



INNOVATION &  
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CAUCUS

# THE INNOVATION STATE OF THE NATION 2025: SURVEY REPORT

IRC Report No. 038

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### About the Innovation and Research Caucus

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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 lack 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.



# 1. Introduction

## 1.1 Introducing the ISNS survey

The Innovation State of the Nation Survey (ISNS) offers an annual overview of innovation activity in a representative sample of UK businesses. This report focuses on the 2025 survey, which included 2,020 firms and was conducted between March 15, 2025, and July 22, 2025. Results are compared with similar surveys carried out in 2023 and 2024.

The ISNS aims to provide a prompt indication of short-term trends in innovation activity and the challenges firms face each year when innovating. Therefore, the main focus is on short-term variations in innovation levels and the factors driving innovation, as well as the barriers that firms encounter when starting and sustaining innovation. The ISNS also offers a flexible framework that can incorporate new questions of particular interest. The 2025 survey includes new questions on the adoption of digital technologies and the timeline of technology adoption by firms.

As in previous years, we report aggregate results for the UK as a whole and disaggregated results for regions, sectors, and firm size bands, where base sizes allow. Additionally, we differentiate between frontier and non-frontier firms based on firms' own assessment of the importance of novelty in their products and services as part of their competitive position. Interestingly, about 1 in 4 UK firms are classified as frontier firms using this distinction, a proportion that has remained relatively stable over the three years of the ISNS survey.

The ISNS 2025 questionnaire includes an additional 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. Another area where the ISNS provides new insights is in the composition of firm leadership and of their innovation teams. Specifically, we focus on the gender and ethnic composition of firms' leadership and innovation teams.

The 2025 ISNS data again highlights the consistent and positive link between innovation and turnover growth in UK firms. Across the 2023, 2024, and 2025 surveys, innovative

firms grow significantly faster in sales than non-innovators, with the growth margin particularly large in the 2025 survey.

Between 2023 and 2024, innovation rates in the UK fell slightly, a pattern that reverses between 2024 and 2025. Over the past year, we have observed positive shifts in innovation activity levels across nearly all sub-categories of firms. Smaller firms, in particular, seem to have increased their commitment to innovation over the last year, slightly closing the gap with larger companies.

Unsurprisingly, the ISNS also shows firms' focus on commercial goals such as efficiency, profitability, and cash flow. However, the last three years have also seen a steady rise in the proportion of firms emphasising social or environmental objectives as either 'important' or 'very important' to their business. These shifts in business goals are reflected in a growing focus on green and responsible innovation.

As an annual survey, it is important to handle year-on-year changes in specific ISNS indicators carefully, especially when these are based on survey sub-samples such as region, sector, or firm size band. Some variation in the sample is inevitable from year to year, and the strongest conclusions can be drawn from ISNS where relationships either remain consistent or where consecutive observations indicate a continuing trend in a particular direction.

The ISNS is still in a developmental stage and has scope for further improvement in the coming years. We therefore welcome comments or questions about the data and commentary provided in this report. This report is published alongside detailed data tables. However, we are also happy to share anonymised microdata for further analysis. For more information about the data and its availability, please contact either of the authors.

## 1.2 Report Overview

This report is organised as follows:

- » Section 2 examines firms' innovation activity in 2025 and compares it with earlier survey data from 2023 and 2024. This section concentrates on the overall level of innovation in products and services, process innovation, organisational

change, and the novelty of firms' innovations. The link between innovation and outcomes such as sales growth are also explored.

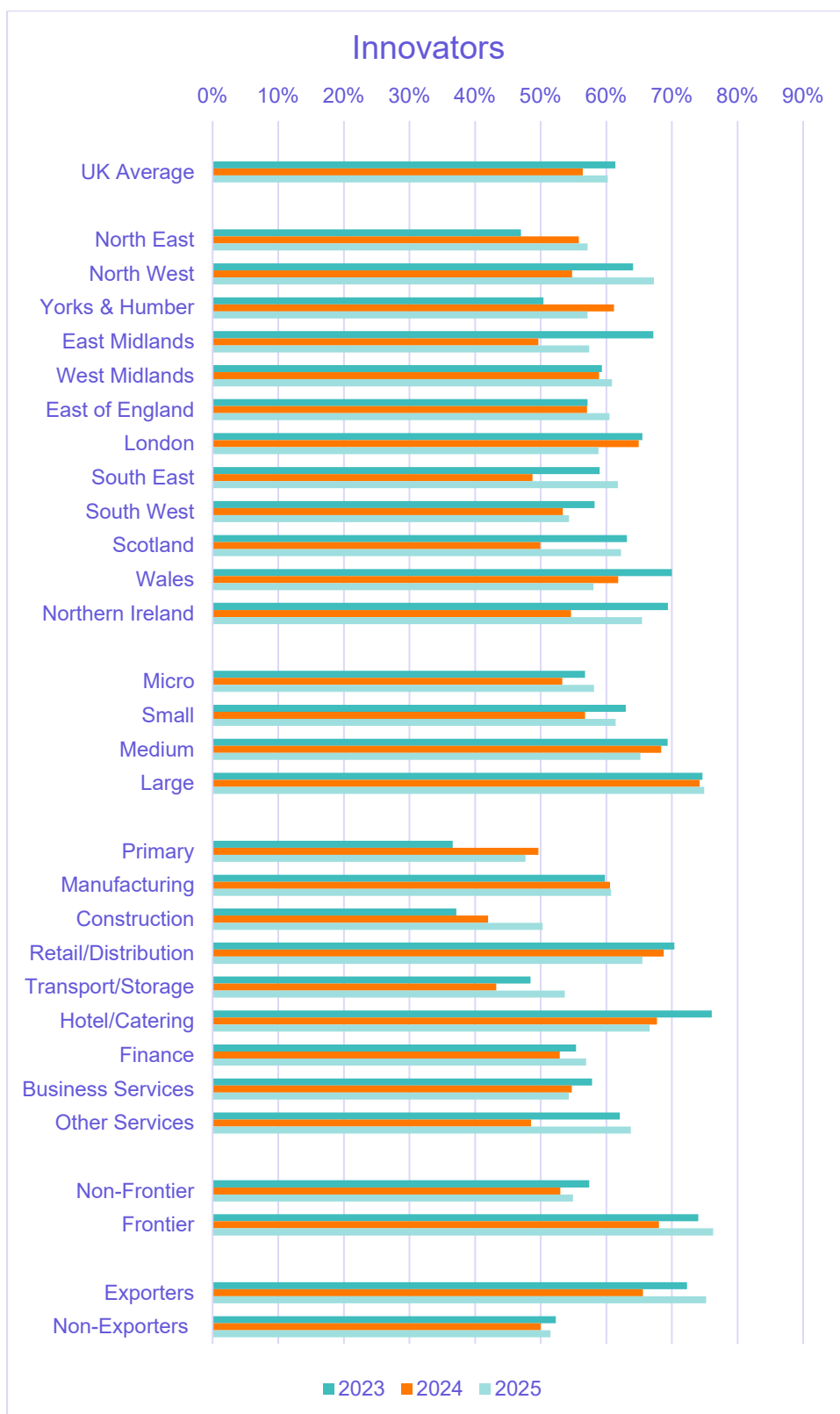
- » Section 3 explores the enablers of innovation, including various forms of innovation investment. This section also covers the funding of innovation in Section 3.2, and collaboration in Section 3.3. The focus of Section 3.4 is the innovation team, while Section 3.5 discusses the external support available to firms as part of their innovation activities. Section 3.6 examines digital adoption and the timeline at which firms first adopted various digital technologies.
- » Section 4 addresses the barriers to innovation, examining the obstacles faced by innovative firms when in expanding innovation and the challenges encountered by non-innovating firms in actually initiating innovation.
- » Section 5 focuses on firms' plans for the year ahead in terms of R&D and innovation and their future support needs.

