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# Impacts of the Business Growth Programme

## Quasi-experimental analysis

Executive summary

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# Contents

1. Executive Summary..... 1

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# 1. Executive Summary

## Context

1. Launched in 2015, Innovate UK Business Growth (IUK BG) is a business support programme aimed at high potential small to medium sized innovation-driven companies.[1] By the end of August 2024, the programme had supported c. 24,000 businesses through a range of activities to help innovative UK companies grow and scale, including offering advice on how to manage innovation effectively, take a more strategic approach to funding & finance, and enter new markets, both in the UK and internationally.

2. IUK BG offers three levels (or intensities) of support:

   - **growth support** – focused on general advisory, covering market access, technical issues, access to standards, etc.
   - **high growth support** – for businesses demonstrating over 20% year-on-year growth, focused on internationalisation, managing IP assets, innovation, and investment readiness
   - **scaling support** – this is the most intensive package aimed at businesses demonstrating over 50% year-on-year growth, comprising of support through a dedicated advisory team of Scale Up Directors, access to NEDs and peer-to-peer networks.

3. The beneficiaries can, and often do, progress through levels of support. For example, c. 4,500 businesses engaged with both growth and high growth support. However, the scale up support remains highly selective, having taken on only about 300 businesses by August 2024.

4. In late 2024, SQW was commissioned to carry out a quasi-experimental assessment of the impacts of IUK BG, focusing on the growth of companies supported by August 2024, in terms of employment and real turnover (adjusted for inflation). The estimates of employment impacts were converted into indicative estimates of additional gross value added (GVA) that IUK BG's support contributed to the UK economy.

5. It is important to note that this work was carried out in isolation, not as part of a broader mixed methods evaluation. As a result, it was neither possible to triangulate findings against other evidence sources, nor to explore *how* and *why* the patterns observed in the data emerged.

[1] Business Growth was formerly known as Innovate UK EDGE.

# Approach and method

## Estimating business-level effects

6. The analysis followed a **Difference-in-Differences (DiD)** methodology to isolate the average net impact of the programme, above and beyond what beneficiaries would have likely achieved even if they had not engaged with the IUK BG. It was underpinned by data from Beauhurst and the ONS's Business Structure Database (BSD), which is a research-accessible version of the Inter-Departmental Business Register.[2]

7. We compared the performance of beneficiaries over time to that of several comparison groups. These were selected from the wider business population using **Propensity Score Matching (PSM)**: a technique that relies on a statistical model to estimate the probability that a company will be supported based on a range of observable characteristics (propensity score), and then matches beneficiaries with unsupported firms that have similar propensity scores. The comparison groups and their respective strengths are summarised in Table 1.

**Table 1. Summary of comparison groups**

| Comparison group | Characteristics used for matching | Strengths |
|---|---|---|
| **Group 1 (Beauhurst)** | Year of incorporation; Sector; Region; Number of firms in its corporate structure; Whether it is parent company; Tracking status; Whether featured on a high growth list; Any patent; Any buzzword; Any ESG signal; Any grants | Wider range of characteristics, focussed on high-growth metrics |
| **Scaling comparison (Beauhurst)** | Year of incorporation; Sector; Region; Number of firms in its corporate structure; Whether it is parent company; Tracking status; Whether featured on a high growth list; Any patent; Any buzzword; Any ESG signal; Any grants | Tailored comparison for the scaling support beneficiaries |
| **Group 2 (BSD)** | Year of incorporation; Sector; Region; Rural/urban classification; Employment growth | Use of administrative data; able to add pre-support employment growth/level without sacrificing sample size |
| **Group 3 (BSD)** | Year of incorporation; Sector; Region; Rural/urban classification; Employment | |

*Source: SQW*

8. PSM was successful in creating groups that were well matched to beneficiaries on a range of characteristics (age, region, sector, etc.), as well as on high-growth metrics such as meeting one of Beauhurst's high-growth/ambition tracking triggers (Group 1) and pre-support employment (Groups 2 and 3). In addition to Groups 1-3, we created a separate tailored comparison group for the beneficiaries of scaling support, since our descriptive analysis

[2] The BSD was accessed through the ONS's Secure Research Service (SRS).

revealed that they were substantially different from the rest of the beneficiaries. Specifically, a higher percentage of scaling beneficiaries were tracked and classified under a 'buzzword' by Beauhurst (operate in an emerging sector, like FinTech).

9. All statistical models we used in the analysis controlled for: a) general macroeconomic conditions affecting all companies in each given year; b) firm-level unobservable characteristics that remain constant over time, e.g. aspirations or risk attitudes; and c) pre-existing differences in the growth trajectories between the beneficiary and comparison groups, e.g. due to differences in business plans.

