

Universities Challenged

Barely a week goes by without the government announcing its latest plans to turn the UK into a “science superpower”. It is a laudable ambition and it feels like politicians are finally starting to make the right noises around research, funding, and talent - all backed up with significant financial support, evidenced by the £2.5B quantum computing strategy announced in March and the £100M investment into an ‘AI Task Force’.

However, if Britain really is to become a science superpower, we must ensure we improve one vital, but often overlooked area of the innovation economy: university spin-outs.

Context is Key

At first glance, it would be easy to ask: What’s the problem? The UK is a global leader in higher education, with 85% of our university research classified as “world-leading”. Yet when it comes to translating the game-changing ideas developed in the labs and classrooms at our top universities into world-beating companies, then the UK really struggles – and has done for years. University spin-outs represent just 3% of all Britain’s fast-growth companies, according to Beauhurst.

University spin-outs are companies that seek to commercialise academic research created within a university. In most cases they are enabled by Tech Transfer Offices (TTOs) who act as agents of the university, responsible for helping this commercialisation process happen, for example, by introducing seed funding or transferring intellectual property rights. Their aims are seemingly the right ones, but amid university funding cuts, some TTOs fear they might miss valuable returns and see taking equity from spin-outs as a way to bolster their finances.

There is some hope. The government's announcement last month of a consultation into the university spin-out process is a promise of change. Indeed, the TTO network needs a serious revamp if Britain is to start fulfilling its potential as a global technology hub. We should be in no doubt though that a failure to bring about change will mean the UK never competes with the system in America, where companies such as Facebook emerge from university dorm rooms ready to take on the world.

Read also

Commercial consultancy without ego, a profile of ACF Investors

A culture problem?

A big part of the problem lies in a culture where UK universities still too often eye commercial enterprise with suspicion and seek to hold onto the assets, taking big equity stakes in the companies they spin out. A recent report by Beauhurst found that universities retain an average equity stake of 24% of their spin-outs. By doing so, universities are unintentionally imposing excessive bureaucratic demands on founders, which inhibits their ability to scale and grow companies efficiently. They also have a misguided view that capturing a big stake at the outset, through increased equity stakes or licence fees over intellectual property, will deliver them the best returns, in reality though it tends to mean the spin-outs struggle to raise private capital and are more likely to fail.

Digging more deeply there are stark differences between the UK and US's spin-out process and culture. Household names like Facebook and Google were created in US universities in well-known stories of entrepreneurial success. The

US institution's more 'hands off' approach allows companies to be spun-up and spun-out quickly and with less – or sometimes no – equity taken by the university. It was reported in 2022, that the University of Oxford changed its equity policies, dropping its average equity stake from 50% to 20%. However, this is much more than most US universities; Berkeley in California, states it will not take over 10%.

So what is the real risk here, well in part it's that UK founders with innovative ideas will take their research and move across the pond to work with Universities that will allow them to keep more control over their businesses. But perhaps to a greater extent it's that a track record of underperformance for UK spin-outs delivers a self-perpetuating situation, with too much great research left to wither or be picked up by others. It's really not a zero-sum position either, and investors in the US know that founders are better motivated if they hold the equity themselves. Moreover, in the US, universities have an expectation that founders who are successful will pay it back in kind through initiatives such as building a new lab or sponsoring some research. This is one alternative to taking big equity early and provides a win-win for both the founder and the university.

As it stands, the UK's spin-out process has a negative impact on the commercial viability of many companies that emerge from our universities because potential investors – including angel investors and early-stage venture capital funds – see founders being trapped by the commitments to their universities. They also know that spin-outs need commercial skills on-boarded right from the outset if they are to thrive and that means attracting talent beyond the world of academia.

We see it all the time – companies that have potential but are worn down by the tech transfer process and although there is no way to guarantee success, making the transition from the academic to the commercial world should not be the first hurdle they fall at. There is also no consistency across the UK and experiences vary dramatically.

Copy the US? Or forge our own path?

What the government consultation needs to address is both the mechanics and the mindset of the tech transfer process. What is needed is efficiency, practical experience and commercial support for the founders. The UK as a whole has a lot to gain and by taking a leaf out of the US's book, building a culture of innovation with a system that will enable our ambitious founders to scale their ideas, tremendous value can be unlocked.

However, the UK should not simply seek to replicate the US model, it needs to create a new culture of its own. One that doesn't lose the uniqueness of our

dreaming spires, but routes them on more solid commercial foundations. If we do not help these spin-outs to commercialise through a more efficient tech transfer process, there is a good chance we will lose these companies entirely, either to other countries, exasperation or apathy.

We can hope that the UK government consultation will help to aid this process, so we can see some of Britain's greatest minds transform their ideas into commercial successes.

Tim Mills is Managing Partner at [ACF Investors](#).

Article by TIM MILLS