## 2. Innovation Activities and Innovation Outcomes

### 2.1 Innovation Activity

In 2025, 60% of UK businesses reported having undertaken product or service innovations. This marks an increase from 56% in 2024 (Figure 2.1). Across all years, the likelihood of innovation has consistently risen with firm size. Interestingly, the innovation gap between smaller and larger firms narrowed from 2024 to 2025 as innovation rates rose in smaller firms. There was a 5% and 4% increase in the rate of innovation activity among micro- and small businesses, respectively. Meanwhile, there was only a 1% increase in innovation activity in large firms.

Reflecting the national trend, between 2024 and 2025, there was an increase in innovation activity across most regions of the UK and in most sectors (Figure 2.1). Innovation activity among frontier firms grew by 8% during this period, compared to a 2% increase in non-frontier firms. In addition, innovation activity among exporting firms increased by 14% during the same period, compared to a 5% increase among non-exporting firms.



**Figure 2.1: Proportion of firms making products or service changes**  
 (N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

Comparing the novelty of innovation, there was an increased trend in **new-to-the-market** innovations for both **product** and **service** innovation in 2025. The number of firms reporting **product innovations** that were new to the market increased from **48% in 2024 to around 58% in 2025**. Similarly, the share of firms reporting **service innovations** that were new to the market rose from **33% to approximately 42%** over the same period. This trend was particularly notable among **micro firms** and **exporter firms**.

Interestingly, the pattern differed between **frontier** and **non-frontier** firms. Among **non-frontier firms**, there was a **12% increase** in product innovations that were new to the market. In contrast, **frontier firms** showed a **13% increase** in service innovations that were new to the market.

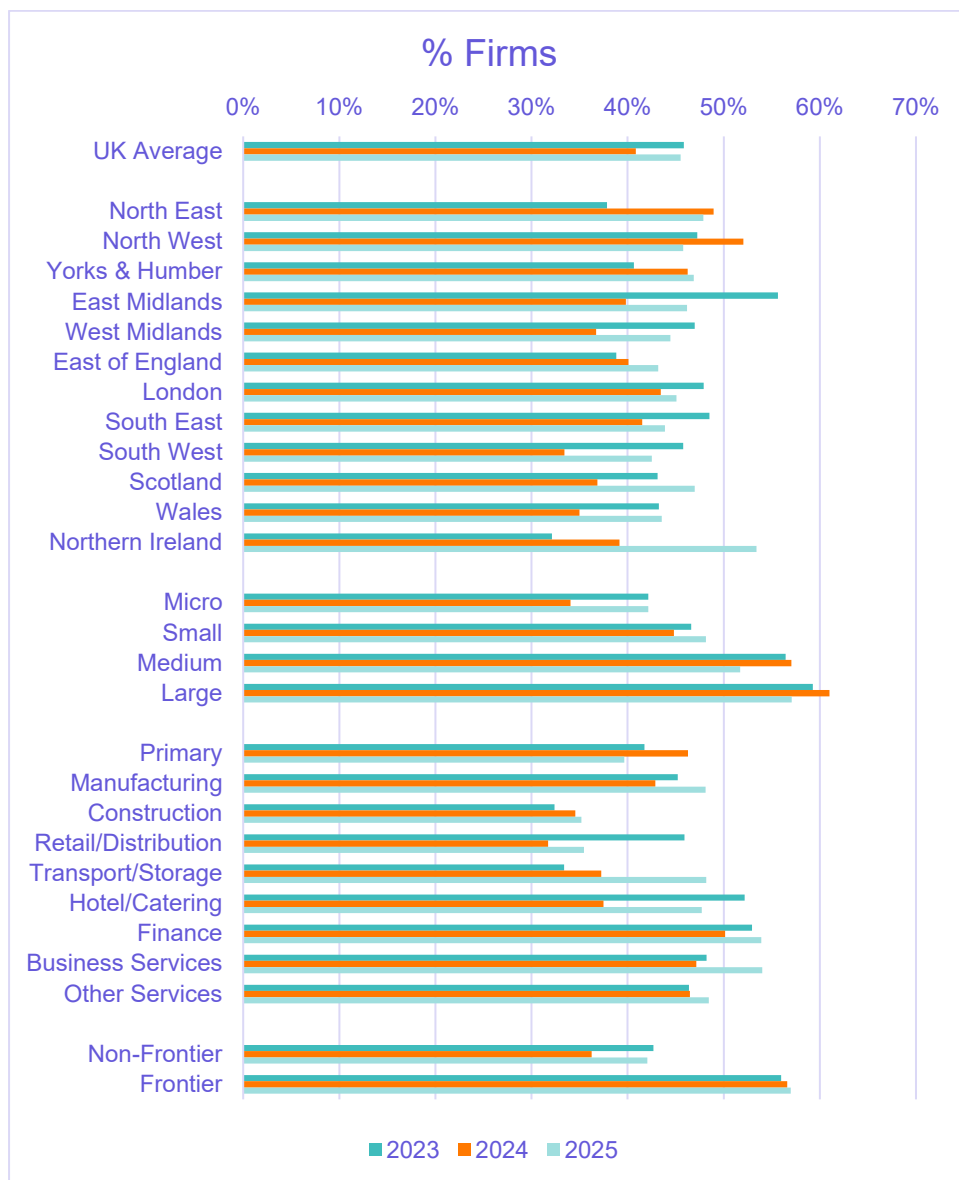
Conversely, there was a decline in the share of firms reporting innovations that were **only new to the firm**. Specifically, firms reporting **product and service innovations** that were new to the firm dropped by around **nine percentage points**, suggesting a shift toward more market-oriented innovation in 2025.

**Table 2.1: New to the firm or new to the market innovation? (N, Year 2023= 1,204 and N, Year 2024 = 1,185; N, Y 2025 = 1,185)**

	PRODUCT INNOVATION						SERVICE INNOVATION					
	SOME NEW TO THE MARKET			WHOLLY NEW TO THE FIRMS			SOME NEW TO THE MARKET			WHOLLY NEW TO THE FIRMS		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
UK Average	47.9%	48.4%	57.8%	52.1%	51.5%	42.1%	35.4%	33.2%	41.8%	64.5%	66.8%	58.2%
Micro	51.6%	42.5%	58.8%	48.4%	57.4%	41.1%	34.1%	27.6%	46.6%	65.9%	72.4%	53.4%
Small	41.0%	50.7%	54.5%	58.9%	49.3%	45.5%	32.9%	33.9%	33.1%	67.0%	66.0%	66.9%
Medium	65.6%	63.1%	64.9%	34.3%	36.8%	35.1%	52.7%	51.1%	57.5%	47.3%	48.9%	42.5%
Large	83.2%	71.7%	76.8%	16.8%	28.2%	23.1%	69.8%	64.4%	59.6%	30.2%	35.6%	40.4%
Non-Frontier	38.2%	35.7%	48.5%	61.7%	64.2%	51.4%	28.4%	25.3%	31.6%	71.5%	74.7%	68.4%
Frontier	70.7%	76.8%	76.5%	29.2%	23.1%	23.5%	52.3%	53.7%	66.6%	47.7%	46.3%	33.4%
Exporters	59.5%	61.0%	75.6%	40.4%	38.9%	24.4%	44.3%	43.1%	58.9%	55.7%	56.9%	41.1%
Non-exporters	36.2%	36.3%	42.9%	63.7%	63.6%	57.1%	27.5%	25.6%	28.6%	72.5%	74.4%	71.4%

Notes: The question was only asked for those firms making products or services changes in the last year. Due to that there are smaller number of observations. Sectoral and regional sample sizes here are small and, therefore, are not reported.

