

Who Helps the Helpers? Resilience and Challenges of Business Accelerators and Incubators during the Pandemic in the U. K.

Dr. Farzana Chowdhury

Affiliation: Durham University

Email: farzana.chowdhury@durham.ac.uk; farza.chowdhury@gmail.com

Dr. Jonathan Boone

Affiliation: NESTA

Email: Jonathan.Bone@nesta.org.uk

Abstract

Business accelerators and incubators assist young ventures by providing many critical services. Restrictions associated with COVID-19 are expected to have a significant impact on these programs. This paper provides the first analysis of the pandemic's effect on these programs in the U. K. The results of the article show that these programs have seen some unexpected results. More than a third of programs saw an increase in demand for their programs from their existing clients and their new clients. COVID-19 adds to the pressure placed on these programs by Brexit, which programs still consider presenting a sizable challenge. While government relief programs have helped some programs, the benefit was not consistent across the board. The findings of this study have a policy and managerial implications.

Keywords: Accelerators; Incubators; U.K.; COVID-19; pandemic; Brexit

Introduction

The most dramatic global public health emergency in living history, COVID19, has put significant constraints on businesses, alongside all other human activity (Guterres, 2020).

Nations were caught unprepared and are faced with substantial uncertainties. The pandemic sent shock waves worldwide and raised questions about government, social, and development institutions' role in protecting people from the immediate threat of the disease and protecting them from the crisis's longer-term economic impact. In many countries, the pandemic has led to the introduction of government interventions with the specific aim of protecting businesses.

While lots of effort has been put into protecting existing businesses to protect from the worst of a recession (Bishop and Shilcof, 2017; Williams and Vorley, 2014), in order to bounce back to pre-COVID levels of growth, it will also be essential to continue supporting the creation and scaling of new businesses – particularly in high-growth sectors. Alongside this, there is an argument that we will need lots of innovative products and services to flourish in the 'new normal' – this includes those related to medicine, hygiene, and communication, but also those industries like leisure and hospitality which have been hardest hit by lockdowns and social distancing. Many of this innovation will come from start-ups.

Accelerator programs and incubators share the common goal of supporting new and small businesses through the early stages of growth by providing a range of business support services. The first accelerator program is often said to be Y Combinator in the U. S., which started in 2005 (Miller and Bound, 2011). Since then, the number of accelerators has increased significantly¹. Accelerators and incubators in both the U. K. and in the U. S. share similar characteristics, such

¹ <https://www.f6s.com> (last visited December 2018)

as typically providing workspace, mentorship, and networking opportunities to the firms they support. However, while accelerators typically offer services through a cohort-based program of limited duration (usually 3-12 months), incubators take on and graduate businesses on a rolling basis, with typical residences lasting several years (Cohen, 2013; Cohen and Hochberg, 2014; Bone et al., 2019). In both the U.S. and U. K., incubators are often associated with universities or non-profit organizations; in the U. K., at least this is also true for some accelerators (Isabelle, 2013; Radojevich-Kelley and Hoffman, 2012; Bøllingtoft and Ulhoi, 2005; Bone et al., 2019).

Regardless of the similarities or dissimilarities, the services offered by accelerators and incubators have been shown to have a positive impact on start-ups' new venture performance (Cohen, Bingham, and Hallen, 2018; Cohen, 2013; Gonzalez-Uribe, and Leatherbee, 2018). Attending both accelerators and incubators has been shown to be positively associated with a range of success metrics for start-ups, including but not limited to firm survival, raising finance, and employee growth (Bone et al., 2019). Importantly, these programs' positive impact has been shown to spill over into other local firms that did not themselves participate in an accelerator program (Bone et al., 2019; Fehder and Hochberg, 2014). This positive spillover effect creates a strong policy argument for the public support of such programs.

The effect of COVID-19 on accelerator and incubator programs is unknown because of the lack of timely data. This paper addresses this limitation by surveying programs across the U. K. This study provides the first assessment of the effects of COVID-19 on accelerator and incubators programs as far as we know. Based on the survey data, we can assess how the accelerators and incubators have been coping with the pandemic so far, what challenges they have faced since the beginning of the pandemic, evaluate the impact of government relief schemes on these programs, and challenges they see in the future.

DATA

Context of Accelerators, Incubators, and the Pandemic

We sent out the survey to the 250 accelerators in the U. K.; the survey was conducted from August 2020 to October 2020. Therefore, we only included respondents who answered all the questions.

