

IASP FLASH SURVEY ON THE INTERNATIONAL CREDIT CRUNCH

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IASP

International Association
of Science Parks



Member of WAINOVA – World Alliance for Innovation

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Foreword

Call it a “global financial crisis, global credit crunch or the financial markets gone wrong” the fact remains that we are facing a time of economic uncertainty and of consequences difficult to predict. Our industry—the entrepreneurial innovation & knowledge-based industry— and our IASP community as a whole, is watchful about the implications and consequences of this crisis.

The IASP, always attentive to the problems that may affect Science and Technology Parks (STPs) and innovation-based incubators, launched a brief survey last month to gather a preliminary set of data and views to assess the extent to which the financial crisis would have among its members throughout the world over the coming years.

As part of the very nature of our industry –deconstructing the complexities of the global entrepreneurship and innovation– I asked our Projects and Knowledge Management department to prepare this report, which is a compilation and summary of the answers and opinions expressed by our science park managers with respect to the financial crisis.

Your comments on these findings will be much appreciated.

Yours sincerely,

Luis Sanz

Director General

About the Survey

The survey, structured in a simple questionnaire accessible online, was sent to IASP Full and Affiliated members with the intention to reach those organisations responsible for, or directly linked with, supporting companies in different stages of development – typically: parks, incubators or business innovation centres.

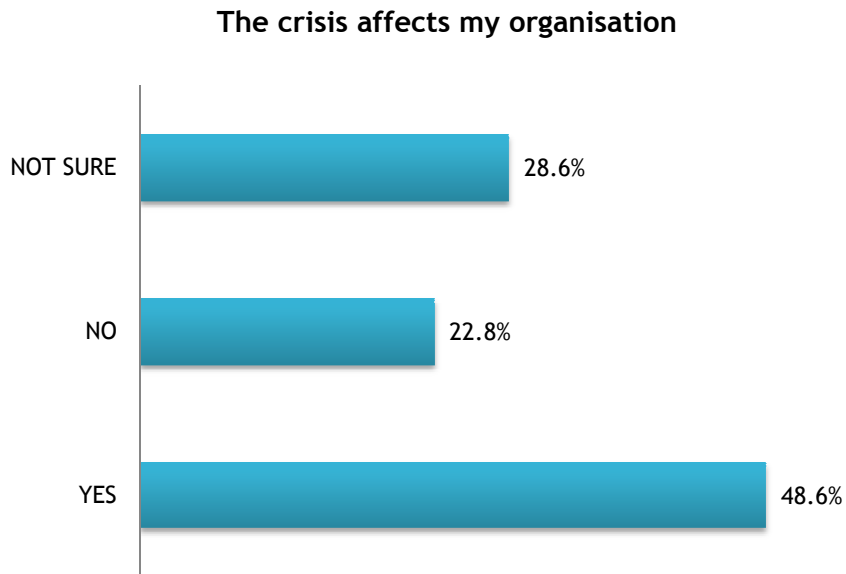
Responses were received from twenty-one countries¹ which reflect a good geographical coverage among the existing 72 countries represented within our association. Nonetheless, survey responses were limited, with close to 40 responses, which leave the topic open for further interpretation as we prepare the next survey on the crisis. It should be noted that answers come from each of our regional divisions (except the African one, which was only created very recently).

What follows are the results of the three core questions asked in this survey: (1) is the current economic crisis affecting your organisation? If the respondent answered “yes”, we then asked: (2) how the current crisis would affect our parks and client companies; and finally, (3) what type of difficulties our members were expecting.

¹ IASP member-country represented in the survey: Belgium, Brazil, Denmark, Estonia, Finland, Germany, Iran, Italy, Latvia, Mexico, Canada, Spain, Sweden, Thailand, Trinidad and Tobago, Turkey, UAE, UK, USA, and Venezuela.

1. The global financial crisis affecting our industry

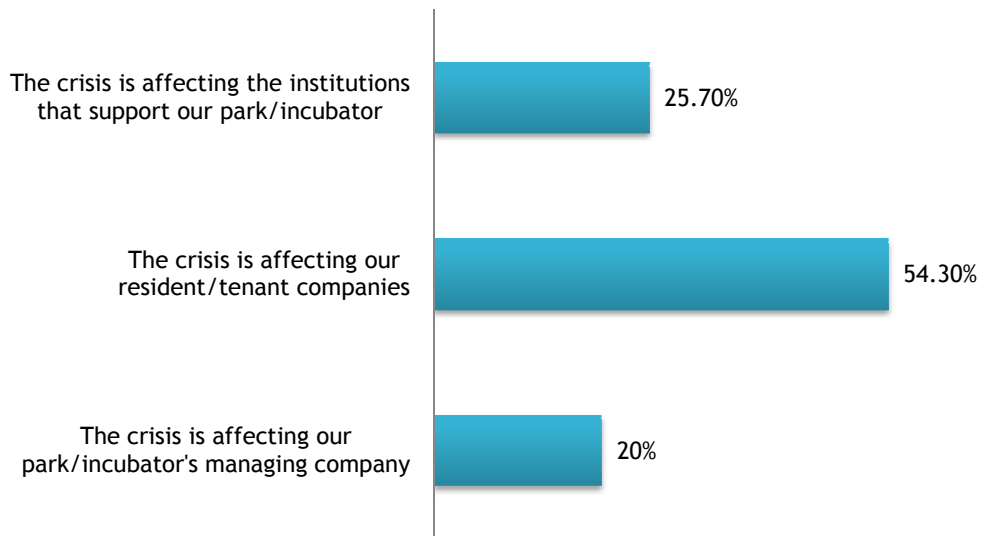
When asked if the current economic crisis is affecting their organisations, close to half of the respondents, 48.6%, affirmed that the economic crisis (although this may be something difficult to measure) is affecting their organisation. However, a significant percentage (22.8.4%) of parks managers think that the crisis is not affecting them, whilst 28.6% is not sure.