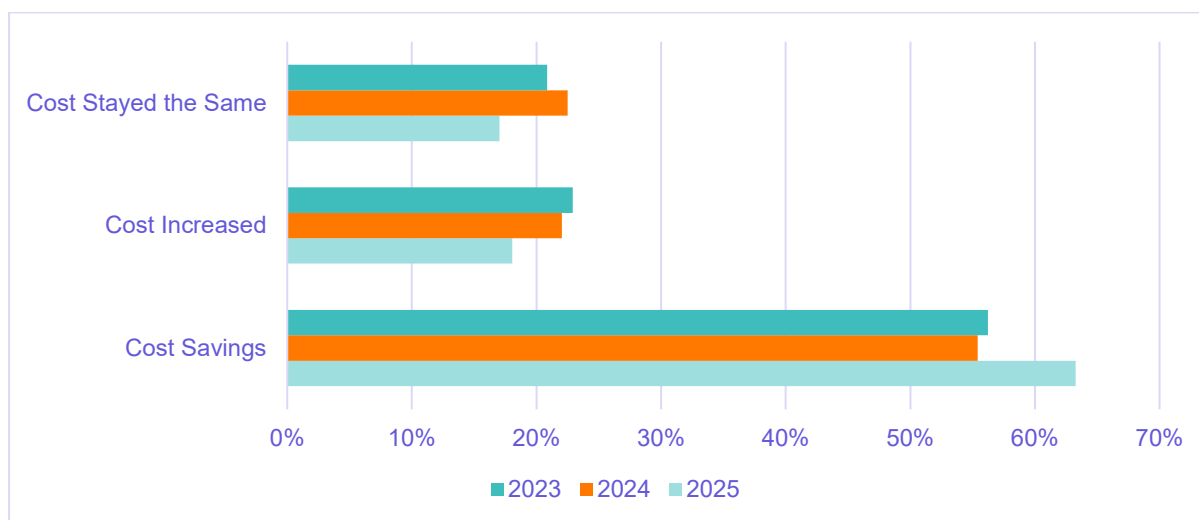
Similar to product and service innovation, we also observe an increase in the proportion of firms implementing process innovations. The proportion of firms reporting process innovation in 2025 is 46%, compared to 41% in 2024. Interestingly, the growth in process innovation was more significant for smaller firms and non-frontier firms (Figure 2.2). The percentage of micro firms engaging in process innovation rose from 34% to 42%, while non-frontier firms increased from 36% to 42%. Notably, there were declines in process innovation activity among medium and large firms in 2025.



**Figure 2.2: Proportion of firms introducing process innovations**

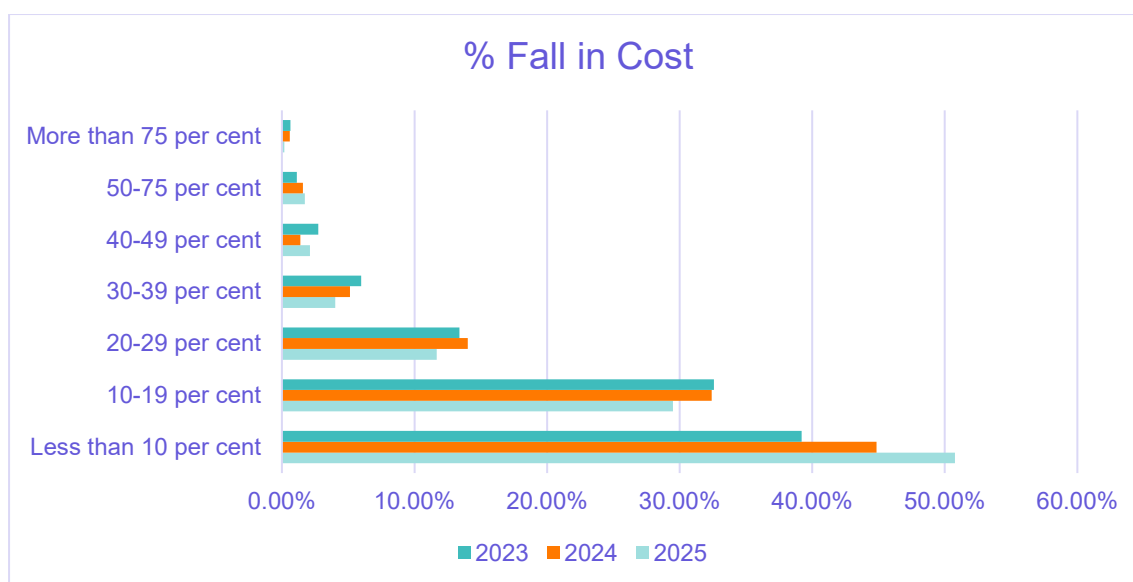
(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

Among those firms that undertook process innovation in 2025, 63% reported cost savings, 18% reported costs had increased, and 17% reported no change in costs (Figure 2.3). This profile closely reflects that observed in previous years. Figure 2.4 profiles the distribution of cost reduction achieved by those firms that did report cost reduction.



**Figure 2.3: Did process innovation lead to cost savings?**

(N, Y 2023 = 943; N, Y 2024 = 911; N Y 2025 = 980)



**Figure 2.4: Cost Reductions due to Process Innovation (% Firms Achieving Cost Reductions)**

(N, Y 2023 = 573; N, Y 2024 = 549; N Y 2025 = 611)



The next aspect of innovation examined in the ISNS is whether firms implemented a wider range of organisational changes. Compared to 2024, the percentage of firms that made changes in business practices, work organisation, external relationships, and marketing concepts all rose by around 5%, 6%, 6%, and 3% respectively in 2025 (Table 2.2). Smaller firms were more active in modifying business practices and work organisation, while larger firms focused more on expanding their marketing activities.

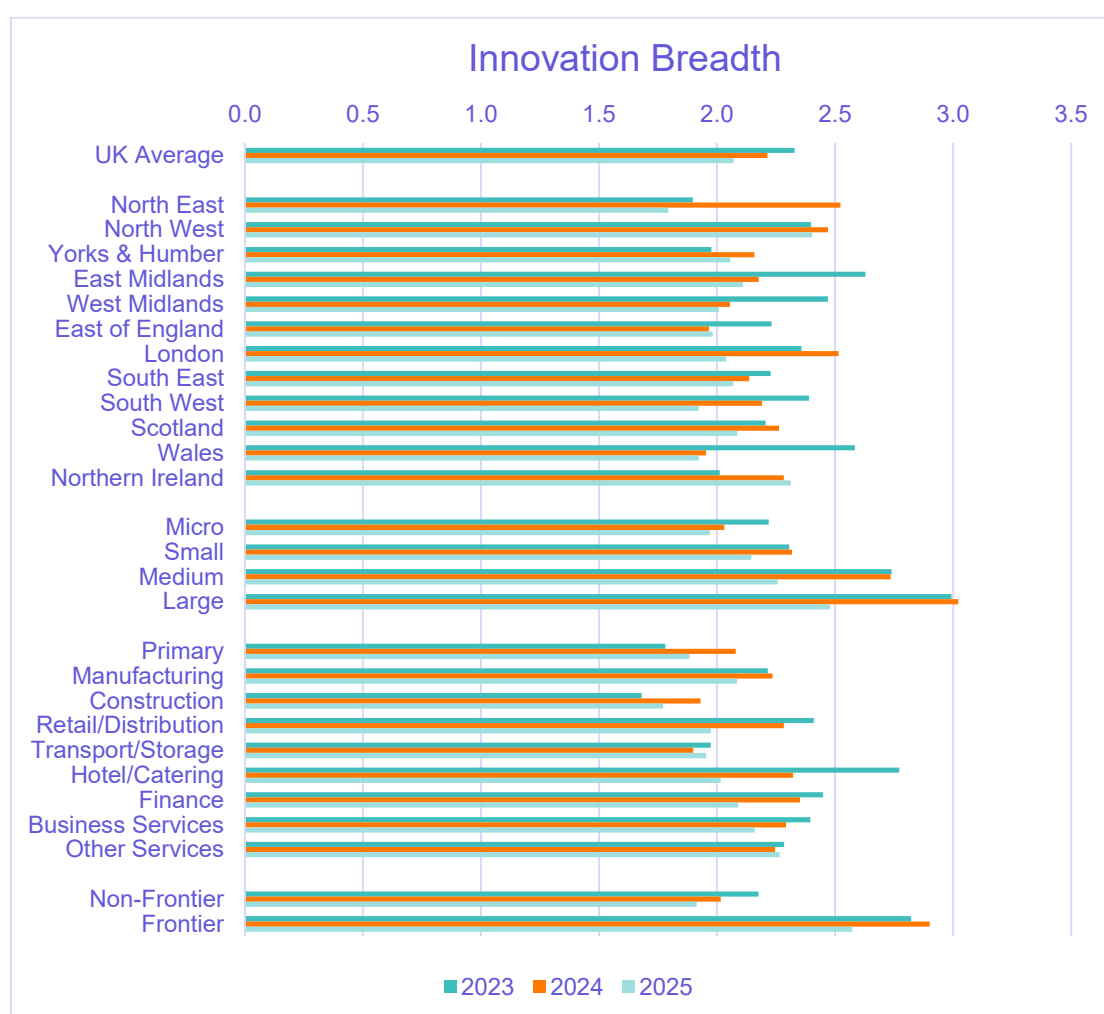
**Table 2.2: Business model innovation (% Firms) (N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)**