The accelerators and incubators respondents of our survey are located across the U.K. While some of these programs have a specific sector focus, such as food, creative industries, design, space, and satellite technology, others did not have any particular sectoral focus, and few others supported more than one sector. The funding sources for these programs vary. The most common forms of funding sources are government, rent from clients, membership fees, and corporate and other private funders. Other funding sources are universities, foundations, and the European Regional Development Fund (ERDF), as reported by the survey respondents. Table 1 presents information about the sectors the programs support and the programs' funding source.

Insert Table 1 Here

The U. K. government started to lock down in March 2020. Initially, on March 16th, the U. K. government advised the public to avoid unnecessary contact and travel, work from home if possible, and stay away from pubs and theatres. On March 23rd, this advice was made legally mandatory (Guardian, 2020; Khan & Cheng, 2020). Since this date, the government's advice and rules have repeatedly been loosened and tightened, creating ongoing uncertainty for all kinds of businesses.

Following the national policy, many of the programs made operational changes. Our survey included six options to choose from-- remained closed, kept the facility open with social distancing, changed visitation policy by reducing the number of visitors in the facility, deep cleaned facility every day, and did not start any new initiative. A majority of the survey respondents (30%) kept the facility open with reduced numbers of visitors and a social distancing policy in place. Of the respondents, twenty percent of the respondents mentioned that facilities remained closed; twenty-seven percent decreased the number of visitors in the facility, and eighteen percent said they deep cleaned their facility every day. In addition to the given options, some of the programs mentioned in our survey have made additional operational changes. Some of the other modifications undertaken by these programs included closing facilities to external guests, installing personal protective equipment (PPE) throughout the facility, and closure of in-house cafeteria and retail facilities. While some programs remained closed throughout the March to August period, many opened their facilities in different phases between July and September; and one program mentioned that while they closed their office space, technical facilities and equipment were accessible with social distancing.

Changes in Accelerators and Incubators Funding and Workforce

Many of the programs rely on rents and membership fees as sources of funding. As expected, a majority of the programs saw their profit decrease. Of the respondents, seventy percent of the survey respondents said their profit fell from March 2020 through August 2020, while twenty-five percent did not see any changes in their profit margin. One program (5%) of the programs saw their profit increase during these months.

Many of these programs also saw changes in their workforce. In comparison, forty-eight percent of the respondents did not see any changes; many of the programs laid off their full-time

and part-time employees. Some of the programs reduced their employees working hours, while some furloughed their employees, then brought them back part-time and gradually transitioned them to full-time. A small group of programs managed to hire new employees during the pandemic, while three-fourth of the accelerators that had a specific focus on Life Sciences or Health and Wellbeing saw no change.

Programming Changes and Role of Technology

The pandemic has forced businesses to adopt digital technologies to maintain their productivity with minimum disruption. Existing research suggests that strategic adoption of digital technology helps to enhance competitiveness, productivity, and performance (Bruque & Moyano, 2007; Chan, Teoh, Yeow, & Pan, 2018; Dibrell, Davis, & Craig, 2008; Kleis, Chwelos, Ramirez, & Cockburn, 2011). Like the other sectors in society, accelerators and incubators also saw increased use of social platforms (Slisco, 2020; Mander, 2020).

Accelerators and incubators programs provide a wide range of services to their clients --- funding from the program, coaching/personal development, legal/financial/marketing/H.R. support, help with media exposure, help with team formation, business skill development, testing, and refining business model, networking opportunities with peers, potential funders/investors, and partners and customers. Typically, before the pandemic, all of these services were offered in-person, in the accelerators building (i.e., 25% of the programs provided Legal/Financial/Marketing/H.R. support offline). While some accelerators and incubator programs offered many of these services online, this was somewhat uncommon (i.e., 39% provided access to connections to potential partners and customers offline). As the lockdown began, most accelerators (i.e., 35% offered access to connections to potential partners and

customers online) transitioned to providing the same services as they provided before the pandemic online

Insert Figure 1 Here

As these programs transitioned to an online platform, the difficulty of offering these services online became apparent. The problem was evident for both the clients and the accelerator and incubator program team members. While the online platforms allowed these programs to continue services such as training, other benefits of participating in these programs were not possible, as suggested by one of the programs, "One of the biggest benefits of being based in an incubator community is informal networking - the chance encounters and conversations that you have with colleagues. While it's not a service that our clients pay for, it's a big driver behind their membership. We have found this to be something extremely difficult to replicate virtually; networking over Zoom inherently adds too much formality." Previous empirical research has shown that peer-to-peer networking is an essential driver for the positive impacts that accelerators have on the start-ups they support (Bone et al., 2019).