2. Feeling the heat: the effects of the crisis on our members

According to STPs and incubators' managers, it is mainly their companies that are suffering the damaging effects of the current crisis. The chart below shows more details about how the crisis is affecting our industry.

How the crisis is affecting your organisation?

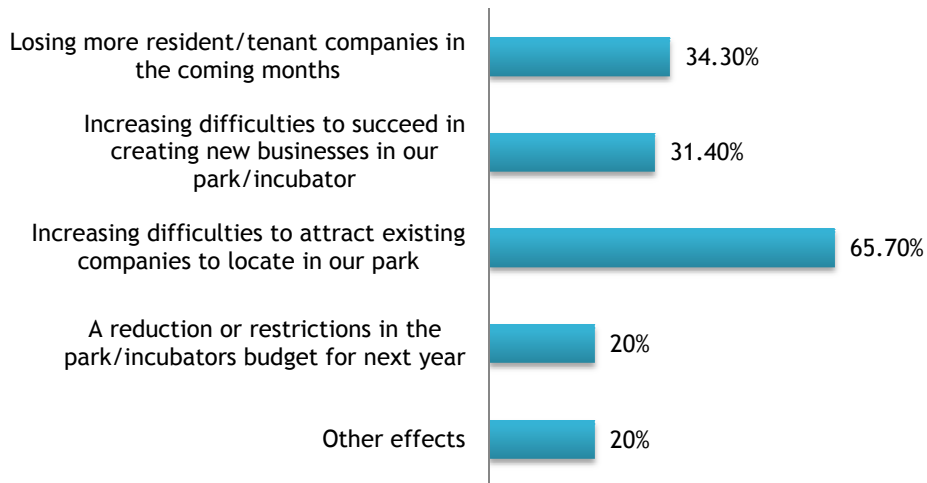


3. Difficult times: effects that may be expected

Many experts and analysts, whilst openly recognising the global slowdown of the economy, remain positive reminding us of the fact that innovation and research will continue within most firms; perhaps under new formats and ways of investment whilst waiting for some clear signs of an economic turnaround – indeed “hard times can be the source of innovative inspiration”.¹

But for those who participated in this survey it seems that the main effect of the crisis, on our industry in general, will consist of increasing difficulties in attracting existing companies to locate in their parks. Whilst over 30% of the parks, has predicted a decrease of the number of tenant companies in the coming months and increasing difficulties to succeed in creating new businesses, only 20% of the parks fear budget restrictions for their operations in the coming year. The chart below gives the details:

Forecast of the effects of the economic crisis



4. Summarising the current scenario

Participants of the survey expressed an array of views on the current financial crisis and its immediate situation and future within our industry circles. According to many there is a shared feeling that “companies of our parks will have tough times ahead to attract and close financial deals”. As the financial sector is that has been hit the hardest as an immediate consequence of this economic crisis, new business deals in the angel and venture capital industries will experience an attitude change. As expressed by one participant of our survey “...venture capitalists [are] less persistent” now and are not so “keen on financing pure development companies”.

Perhaps what we can already detect in two of the main actors of our industry, the entrepreneurs and the capitalists, is a ‘wait and see’ attitude leading to more conservative approaches to investments and development of new projects within our community of innovation-based companies. This may be due to the reduced “availability of capital from successful [new] clients”. We could suggest that we have yet to see how venture-supported companies within our parks and incubators behave and how their costs and balance sheets would look if the finance-venture market becomes very slow. Inevitably, there will be some collateral effects of the crisis across our industry worldwide, and it is also important to assess it in terms of individual countries with more surveys in the future. As another response of the survey suggested, the countries with emerging economies where our industry has been experiencing significant growth over the last years could now suffer a new setback. We suggest that, more than ever before, great care and attention must be paid to our park’s and incubator’s tenants.

