THE INNOVATION STATE OF THE NATION 2025: SURVEY REPORT

Dr Ully Nafizah and Professor Stephen Roper

Warwick University

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Executive Summary

Key results from the Innovation State of the Nation 2025

- ***Product and service innovation*** - In 2025, 60% of UK businesses reported making product or service changes in the past year. This represents an increase from 56% in 2024, bringing the proportion close to the 2023 level.
- ***Process innovation*** - In 2025, 46% of firms reported engaging in process innovation, up from 41% in 2024 and returning to the 2023 level.
- **Social and community benefits** - Firms are placing an increasing emphasis on delivering social and community benefits. This has grown from 48% in both 2023 and 2024 to 56% in 2025.
- ***Innovation and growth -*** in 2023 and 2024, there is a strong connection between innovation and sales growth. By 2025, innovating firms reported a sales growth rate of 6.9%, compared to 0.4% in non-innovating firms.
- ***Research and Development (R&D)*** - the proportion of firms reported to be engaging in some form of R&D activity remained at 39% - the same as 2023 and 2024. The proportion of R&D-active firms was higher among large (75% in 2025) and frontier firms (65% in 2025).
- ***Collaboration for innovation*** - collaboration among UK firms has also been steadily rising, increasing from 39% in 2024 to 42% in 2025. This overall trend conceals a slight decline in supply chain collaboration but an increase in partnerships with other stakeholders.
- ***Barriers to innovation*** - 49% of innovating firms reported barriers to innovation, up from 44% in 2024. The largest increase was seen in micro-businesses, where reported barriers rose by 10%.

- ***Future investment*** - 51% of UK businesses intend to invest in R&D in the next 12 months, up from 47% in 2024. This increase in investment intentions was observed among micro, small, and medium-sized businesses.

Innovation activities

In 2025, 60% of UK businesses reported making product or service changes in the past year. Compared to the previous ISNS results, this marks an increase from 56%, bringing the proportion close to the 2023 level. Notably, innovation rates rose most significantly among micro and small businesses, with increases of approximately 5% and 4%, respectively. A similar upward trend was observed among frontier firms, which experienced an 8% rise in innovation activity. In contrast, innovation levels among non-frontier firms remained relatively steady. Meanwhile, there was only a 1% increase in innovation activity in large firms.

In relation to innovation novelty, there was an approximately 8% increase in the proportion of firms that reported some of their innovations were new-to-the-market, and a 3% increase in the proportion of firms that reported wholly new-to-the-firm innovations.

In line with trends in product and service innovation, there has also been a rise in the proportion of firms adopting process innovations. In 2025, 46% of firms reported engaging in process innovation, up from 41% in 2024, returning to the level seen in 2023. Notably, the increase was more pronounced among smaller firms and non-frontier firms.

There was also increased activity in business model innovation, such as business practices, work organisation, the organisation of external relationships, and marketing concepts in 2025.

Innovation and outcomes

The ISNS still emphasises the importance of innovation activities in increasing efficiency, sales, profit margins, and sustaining cash flows in 2025. Additionally, the survey highlights the growing significance of innovation in achieving social and community benefits.

Similar to the previous results, the findings reveal a strong link between innovation and sales growth. In 2025, innovative firms reported a sales growth rate of 6.9%, a slight increase from 6.8% in 2024. Conversely, non-innovative firms experienced a significant decline in sales growth, falling from 2.2% in 2024 to just 0.4% in 2025. Using t-test analysis, we further found that the difference in sales growth between innovative and non-innovative firms was statistically significant ($p < 0.001$), indicating a strong association between innovation and sales growth. Additionally, we see that among those firms that undertook process innovation in 2025, 63% reported cost savings.

R&D Investment

Overall, 39% of firms reported engaging in some form of R&D activities over the past three years. Notably, the proportion was higher among large firms (75% in 2025) and frontier firms (65% in 2025).

Funding innovation

Overall, internal funding continued to be the main source of financing for firms' innovation over the past three years, with 67% of firms using it in 2025. Notably, the use of internal funding rose by 10% among large firms in 2025, while frontier firms reported a 17% decline in reliance on internal funding.

Interestingly, UK businesses reported increased use of external finance for their innovation activities in 2025. The use of grants, government loans, bank loans, and equity finance rose by around 3%, 6%, 7%, and 8%, respectively.