While these accelerators and incubator programs managed to continue to offer traditional services to their clients, some of the programs also saw an increase in demand for new types of support from the existing clients. A handful of them offered non-traditional services to their clients, as one of the respondents mentioned, "Pastoral support for tenants as very aware of the fears and concerns of owner, managers and ongoing impact on mental health who there to help!"

Government Interventions

In the wake of the pandemic, the U. K. government offered several relief programs for small businesses. Many of the accelerators and incubators respondents qualified for these programs as they are considered small businesses. The relief programs/policies included --- Claim for Wages through the Coronavirus Job Retention Scheme, deferred VAT payment, Deferred Self-Assessment payments, Business Rates Relief, and government grants.

We found mixed results regarding the benefit of these programs. Thirty-seven percent of the respondents found the Wages through the Coronavirus Job Retention Scheme to be very useful, while the sixteen percent of the programs found it moderately helpful. Deferred Self-Assessment Payments (DSAP) and Business Rates Relief (BRR) were the least popular programs. Eighty-nine percent of the accelerators and incubators did not apply for this relief program, and eighty-four percent of the programs did not apply for the BRR program.

Some of these accelerators and incubator programs also assisted their clients in applying for these government relief programs as one of the programs mentioned, "We have helped around 90% of our tenants to access the Small Business Rate Relief grants, which has kept many of them afloat through the pandemic."

Other Challenges Faced by the Accelerators and Incubators

While not able to hold live events were the biggest challenges for the accelerators, many saw an increased demand for new services and engagement from the existing clients. Additionally, their sources of funding were also affected, which put an additional burden on the accelerators. Rent from clients is one of the sources of their income as many of the companies were not able to pay rents that affect the accelerators and incubators' income.

Challenges for Start-ups

Similar to the accelerator and incubator programs, many of the start-ups that are participants of these programs had to close during the pandemic. Seventy-four percent of the programs reported that they had 1 to 10 percent of their participants had to close, while seventeen percent said 11 to 20 percent, and nine percent had 21 to 30 percent of their participants had to close. Closure of these start-ups will have a significant effect not only on those charging rent but also on those that take equity and their ability to recoup their investment.

FUTURE CHALLENGES AND OPPORTUNITIES

As these programs try to cope with and adjust to the pandemic, the restrictions that have come with it, they also face future challenges.

Programs

One of the concerns these accelerators (75%) have is about the programs' ability to promote themselves, drive application, and select new tenants with the threat of the second wave.

Accelerator and incubator programs business models are also a challenge since many of the members are working remotely, "Our business model relies on our physical office space being filled - due to the experience of remote working over the last six months and ongoing uncertainty about when offices can safely operate at full capacity, many of our clients are looking for much reduced workspace or are switching to hotdesking and co-working models." We are supporting this transition and offering more flexible terms in the short-term - in the long-term, it may require a more permanent and radical rethink of how we employ our space." Therefore, coming up with a solution for maximizing the available space is essential for these programs since working from home is not ideal for all businesses, particularly for those focused on deep science where lab space, clean rooms, or other technical equipment is needed.

During the pandemic, 38% of the programs have seen an increase in demand for their services. For some of these programs, services continue to be a concern for these programs. Of the respondents, fifty percent of the programs are concerned about client engagement and increased demand for services, while others are concerned about recruitment. An essential and challenging aspect of these programs is to select the promising early-stage ventures; due to the pandemic, some of these programs are finding it challenging to find ventures that meet their criterion "... we look for revenue-generating companies and many we see had these planned for 2020 but are now stuck because of the pandemic economic issues."

Finances

Besides space, financial implication is also crucial for these programs. Many of the accelerators and incubators have expressed concerns about their financial situation. Rents from the tenets are a source of their income. Many businesses or members of the accelerator and incubator programs are now working from home; therefore, some programs are suspending rents to help their members. In some instances, members themselves are thinking of alternatives, "tenants are considering whether to release units and work remotely or downsize units." Although COVID is currently is a significant issue, another issue that is a looming concern for many of these programs is 'Brexit.' Many of the programs are concerned about the impact of Brexit on their clients and their finances, as suggested by one of the respondents, "Impact of post-transition period funding schemes to replace ERDF (European Regional Development Fund)." As these programs plan for the future, thirty-three percent of the respondents are considering diversifying their income source, while others are changing their programs to increase the viability of their incomes, "We are launching several new products and packages specifically designed to support businesses returning from lockdown and/or launching new products and services in a recession.