Taking on a more positive outlook, the exuberant vitality of our industry marked not only by the numbers accounting for the growth of our association, but also by the clear expansion of new and successful business and strategic models of Science Parks and Incubators, may perhaps serve as buffer to sustain some of the more destabilizing effects of the current global crisis in our industry. The growing need for capital and investments for these habitats to launch new projects will, as many of our survey respondents indicated, experience a “freeze in place until the financial situation stabilizes”. Probably the more robust and mature developments will be able to withstand the financial disarray better than others for a while, especially those “with a less developed pipeline of companies and institutions” in their portfolio.

Still, our view and shared perception is that we should follow the investment trends related to innovation linked to our industry as, surely, the bar will now be set ever higher when it comes to new funds by the investment community. We must also pay close attention on how new decision making processes of large companies planning to invest in parks will unfold.

The IASP will continue to work on these issues and encourage its members to take part in this over the coming months.

5. Excerpts from our survey

The below are a sample of comments received which we believe are more representative of the opinions expressed by our respondents and may shed some light on the general mood of our industry. (We indicate the country where each comment comes from, without revealing the identity of the individuals for privacy reasons).

CURRENT SITUATION:

“It seems that the venture capitalists have become less persistent. They are not so keen on financing pure development companies any more”. (Sweden)

“Companies are finding it difficult to attract and close financing deals for business development”. (UK)

“From contacts with our tenants, it’s clear they all foresee business reduction”. (Belgium)

“We’re finding that the uncertainties are making our leadership and our tenants much more conservative in planning for activities. There is a trend to wait and see (especially until after the presidential election) before committing to major activities”. (USA)

“The collateral effects of the crisis will affect the emerging economies later on, so be prepared”. (Venezuela)

“We have a hiring and capital projects freeze in place until the financial situation stabilizes. Fortunately, the Boston life sciences cluster is very robust and will probably withstand the slowdown better than other regions with a less developed pipeline of companies and institutions. Although we may be able to weather this locally, I am concerned about our international partners and relationships”. (USA)

“We foresee an increased number of companies in our incubator. Possibly there may be an increased turnover of tenants in the park and some downsizing of the larger tenants. But since our tenants are SMEs, we don’t foresee any dramatic changes in the park”. (Sweden)

“[The crisis will affect] accessing loan capital to continue the development of the Science Park and to finance working capital. [There will be] falling availability of credit to SME clients [and] falling availability of venture capital to successful client businesses. Reluctance of Business Angels to invest and when they do invest, there is a very low price that they are willing to pay for equity”. (UK)

“My view on the situation is that “our” companies/tenants are much stronger now than last time we were talking about a crisis (in 2001-2003). The situation is more similar to the situation in 1993, meaning that it is a bank and real estate crisis, not an industrial crisis”. (Sweden)

QUESTIONS / CONCERNS:

“How much more should be invested in the future? Finland’s case in the beginning of 90’s shows that during the economic crisis the future investments (R&D, innovations) should be higher...” (Finland)

“How will this crisis impact international cooperation programs? Will they be affected/cut?” (Venezuela)

“Does the decision process of large companies planning to make investments in Science Parks will be affected? Will they need more time to make a decision? Will they postpone their plans?” (Brazil)

“This crisis is a global event and eventually everyone will feel the heat. I just wonder if the heat is more or less uniform, or it is more concentrated on a particular sector than others”. (Brazil)

SUGGESTIONS:

“It would be interesting to try to discern whether the tougher economic market is causing regions/nations to look more to the strategic advantages of parks and the technology-led economic development they promote as ways they can better weather economic uncertainties and/or better position themselves for the future”. (USA)

“For us, it is too early to tell at this point on the scale of the effect we are going to get from this global financial crisis. Perhaps, it might be the same with many other parks. IASP might want to resurvey this again sometime later to understand the depth of the impact to our industry”. (Thailand)

“This survey on the financial slowing of the world economy is an excellent idea and I suggest that IASP recheck with members in the next quarter as I am sure there will be fall out”. (USA)



ⁱ Chris Shipley is a leading technology and product analyst, best known as the executive producer of the DEMO Conferences for IDG Executive Forums.

BIO President & CEO Jim Greenwood, speaking at BIOtechNOW - discussing the impact of the financial meltdown on biotech companies. “The demand for biotech products that save lives and address global needs will remain strong, he says, despite the current economic squeeze.” - He also said (audio interview) that: right now investors are more adverse to risk, especially when looking at smaller companies, but he believes that the market credit crunch will not stop the demand for products in the industry. This demand will continue (in the bio sector) and smart investors, aware of the risk levels of this industry, will not change. -- <http://biotech-now.org/2008/10/17/bio-president-ceo-jim-greenwood-on-how-global-financial-crisis-affects-biotech-innovation/>

NYTimes: BUSINESS, November 2, 2008 -- Unboxed: It's No Time to Forget About Innovation - By JANET RAE-DUPREE.

Mark G. Heesen, President National Venture Capital Association (NVCA), writing at Global Entrepreneurship Institute website - “Entrepreneurship and Today’s Financial Crisis” - <http://blog.gcase.org/archives/453>