10. The analysis also considered two 'flavours' of DiD models. First, we specified a model that estimated the average effect over the period since beneficiaries' first engagement with IUK BG. Second, we specified an 'event study' model, which looks at the effects of the programme in each year, i.e. in the year the firm engaged with IUK BG, the next year after that, etc. Estimates from the event study provided insights into the timing and duration of effects, while the average effect estimates informed our assessment of the scale of impacts for the conversion to GVA (discussed below).[3]

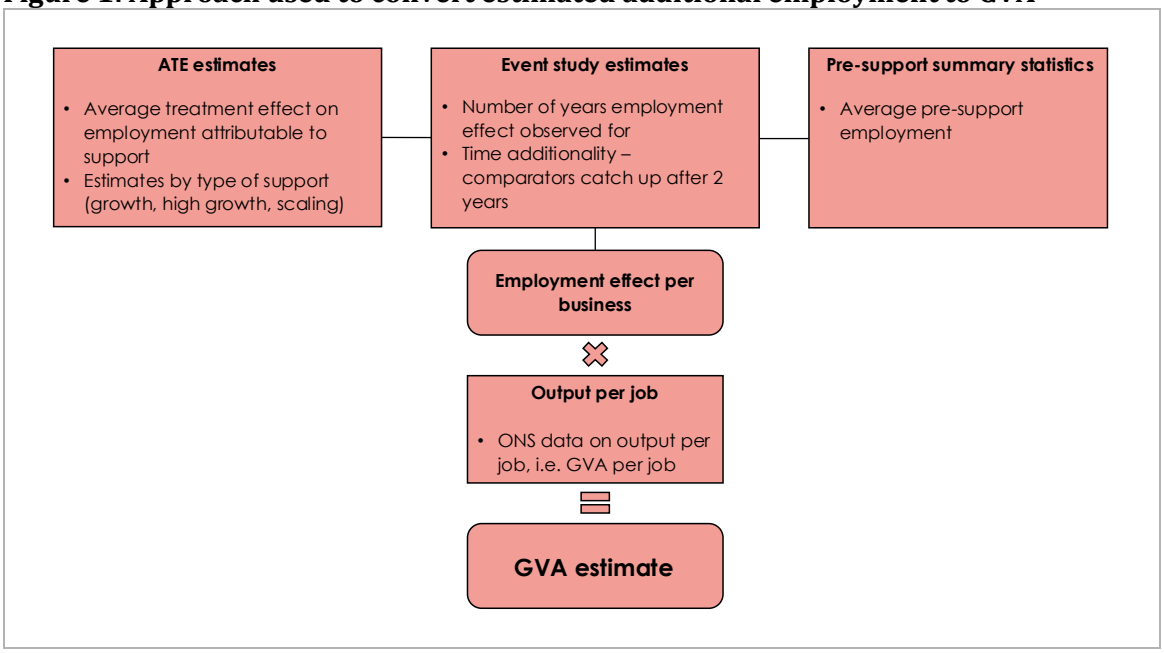
11. Finally, we investigated the variation in effects by type of support received (growth vs high growth vs scaling). For this analysis, each beneficiary was classified according to the 'highest' intensity of support they had received. For example, if a company participated in both growth and high growth activities, they were considered to be a high growth beneficiary. Because the scaling beneficiaries are substantially different from other beneficiaries, their growth was primarily assessed relative to the tailored scaling comparison group.

### Conversion to GVA impacts

12. We estimated the IUK BG's GVA contribution to the UK economy (in real terms, 2023-24 £s) through the additional employment created/safeguarded by the programme. The GVA conversion involved extrapolating the estimated average effects on employment to the whole pool of supported SMEs, as the analysis of employment effects was performed on a subset of businesses. The conversion also took into account: a) the timing of support for each beneficiary; b) the estimated average duration of the effect; c) the average pre-support level of employment, as well as employment growth that would have likely happened even without IUK BG; d) the differences across the sectors of the economy in the average GVA produced by an employee. This approach is summarised in Figure 1.

[3] The two flavours of DiD have different underlying assumptions which determined our preference for the average effect model. Specifically, the event study assumes that the effects of the support are the same irrespective of when the support was provided. This assumption is challenging, considering how long the programme has been running for and the changing macro-economic conditions (including Brexit and Covid).

**Figure 1: Approach used to convert estimated additional employment to GVA**




*Source: SQW*

# Findings and reflections

## Employment growth

13. According to our analysis, the IUK BG beneficiaries supported between 2015 and 2024 experienced statistically significantly higher employment growth than they would have without support. On average, following engagement with IUK BG, **c. 6 to 8% of their employment growth was additional**.[4]

14. The strength of the effect varies by type of support, **ranging from c. 3% for an average beneficiary of growth support to 12% for an average scaling support beneficiary**. The analysis also shows that statistically significant differences between beneficiaries and comparator companies persist for two years. In other words, the programme **accelerates beneficiaries' employment growth by approximately two years**.