	BUSINESS PRACTICE			WORK ORGANISATION			ORGANISING EXTERNAL RELATIONSHIP			MARKETING CONCEPTS/STRATEGIES		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
UK Average	30.6%	29.2%	34.2%	38.9%	36.0%	42.4%	21.3%	20.1%	25.8%	35.2%	38.2%	41.3%
North East	17.7%	15.8%	28.3%	32.0%	44.7%	38.2%	6.8%	36.7%	22.7%	47.8%	37.5%	23.2%
North West	25.8%	38.1%	45.1%	39.2%	40.3%	46.6%	23.3%	22.8%	31.1%	40.3%	39.1%	51.2%
Yorks & Humber	24.1%	30.9%	33.3%	43.4%	38.6%	33.7%	25.2%	8.4%	28.9%	24.7%	30.8%	37.3%
East Midlands	30.1%	34.6%	37.3%	48.1%	29.4%	47.8%	24.3%	24.7%	27.4%	37.8%	38.7%	42.4%
West Midlands	37.7%	26.9%	37.1%	43.2%	37.8%	39.7%	20.2%	12.9%	19.4%	40.4%	34.9%	38.8%
East of England	35.0%	26.1%	33.0%	33.5%	26.7%	35.8%	24.5%	17.1%	28.4%	35.4%	30.6%	33.1%
London	32.6%	34.5%	34.4%	33.4%	35.2%	42.0%	19.7%	26.7%	26.0%	35.4%	46.3%	39.2%
South East	25.2%	22.8%	29.5%	36.0%	37.2%	39.6%	18.9%	23.6%	30.3%	34.4%	40.3%	41.8%
South West	31.9%	24.8%	30.1%	46.0%	43.3%	39.8%	27.4%	19.5%	22.1%	29.0%	43.6%	43.1%
Scotland	30.4%	34.6%	31.8%	36.9%	43.5%	45.1%	14.6%	17.0%	17.9%	32.2%	41.0%	50.0%
Wales	47.5%	19.8%	35.3%	43.1%	33.8%	46.8%	18.0%	13.6%	16.2%	36.0%	30.9%	38.6%
Northern Ireland	26.4%	35.2%	35.7%	25.5%	36.1%	51.7%	7.7%	20.3%	33.1%	40.0%	36.9%	46.1%
Micro	29.8%	25.8%	32.5%	39.8%	33.8%	41.4%	21.1%	19.8%	23.6%	33.7%	36.2%	40.7%
Small	29.4%	30.9%	36.2%	36.3%	37.3%	42.9%	19.8%	20.5%	28.1%	35.4%	39.8%	40.8%

	BUSINESS PRACTICE			WORK ORGANISATION			ORGANISING EXTERNAL RELATIONSHIP			MARKETING CONCEPTS/STRATEGIES		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
Medium	36.4%	39.8%	34.3%	42.3%	45.4%	46.1%	26.5%	19.8%	26.9%	40.8%	41.1%	46.9%
Large	40.1%	42.0%	37.7%	46.4%	49.4%	43.2%	30.3%	31.3%	29.0%	44.6%	43.9%	49.9%
Primary	27.9%	31.5%	32.1%	30.7%	30.8%	46.7%	16.5%	22.9%	26.6%	24.4%	31.4%	43.1%
Manufacturing	28.7%	28.7%	34.1%	35.5%	38.5%	39.1%	19.0%	20.0%	28.7%	32.6%	33.0%	37.0%
Construction	24.8%	28.3%	30.2%	37.0%	38.0%	37.8%	17.5%	19.0%	25.3%	21.1%	31.4%	36.2%
Retail/Distribution	25.7%	28.2%	31.7%	38.8%	34.4%	43.5%	22.4%	18.7%	25.1%	38.2%	45.7%	39.5%
Transport/Storage	35.3%	33.4%	32.1%	33.9%	34.2%	41.9%	20.1%	13.4%	25.1%	25.9%	27.6%	36.5%
Hotel/Catering	34.7%	26.5%	26.5%	47.8%	34.4%	34.0%	23.3%	20.3%	20.2%	42.4%	44.7%	40.3%
Finance	39.5%	33.6%	35.1%	42.7%	35.0%	40.9%	20.6%	26.5%	26.2%	33.1%	36.5%	37.5%
Business Services	34.4%	29.4%	35.6%	41.1%	40.7%	45.3%	24.0%	22.4%	26.2%	35.6%	34.8%	46.4%
Other Services	29.6%	31.3%	42.1%	33.3%	35.7%	47.1%	18.7%	20.9%	28.5%	38.0%	39.2%	43.8%
Non-Frontier	28.8%	26.3%	32.2%	38.0%	33.1%	40.6%	18.5%	16.8%	23.1%	32.1%	36.0%	39.5%
Frontier	36.5%	38.9%	40.8%	41.7%	45.6%	49.4%	30.2%	31.0%	34.5%	45.0%	45.6%	48.3%

To capture the overall landscape of innovation activity, we create a composite variable to represent innovation breadth, accounting for the different types of innovation measured by the ISNS, such as product/service, process, business practices, work organisation, external relationship management, and marketing strategies. This is a 'count' variable representing the number of innovation types in which each firm has engaged.

Overall, innovation breadth, i.e., the number of types of innovation undertaken by firms decreased, slightly from 2.2 in 2024 to 2.1 in 2025 (Figure 2.5). The decrease is most notable for larger firms and frontier firms. For large firms, the total number of types of innovation undertaken decreased from 3.0 to 2.5 in 2025. While for frontier firms, it dropped from 2.9 to 2.5 in 2025.

