Jon Moulton's Diary

Should we be encouraging more UK university spin-outs or make do with fewer but better ones?

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

A few weeks ago the government published *The Independent Review of University Spin-Out Companies.* Its oddest feature is its title. The review was initiated by the government and staffed, it seems, exclusively by people who are not independent. Vice chancellors, other industry academic investors and the like. Excellent and talented they hopefully all are – but independent they are not. As a group, the thing they are most likely to agree on is increasing the size of the cake.

The report shows some of its understandable bias by stating that in 2021 a cheerful sum of £5.3bn was invested in UK university spin-outs. The source data showed a drop in 2022 of approximately £1bn, which you would have thought deserved mention but did not get one. The definition of a university spin-off is, in any case, definitely pretty expansive – it includes "Student startups funded by recent graduates" and "Staff startups .... Not based on IP from an HE provider."

You get a better view of the scale of university spin-outs from a longer read of the data source, https://www.hesa.ac.uk/data-and-analysis/business-community/ip-and-startups .

Notably though, the totality of the data shows about 100,000 souls actively working in "university" spin-offs of whom more than 50,000 work in companies without any higher education ownership. That is not a lot, given the time period over which those workforces were built up.

Eye of beholder

In any case, it is in the eye of the beholder as to the importance of the higher education input to particular spin-off companies – it will vary from serious intellectual property injections to little more than people having work/studied together.

Those of you who have ever tried to agree who gets what for how much in a startup will appreciate that this is not a precise game. Only perfect knowledge of the future makes it easy. The Review writers have valiantly tried to find a solution to this riddle, but this is squaring the circle as a task.

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The problems of university spin-outs have more chance of being addressed by considering lessons from outside HE

Another example of naivety is the recommendation to provide "high quality entrepreneurship training". And the trainers are? Until managerial science evolves – a lot – the dictum of "Those who can, do; those who can't, teach" remains entirely sound.

There are a lot of well-meaning recommendations in the Review, but while they may increase the quantity of fundings there is nothing here to improve the quality of the spin-offs.

Indeed, the greatest problem in the UK for early-stage venture capital is the generally low returns and far too many failures. The reviewers do not mention these central issues. I am not asserting there are not good, even excellent, early-stage investments in the UK. There manifestly are. We need more of them.

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If returns were generally higher, then market forces would come into play and many of the difficulties in the university spin-off market would diminish.

Too thinly spread

As a first approximation, there are finite populations in the UK of managers, scientists and the other factors that make a successful investment. Spread these resources too thinly and low overall returns result.

Focus is essential. Government funding of early-stage deals with social objectives (however noble) does divert good people and assets to economically mediocre, or worse, activity.

The insidious effects of league tables of universities which measure amounts and quantities (for example patent filings, staff levels and money disbursed etc) but not the quality of ventures and investments is another problem well into its development.

How about using the brain power behind the Review on generating better investment selection and concentration? Less and better is worth thinking about.