businesses, particularly around the innovation agenda. Building links in this regard will be mutually beneficial, particularly where SMEs are involved, and will allow the Welsh economy to better capitalise on the opportunities created by knowledge generation.

As a practical step in this direction, we believe the Reid Review recommendation to create a St David's Investment Fund to increase the scale of collaboration between businesses and universities is necessary. This would help generate further revenues for research by increasing the amount of external investment received by universities. It would also ensure our conversation is one of collaborating to maximise impact rather than competing for limited funding.

In relation to the creation of a Tertiary Education Commission for Wales (TERCW), it is vital that this organisation is tasked with delivering the post-compulsory education system that the Welsh economy needs, and this should include priorities around research and innovation funding. It cannot simply be the aggregation of disparate education sector voices under one banner.

Graduate Entrepreneurs

Like anyone wanting to start a business, graduates in Wales will have access to support from Business Wales and the Development Bank of Wales. As we set out in our report *Supporting Success* it is crucial that both services are continued and strengthened when European funding comes to an end in 2020. Both services provide good value for money in terms of job creation, particularly when compared to grant funding given to large businesses in Wales.⁶

Small Business Charter

⁵ <https://gov.wales/docs/det/publications/reid-review-en.pdf> P.24

⁶ [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-\(english\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-business-support-beyond-2020-(english).pdf?sfvrsn=0)



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As a matter of course, we would like to see all institutions in Wales look at attaining the Small Business Charter.⁷ This charter sets out the need for universities to help small firms grow, engage with others in the area on the economic agenda and provide students with start-up support. At present, only Cardiff Metropolitan University and Cardiff University have attained the charter, both of which we have worked with in the process.

⁷ Further details about the criteria involved in the charter can be found here: <https://smallbusinesscharter.org/wp-content/uploads/2018/08/List-of-SBC-Dimensions-August-2018.pdf>