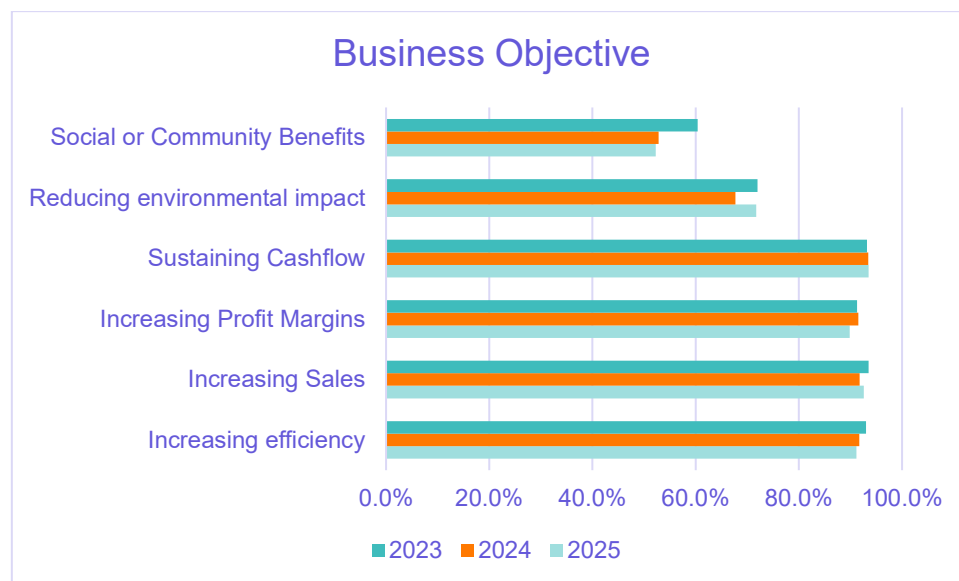


**Figure 2.5: Number of types of innovation being undertaken (max 6.0)**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

## 2.2 Innovation and Business Objectives

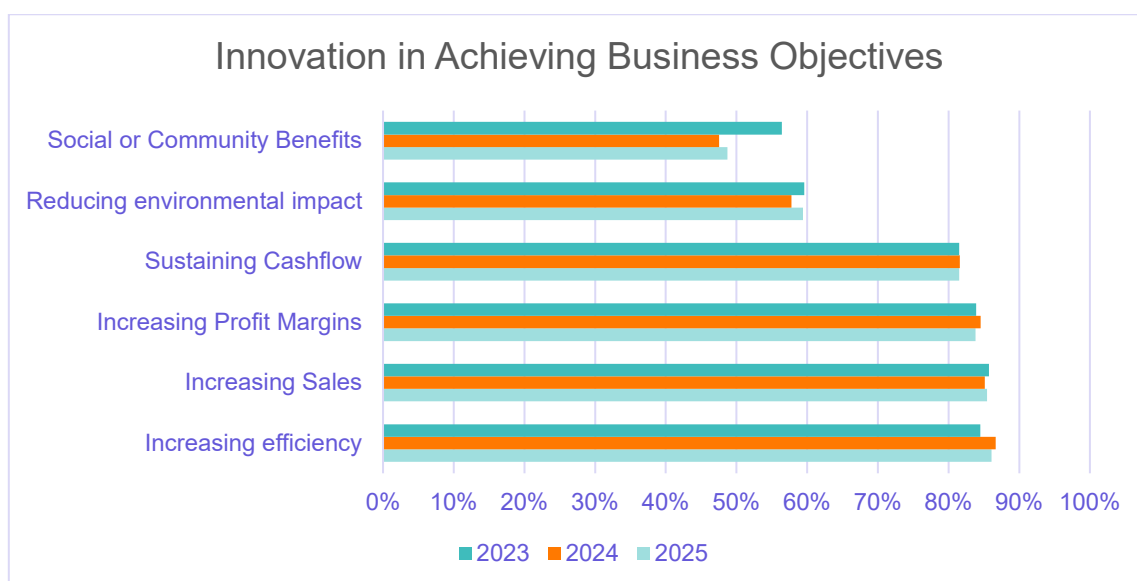
The ISNS surveys UK businesses about their objectives and how vital their innovation activities have been in achieving these goals over the past 12 months. Figure 2.6 displays the percentage of firms that rated a specific business objective as either 'important' or 'very important'. Among UK firms, there is a consistent trend showing the significance of commercial objectives, such as efficiency, increasing sales, profit margins, and cash flow. Interestingly, there was a rising emphasis on social and community benefits (from 52% in both 2023 and 2024, rising to 60% in 2025).



**Figure 2.6: Business objectives over the year before the survey**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

Figure 2.7 summarises firms' responses on how innovation helps businesses achieve their objectives. Overall, this has remained very similar over the past three years. 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.



**Figure 2.7: How Innovation helps firms achieve business objectives**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000 N Y 2025 = 2,020)

## 2.3 Innovation and Sales Growth

Next, we examine the link between innovation and sales growth. Figure 2.8 summarises the average sales growth for each year, since 2023. Consistent across the results is the finding that innovation is strongly associated with higher sales growth. In 2025, innovative firms reported a sales growth rate of 6.9%, a slight rise from 6.8% in 2024. Conversely, non-innovative firms experienced a notable decline in sales growth, decreasing from 2.2% in 2024 to just 0.4% in 2025.

As expected, frontier firms also experienced higher sales growth than non-frontier firms. In 2025, sales growth for frontier firms was 9.2% compared to 2.9% for non-frontier firms. Interestingly, exporter firms experienced highest sales growth by 7.1% between period 2024 and 2025.

Compared to 2024, there was a significant decline in sales growth for non-innovating firms, non-frontier firms, and non-exporters. Average sales growth among non-innovating firms decreased from around 2% in 2024 to 0.5% in 2025, while for non-frontier firms, it fell from around 4% to 3% during the same period. In addition, average sales growth among non-exporter firms decreased from 4% in 2024 to -0.8% in 2025.

To better understand the relationship between innovation and sales growth, we conducted a t-test to compare the average sales growth of innovating and non-innovating firms. The results show that innovating firms had significantly higher average sales growth (8.7%) than non-innovators (2.7%). This difference is statistically significant ( $p < 0.001$ ), indicating a strong link between innovation and increased sales performance.