Collaboration for innovation

Similar to the rise in innovation levels, we see collaboration between UK firms has also been steadily increasing. The proportion of firms working with external partners rose from 39% in 2024 to 42% in 2025, returning to the level seen in 2023. Medium-sized firms reported a notable 7% rise in collaboration activity, while non-frontier firms saw a 4% increase.

In line with the ISNS 2024 findings, evidence continues to show that UK innovating firms choose to collaborate more often with supply chain partners, namely suppliers, customers, and other businesses. However, in 2025, collaboration with suppliers and customers declined by 3% and 5%, respectively, a trend particularly evident among larger firms.

In contrast, we observed increased collaboration with various types of partners: technology hubs (up by 9%), consultants (up by 6%), universities (up by 5%), business support organisations (up by 3%), and government or public sector bodies (up by 2%) in 2025.

Innovation team

Overall, 43% of UK businesses' innovation team members were female in 2025, a slight increase from 41% in 2024. Interestingly, the proportion of female representation is notably higher in micro-businesses (48% in 2025). 28% of UK businesses' innovation teams come from ethnic minority backgrounds in 2025, which is also notably higher for micro-businesses (38% in 2025).

Linking with innovation teams' diversity, the survey also includes questions on female and ethnic minority representation at leadership levels. A higher proportion of innovating firms reported having one or more women in leadership roles (74% in 2025) than non-innovating firms (68% in 2025). Similarly, higher number of innovating firms reported to had one or more ethnic minorities involved in leadership roles (37% in 2025) compared to non-innovating firms (22% in 2025).

External support

Overall, the percentage of UK businesses seeking external advice increased from 35% in 2024 to 38% in 2025. Notably, the percentage of frontier firms seeking external advice rose from 39% in 2024 to 51% in 2025.

Although most common support requests remained focused on business operations and growth, 2025 saw a rising trend in companies seeking help with digital technologies (up by 9%), product or service changes (up by 8%), and net zero initiatives (up by 6%).

Digital technology adoption

The ISNS 2025 includes an extra question on UK businesses' adoption of advanced digital technologies, such as big data analytics, artificial intelligence (AI), cloud computing, 3D printing, the Internet of Things (IoT), and robotics.

In 2025, 26% of UK businesses reported adopting big data analytics, while 45% adopted Artificial Intelligence (AI). Adoption rates for both technologies generally increased with firm size. Additionally, 57% of UK businesses adopted cloud computing, with a notably higher uptake among large firms (81%). Meanwhile, 22% of firms reported using 3D printing, and 31% adopted the Internet of Things (IoT). As with other technologies, IoT adoption was significantly higher among large firms (57%) and medium-sized firms (45%). Also, 12% of UK businesses reported adopting robotics. Some technologies are considered more relevant to certain sectors than others. For instance, 3D printing and robotics are unsurprisingly more commonly used in the manufacturing sector, whereas cloud computing is more suited to the finance and business services sectors.

Barriers to innovation

Despite increased innovation activity in 2025, more innovative firms reported barriers to their innovation efforts. Approximately 49% of innovating firms cited barriers, up from 44% in 2024. The largest increase was among micro-businesses, where reported barriers rose by 10%. Conversely, large firms reported fewer barriers. This emphasises a growing gap in innovation barriers between large and micro-businesses.

In 2025, the most common barrier reported by innovating firms was a lack of bank or equity finance (74%), uncertain demand (50%), barriers due to regulations and standards (49%), barriers due public funding (45%).

Overall, 26% of UK businesses reported that recruitment issues had restricted their innovation activities in 2025, a decrease compared to 32% in 2024. This declining trend was particularly noticeable among micro-businesses and frontier firms.

Over the past three years, the primary reasons for not pursuing innovation are related to profitability (47% in 2025) and demand (43% in 2025). Interestingly, fewer firms that do not innovate reported barriers such as lack of finance (down by 12% in 2025) and ack of skills (down by 8% in 2025). This trend remains consistent across firms of different sizes.

Future innovation investment plans

Overall, 51% of UK businesses plan to invest in R&D over the next 12 months, up from 47% in 2024. This increase in investment intention was seen among micro, small, and medium-sized firms. However, large companies showed a notable decline, with investment intention dropping from 85% in 2024 to 71% in 2025.

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The Innovation & Research Caucus

Authors

- Dr Ully Nafizah – Warwick University
- Professor Stephen Roper – Warwick University

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