We may also have to rely on more one-to-many and one-size-fits-all services in place of our existing one-to-one and bespoke consultancy packages, which have become less financially viable".

Other concerns

Many of these programs are also concerned about the safety of their employees and clients. One of the significant aspects of these programs is the selection of clients. As Brexit's uncertainties and the threat of the second wave looms, these programs are concerned about selecting a new client.

Managerial Implications

The pandemic is forcing these accelerator and incubator programs to have a second look at the services they provide to their participants and how they use their resources such as space, technology, local support, "increased collaboration in the local ecosystem." For managers balancing between serving their customers and building a sustainable business is essential. Space provided by these programs to their clients was a critical part of their program; some of them even required their clients to be physically present in the location as stated, "It has always been a requirement for companies to be physically based in the incubator'. Given the recent changes in the environment, these programs are rethinking their program policy. Bone et al. (2019) found little evidence that access to office space was a significant driver of the positive impact that accelerators can have – other than perhaps by providing a space for networking and peer learning - and most types of support can be provided online. Therefore, this may be less of a challenge than it first appears, so long as programs can adapt to a more online model. Furthermore,

offering support virtually may, even in the absence of a pandemic, lower the costs of running an accelerator and allow them to scale the number of businesses they support with minimal additional cost and thus represent a more sustainable business model for programs.

This uncertain environment is also driving some of these programs to re-examine the services they offer. "We are launching several new products and packages specifically designed to support businesses returning from lockdown and/or launching new products and services in a recession. We may also have to rely on more one-to-many and one-size-fits-all services in place of our existing one-to-one and bespoke consultancy packages, which have become less financially viable" and how they offer them, "Restructuring incubation package to cater for virtual/blended support." If they continue to provide the same value as they did before, the crisis programs must innovate - and take advantage of the numerous new online platforms - to continue to encourage peer-to-peer learning and networking despite having a reduced physical presence.

Quality control is another aspect that the program personnel is concerned about; prior clients participated in the programs and received traditional services through the conventional venue. Given the new methods adopted by some, the programs they are concerned about meeting their members' expectations, "... ensure the cohort recruited at the start of the pandemic receive the level of quality support other years will have received...."

Strategic planning is always a challenge for managers. These programs' managers are concerned about the economic impact of both the pandemic and Brexit as one of the accelerators mentions, "... need to re-invent current services and the impact it can have on resource needs". While managers are concerned about the pandemic and looming uncertainties associated with Brexit, some of the programs are cautiously optimistic about the small businesses' ability to

explore and exploit opportunities associated with Brexit. Figure 2 shows the concerns of these programs over the next six to twelve months.

Insert Figure 2 Here

CONCLUSION

Accelerators and incubators play a crucial role in the early stages of the ventures' life cycle. In this paper, we explore the impacts of the pandemic on accelerator and incubator programs in the U.K. Using survey responses from these programs; we find that the pandemic affected all aspects of the accelerator and incubator programs --- funding source, use of space, program offerings, personnel, and safety of both members and teams. Many of these programs are concerned with the pandemic's impact and worried about the consequences of Brexit for their funding sources. They are also concerned about the prospects of the start-ups they support.

Policymakers are interested in encouraging entrepreneurial activity in society since they generate jobs and contribute to economic development. While during the pandemic U.K. government enacted policies to provide relief to the businesses, many government relief programs were not very helpful for these programs, while some of these programs did not qualify for these programs since they did not meet the eligibility requirements for these relief programs. Some of these programs also assist industry-specific ventures who need more financial assistance than the other industries. For instance, innovation in the health/life sciences sector is directly related to overcoming the pandemic. These businesses are likely to be the hardest hit. Hospitality and leisure is another sector that is likely to be badly affected by the pandemic. Even when the vaccine becomes available, things are not going to return to normal anytime soon. Given these

programs' vital role in society, government policies should assist these programs as suggested by a participant, "... public sector continues to support early-stage Life Science businesses via accelerator and incubators, increase rather than reduce funding... support recovery more widely...".