**Figure 2.8: Sales growth (%)**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

### 3. Enablers of Innovation

#### 3.1 Innovation Investment Activity

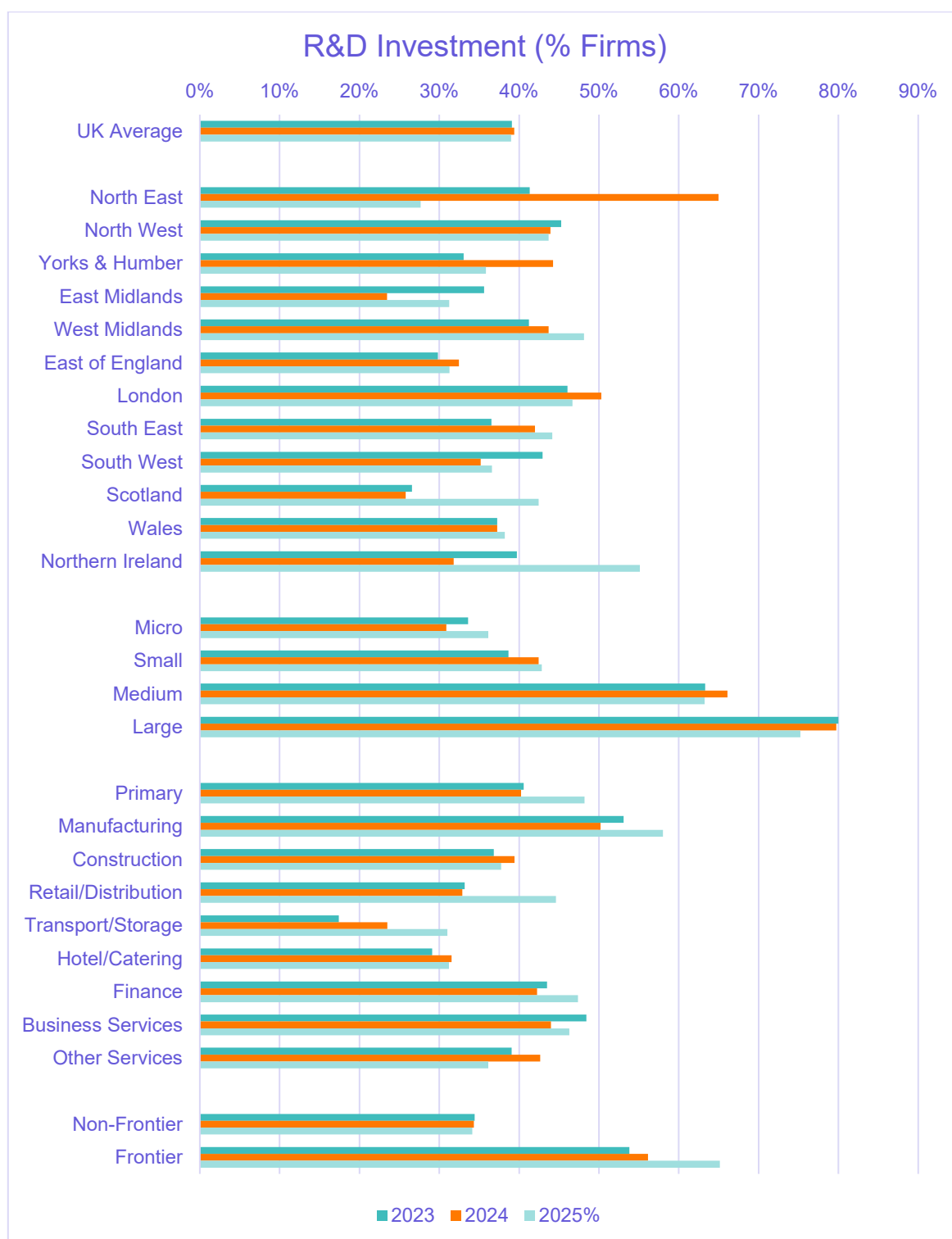
Overall, the proportion of firms reporting some form of R&D activity (39%) has remained consistent over the past three years (Figure 3.1). This proportion was higher among larger (75% in 2025) and frontier firms (65% in 2025). Sectorally, R&D was most prevalent in manufacturing and less so in transport and accommodation-related firms.

The ISNS also includes a question on firms' financial commitments to innovation through various innovation-related activities. In 2025, the proportion of firms investing in machinery, equipment, or software declined slightly by 2%. Notably, the largest decreases occurred among larger firms: the proportion of firms investing dropped by 17% for medium-sized firms and by 27% for large firms in 2024 (Table 3.1). Similarly, frontier firms also reported reduced investment levels, with a 9% decrease in 2025.

Meanwhile, the proportion of firms investing in patenting or licensing rose by 2% in 2025. Notably, there was a 4% increase in patenting or licensing investment among smaller firms in 2025.

The proportion of firms investing in market research and new market development rose by approximately 3% in 2025. Investment in innovation training activities remains in the same level at 42% in 2025.





**Figure 3.1: Proportion of Firms Investing in R&D Activities**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

**Table 3.1: Proportion of firms investing in other aspects of innovation (N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)**

	MACHINERY/EQUIPMENT / SOFTWARE			INVESTMENT IN PATENT/LICENSES			INVESTMENT IN INNOVATION TRAINING			INVESTMENT IN PRODUCT DESIGN			INVESTMENT IN MARKET RESEARCH			DEVELOPING NEW MARKET RELATIONSHIPS/CHANN ELS		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
UK Average	54.8%	56.2%	54.1%	8.1%	7.9%	10.1%	38.3%	42.3%	41.6%	31.0%	28.6%	30.5%	20.4%	22.9%	25.6%	31.5%	33.4%	36.0%
North East	36.3%	55.6%	41.3%	8.5%	22.4%	18.7%	33.9%	20.3%	36.3%	35.6%	47.6%	26.9%	37.0%	31.7%	17.5%	43.2%	26.3%	22.3%
North West	53.6%	56.3%	64.8%	8.1%	10.7%	16.0%	35.3%	40.4%	41.5%	31.5%	23.5%	42.0%	20.0%	15.8%	27.4%	30.4%	25.0%	42.0%
Yorks & Humber	43.9%	53.7%	54.3%	7.5%	3.6%	8.7%	41.4%	41.9%	46.2%	33.4%	27.0%	25.4%	17.8%	22.6%	29.3%	20.3%	31.0%	40.3%
East Midlands	65.1%	54.4%	48.1%	6.8%	4.5%	13.0%	28.0%	34.7%	38.1%	32.4%	23.9%	35.8%	22.4%	15.4%	20.8%	36.4%	37.4%	34.7%
West Midlands	61.2%	54.7%	52.9%	14.1%	5.0%	5.8%	44.1%	35.8%	44.1%	35.9%	16.7%	28.6%	23.1%	31.8%	24.1%	34.3%	29.9%	31.1%
East of England	54.1%	51.9%	61.5%	8.5%	12.8%	7.1%	44.2%	45.6%	37.2%	24.2%	32.1%	29.6%	19.5%	27.3%	20.1%	30.7%	34.7%	33.8%
London	54.5%	63.4%	54.6%	9.2%	7.4%	10.9%	39.5%	45.0%	41.6%	35.3%	35.0%	34.3%	25.4%	27.7%	26.4%	34.8%	38.4%	37.9%
South East	51.5%	49.7%	48.3%	7.2%	5.0%	6.2%	31.9%	42.8%	32.5%	27.9%	27.5%	27.6%	15.3%	21.8%	26.0%	29.8%	42.9%	42.3%
South West	51.6%	53.8%	50.9%	7.0%	9.3%	5.5%	35.3%	46.9%	37.7%	26.8%	32.9%	27.7%	15.9%	20.3%	22.4%	31.4%	34.3%	22.8%
Scotland	58.6%	57.4%	59.0%	4.7%	11.3%	10.3%	47.6%	45.9%	48.2%	30.1%	27.4%	34.1%	23.2%	18.6%	23.6%	24.4%	27.0%	36.4%
Wales	68.5%	50.9%	53.7%	3.3%	5.2%	7.8%	43.2%	46.8%	46.2%	28.8%	27.7%	23.3%	23.1%	23.4%	30.1%	27.6%	31.2%	25.6%
Northern Ireland	58.0%	69.0%	56.0%	9.9%	6.1%	18.8%	35.2%	42.6%	53.5%	35.3%	26.1%	28.3%	11.3%	26.0%	31.9%	31.4%	29.0%	49.3%
Micro	51.7%	50.7%	51.9%	5.7%	6.4%	7.8%	34.1%	35.0%	36.2%	29.0%	22.7%	27.1%	17.4%	20.4%	23.3%	28.8%	31.2%	34.5%
Small	55.0%	58.2%	56.5%	7.8%	7.6%	11.5%	40.6%	47.4%	45.4%	31.3%	32.1%	31.7%	20.3%	24.1%	25.8%	31.6%	35.4%	36.8%