15. The modelling also suggests statistically significant pre-existing differences in growth trends between the beneficiaries and comparison groups, which remain even after statistical matching (likely due to differences in unobservable characteristics). The employment of beneficiaries, on average, grew c. 4% faster than comparators' even without IUK BG support. The estimates presented above show the effects of support over and above this pre-existing trend.

[4] The estimate varies slightly depending on the comparison group.

### Turnover growth

16. The analysis provided **no evidence of statistically significant effects of the programme on beneficiaries' turnover**. There can be multiple reasons for this finding: the nature of support, a delay in the effect, and volatility of SME turnover in general. A further investigation is needed to better understand this result, using qualitative or mixed methods (for example in-depth interviews, case studies, and Qualitative Comparative Analysis).

17. It is important to note that, like for employment, the analysis identified statistically significant pre-existing trends in turnover growth. Thus, although IUK BG support may not be statistically associated with an uplift in turnover, its participants were already growing c. 5% faster than the comparison groups of similar businesses and they continued to do so during and after the support.

18. Another potential explanation for this result is linked to time lags in impacts and data availability. The latest release of BSD available for our analysis covered up to FY 2022/23. Approximately 40% of beneficiaries included in this analysis received support in or after 2022/23 and, therefore, there were no post-support observations available for these businesses. If turnover impacts come through later than employment effects, and, in addition to that, the magnitude of the effects is modest, it is possible that our models did not have enough observations (statistical power) to detect this benefit despite the relatively large sample.

### Overall GVA contribution and indicative Return on Investment

19. Based on the results presented above, **IUK BG is estimated to have helped to create and safeguard c. 26,000 jobs over the period between 2015 and 2024**, of which about 76% were in the high-productivity sectors of the economy (i.e. the sectors where the sector-level output per job is above the average across the economy).

20. By creating additional employment, we estimate that over the 2015-2024 period, the IUK BG has **contributed c. £2bn in additional GVA to the UK economy**, equivalent to approximately £200m per year (in 2023-24 £s).

21. Based on these approximations, and the monitoring data on the costs of the programme, Innovate UK carried out further calculations to understand the return on public investment, which may **be as high as 9.85**.

22. However, this initial **ROI estimate should be interpreted with caution** since the econometric analysis described above cannot distinguish the programme's contribution alongside other important factors that may be affecting the beneficiaries, and which could not be observed or controlled for in our statistical models. For example, alongside IUK BG, beneficiaries could have accessed further support programmes, leveraged specific market

conditions or scientific discoveries, received a particular type of external finance etc. The effects of these factors may be at least partially included in the econometric estimates.

**23.** Furthermore, when interpreting the initial indicative ROI estimate, it is important to consider the fact that companies engaging with BG are innovation active. As innovation is an inherently uncertain and risky process, the economic benefits are likely to be experienced by a minority of successful companies. Our GVA approximation extrapolates the average effects to the population of the programme and analyses employment effects, which may not translate into turnover gains for unsuccessful projects. This approximation should be refined during the upcoming evaluation of the programme to avoid overstating the GVA contribution to the economy, taking into account the distribution of effects across the beneficiaries.

### Further research

**24.** To understand the influence of the programme relative to other factors, and to correctly attribute the effects to support (to enable a more accurate ROI calculation), a wider mixed-methods research study should be undertaken. Ideally, this would be underpinned by an overarching theory-based approach (e.g. contribution analysis), and should investigate the breadth of outcomes (i.e. go "beyond the averages").

**25.** The mixed-methods research can also provide invaluable insights into the types of businesses and technologies supported by the programme and provide evidence of *how* the support is used by those companies. These insights, in turn, may shed light on the results in relation to turnover. For example, it might be the case that many beneficiaries are expecting to develop a new product/service on the back of the support and therefore, turnover impacts are still expected. If that is the case, considering the lags in turnover data (c. 40% of beneficiaries did not have any post-support observations in BSD), an update of the quantitative exercise in, for example, two years' time may provide Innovate UK with robust estimates of additional turnover and a more precise ROI.

**26.** However, the attribution of any effects to the programme will be more challenging as time passes. Therefore, a qualitative investigation may also be helpful in suggesting the typical lag between support and turnover impacts for IUK BG beneficiaries and inform the timing of the follow-on quantitative analysis.

**27.** Finally, we would like to note that a comprehensive assessment of Value for Money should take into account all intended outcomes from IUK BG activities, as per the programme's logic model. For example, this might include innovation outcomes, alongside employment and turnover. Such an analysis was out of scope for this study, but should be carried out as part of a full programme evaluation.

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