Table 1: Sectors supported by programs and programs funding sources

Sectors Supported by the Programs	Funding sources of the Programs
Health and Wellbeing	Charity
Life Sciences	Membership fees
Agritech, Digital (General)	Corporate
Food	Government
Creative Industries and Design	Rent from clients
Public Sector Innovation	Other Private Funders
Cleantech / Entergy and the Environment	Foundations
Engineering and Manufacturing	University
Internet of Things (IoT)	NHS/ Academic Health Science Networks
Smart Cities	Partly funded by external sources part parent organization
Telecommunication	European Regional Development Fund
Transport	
Space and Satellite Technology	
Education	
Social Enterprise	
The focus is on exploiting CERN	
High energy physics technologies	
Robotics	
Industrial BioTech	
Our focus in on tech companies - this can be across several sectors such as PropTech, HRtech, Edtech, etc.	

Figure 1: Services Provided Before and During Pandemic

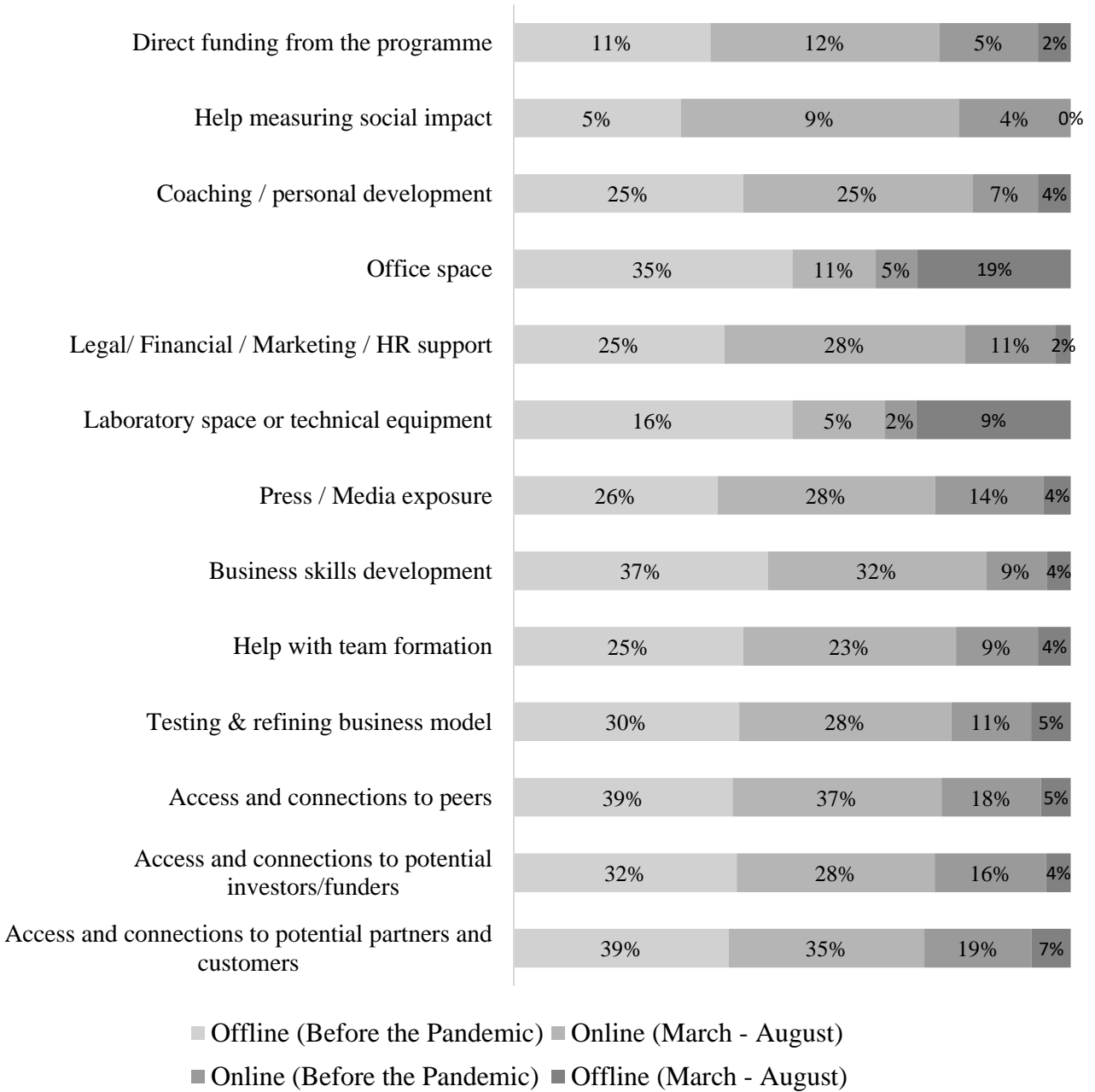
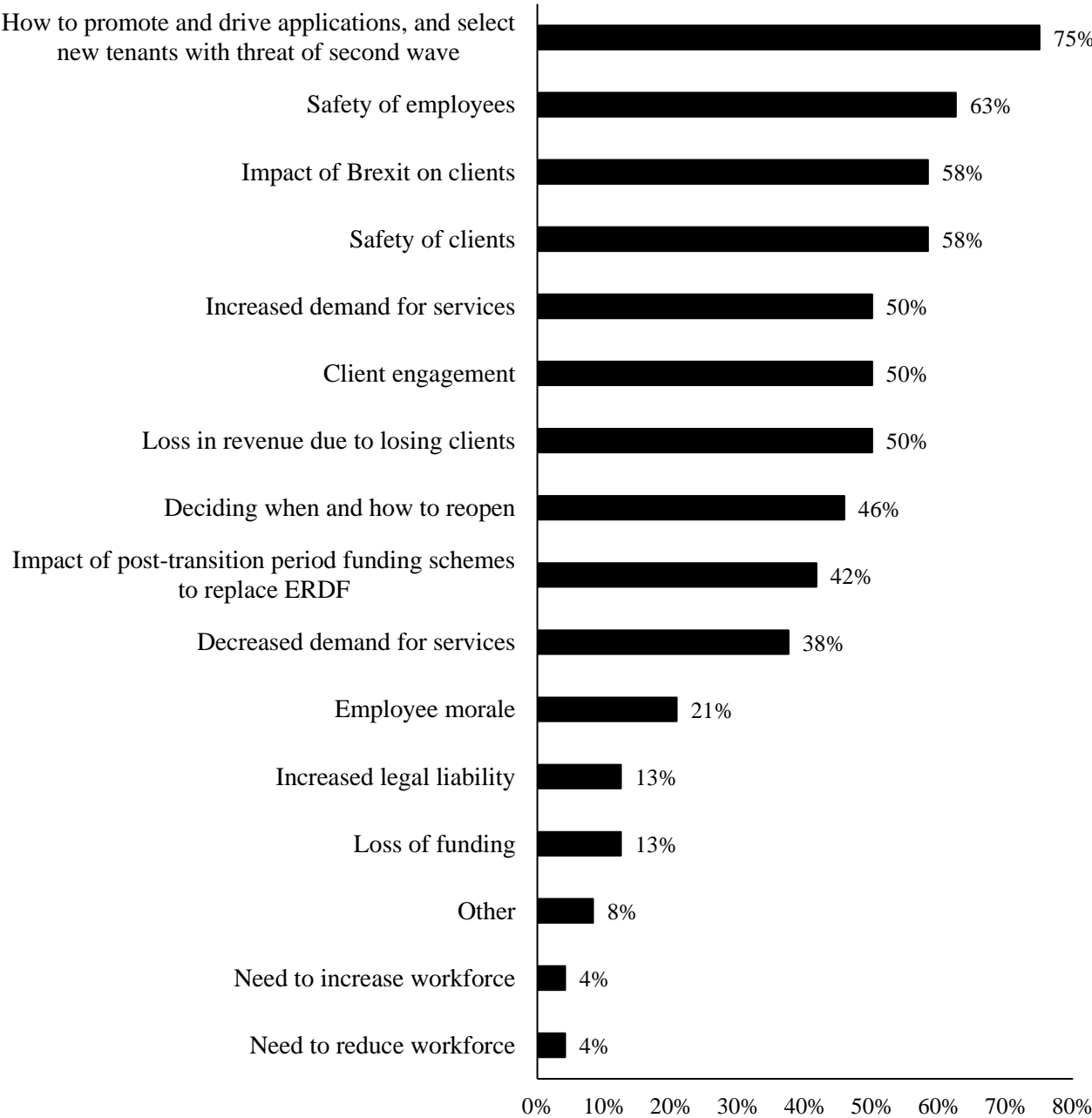


Figure 2: Challenges does your accelerator/incubator anticipate in the next 6 to 12 months as a result of the pandemic



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