		MACHINERY/EQUIPMENT / SOFTWARE			INVESTMENT IN PATENT/LICENSING			INVESTMENT IN INNOVATION TRAINING			INVESTMENT IN PRODUCT DESIGN			INVESTMENT IN MARKET RESEARCH			DEVELOPING NEW MARKET RELATIONSHIPS/CHANN ELS		
		2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
Medium		63.1%	73.2%	56.2%	21.5%	14.7%	16.2%	40.2%	50.4%	56.3%	36.5%	38.2%	42.5%	32.7%	34.1%	36.4%	39.0%	35.8%	39.7%
	Large	66.3%	79.2%	52.1%	23.9%	23.0%	18.2%	50.3%	55.7%	50.5%	30.9%	43.9%	50.5%	43.5%	42.6%	42.5%	43.8%	43.0%	48.6%
Primary																			
	Manufacturing	69.1%	71.3%	68.9%	7.4%	8.7%	9.9%	41.0%	42.3%	41.2%	17.2%	18.9%	23.8%	14.5%	14.3%	24.7%	29.2%	29.3%	38.4%
Construction		57.8%	65.1%	59.2%	7.5%	7.5%	12.1%	34.3%	37.1%	42.0%	38.7%	40.8%	39.3%	22.8%	21.0%	27.0%	35.0%	36.7%	40.2%
		50.8%	58.1%	52.3%	4.8%	5.6%	6.6%	38.0%	45.9%	40.5%	20.2%	24.3%	26.1%	11.1%	19.8%	22.0%	20.7%	29.4%	37.3%
Retail/Distribution		49.2%	59.4%	44.5%	5.2%	11.9%	12.6%	33.8%	34.2%	32.3%	32.3%	25.3%	29.4%	19.9%	23.2%	27.9%	28.5%	32.3%	36.5%
	Transport/Storage	50.6%	56.9%	64.1%	3.9%	7.4%	9.8%	32.2%	42.0%	42.6%	22.9%	21.5%	26.7%	16.7%	19.7%	12.2%	29.5%	22.9%	33.0%
Hotel/Catering		56.5%	55.5%	57.1%	10.9%	5.0%	3.2%	47.6%	40.0%	39.0%	26.2%	33.1%	22.4%	20.5%	24.2%	22.1%	34.1%	28.1%	27.9%
	Finance	46.5%	46.8%	48.5%	7.4%	10.3%	10.7%	38.0%	48.8%	43.0%	27.6%	23.5%	33.0%	19.8%	22.6%	27.9%	35.0%	42.9%	38.6%
Business Services		58.8%	51.7%	56.0%	9.7%	8.5%	13.5%	36.6%	41.2%	44.5%	38.2%	28.5%	33.4%	20.5%	23.0%	25.9%	40.8%	36.7%	35.1%
	Other Services	52.5%	51.9%	54.3%	9.7%	6.2%	10.2%	38.1%	50.2%	48.6%	30.3%	28.1%	33.5%	24.3%	27.3%	28.4%	26.2%	37.5%	39.3%
Non-Frontier																			
		52.5%	53.6%	53.4%	6.2%	6.7%	8.0%	37.5%	39.8%	38.1%	26.9%	25.6%	25.8%	16.8%	19.9%	21.5%	28.6%	29.5%	34.5%
Frontier		62.1%	65.1%	55.9%	14.2%	11.9%	17.1%	40.7%	50.5%	52.7%	44.2%	38.7%	45.7%	31.8%	33.2%	38.7%	40.5%	46.4%	41.3%

The ISNS 2025 asked UK firms about the types of training their businesses had invested in over the past year to support product or service changes. 32% of firms invested in specific job-related skills training, 24% invested in compliance training on legal and regulatory matters, 23% invested in personal development training, and 23% in training for industry qualifications. The details can be seen in Figure 3.2 below.



Figure 3.2: Types of Training Conducted in 2025 (N Y 2025 = 2,020)

### 3.2 Funding innovation

The ISNS asked UK firms about their approach to funding their R&D and innovation activity. Overall, internal funding was the most common approach to funding innovation in the past three years (around 67% of firms 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.

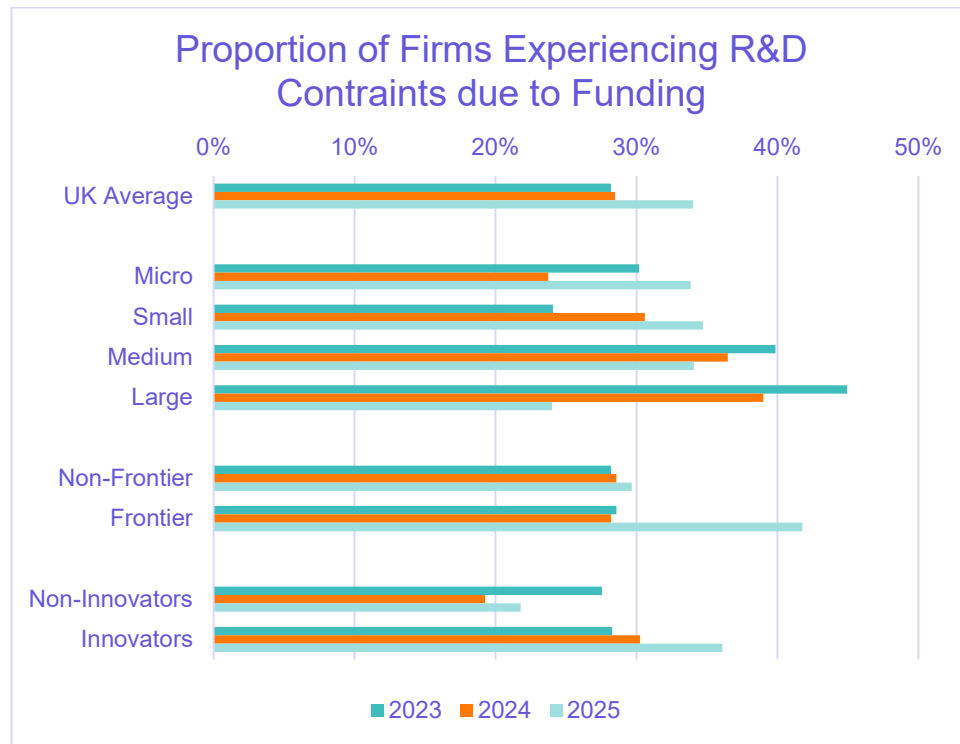
Interestingly, UK businesses reported an increased use of external finance for their innovation activities in 2025. The use of grants, government loans, bank loans, and equity finance rose by around 3%, 6%, 7%, and 8%, respectively (Table 3.2). This rise in the use of external funding sources was particularly notable among micro-businesses.

**Table 3.2: Funding of R&D and innovation in the year before the survey (N, Year 2023=1,001, N, Year 2024 = 1,013; N Y 2025 = 977)**

	INTERNAL			GRANTS			GOVERNMENT LOANS			BANK LOANS			EQUITY FINANCE			R&D TAX RELIEF (2023/ R&D TAX CREDITS (2024, 2025)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
UK Average	66.7%	69.5%	66.8%	7.7%	9.5%	12.3%	7.0%	5.6%	11.3%	8.2%	6.7%	14.1%	4.2%	3.2%	10.8%	12.0%	12.2%	10.9%
Micro	74.4%	66.4%	61.8%	7.9%	3.6%	11.9%	5.2%	0.3%	11.9%	9.8%	5.3%	16.4%	2.7%	0.8%	13.7%	12.7%	11.7%	11.2%
Small	62.8%	73.2%	73.0%	7.1%	13.3%	11.0%	7.8%	8.4%	11.0%	4.6%	7.2%	8.9%	3.8%	3.3%	6.8%	10.5%	12.1%	10.8%
Medium	56.1%	63.5%	64.9%	8.9%	16.2%	20.5%	5.8%	14.0%	8.6%	22.7%	9.6%	25.2%	9.6%	12.6%	12.1%	15.7%	15.1%	9.5%
Large	60.8%	59.6%	69.9%	17.9%	18.2%	19.4%	22.3%	16.8%	14.3%	19.4%	12.1%	25.3%	17.3%	12.3%	18.8%	15.1%	9.0%	9.9%
Non-Frontier	67.3%	68.0%	72.2%	7.9%	7.2%	7.6%	7.0%	5.1%	9.3%	6.9%	5.2%	8.5%	3.1%	1.9%	8.8%	11.0%	9.1%	10.0%
Frontier	64.9%	73.7%	56.8%	7.6%	16.1%	21.5%	6.5%	6.8%	15.4%	12.1%	10.8%	26.8%	7.4%	6.9%	14.9%	14.5%	20.8%	13.2%

Notes: Due to interview restrictions, only half of the survey respondents were asked this question, so sectoral and regional sample sizes here are small. Sectoral and regional results are therefore not reported. As firms could use more than one source of finance, the totals do not add to 100. ISNS 2023 asks about tax relief, while ISNS 2024 and 2025 asks about tax credits.

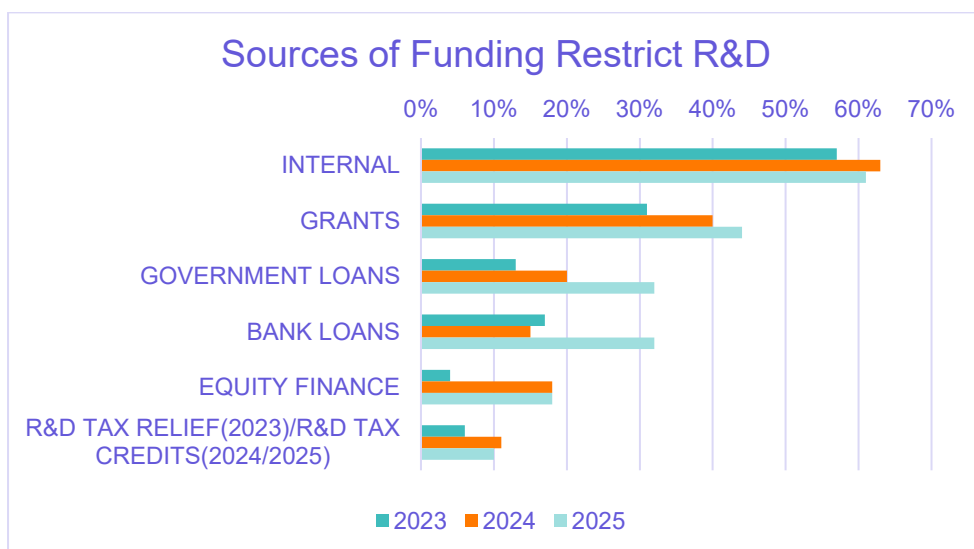
Out of those firms reporting the use of external finance for their innovation activities, an increasing proportion experienced R&D constraints related to funding from 28% in 2024 to 34% in 2025 (Figure 3.3). The rise in funding constraints in innovation activity was particularly observed among micro firms (grew by 10%) and frontier firms (grew by 14%) in 2025.



**Figure 3.3: Proportion of Firms Experiencing R&D Constraints due to Funding**

(N, Year 2023=1,001, N, Year 2024 = 1,013; N Y 2025 = 977)

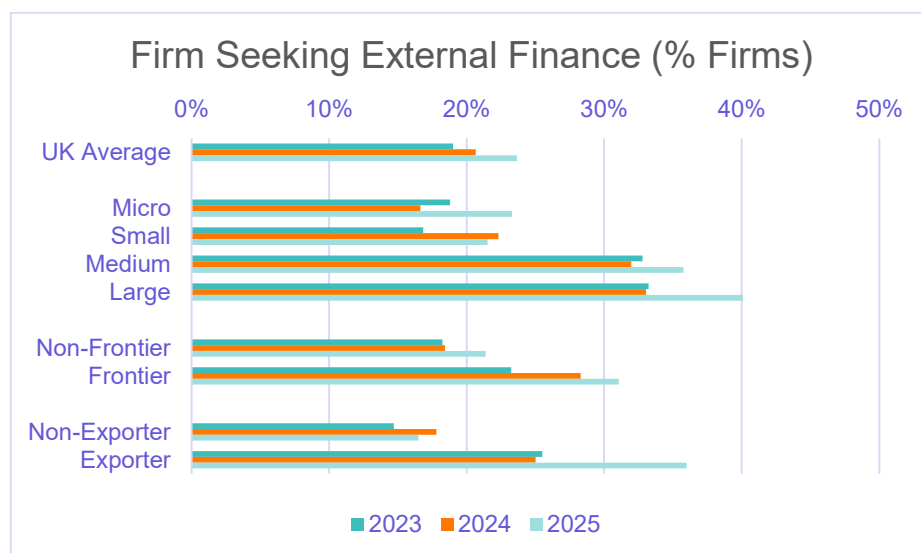
As a follow up question, the ISNS 2025 also asked which sources of funding restrict their R&D activities. Overall, in 2025, UK businesses reported increased constraints from government loans (from 20% in 2024 to 32% in 2025), bank loans (from 15% in 2024 to 32% in 2025), and grants (from 40% in 2024 to 44% in 2025) as seen in Figure 3.4.



**Figure 3.4: Sources of Funding Restrict R&D**

(N, Year 2023=155, N, Year 2024 = 190; N Y 2025 = 192)

Overall, there was an increase in the proportion of UK firms seeking external finance (Figure 3.5). 24% of firms reported seeking external funding in 2025 compared to 21% in 2024. Interestingly, the increased need for external finance was more pronounced for both micro and large firms, each showing a 7% rise in 2025.

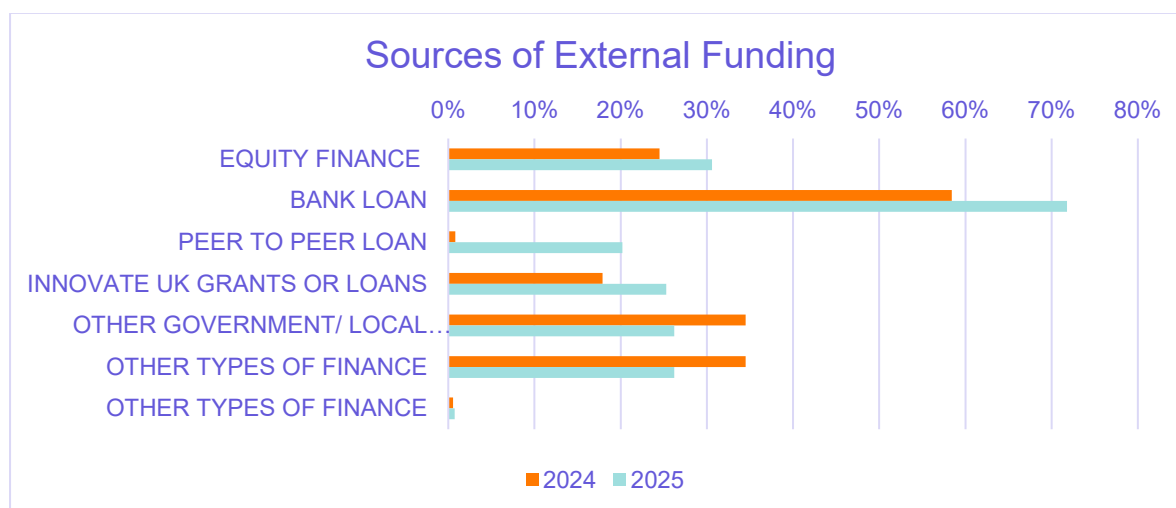


**Figure 3.5: Proportion of Firms Seeking External Funding**

(N, Year 2023=1,001, N, Year 2024 = 1,013; N Y 2025 = 977)

Notes: Due to interview restrictions, only half of the survey respondents were asked this question, so sectoral and regional sample sizes here are small. Sectoral and regional results are therefore not reported.

For firms that reported seeking external funding, additional questions were asked about the types of finance they pursued over the past year. Comparing 2024 and 2025, bank loans remained the most popular source of external funding (Figure 3.6). In 2025, 72% of firms seeking external funding used bank loans, up from 58% in 2024. This was followed by other sources of external finance, including equity finance (31% in 2025), grants from government or local authorities (25%), Innovate UK grants (25%), and peer-to-peer lending (20%).



**Figure 3.6: Types of Sources of External Funding**

(N, Year 2024 = 235; N Y 2025 = 277)

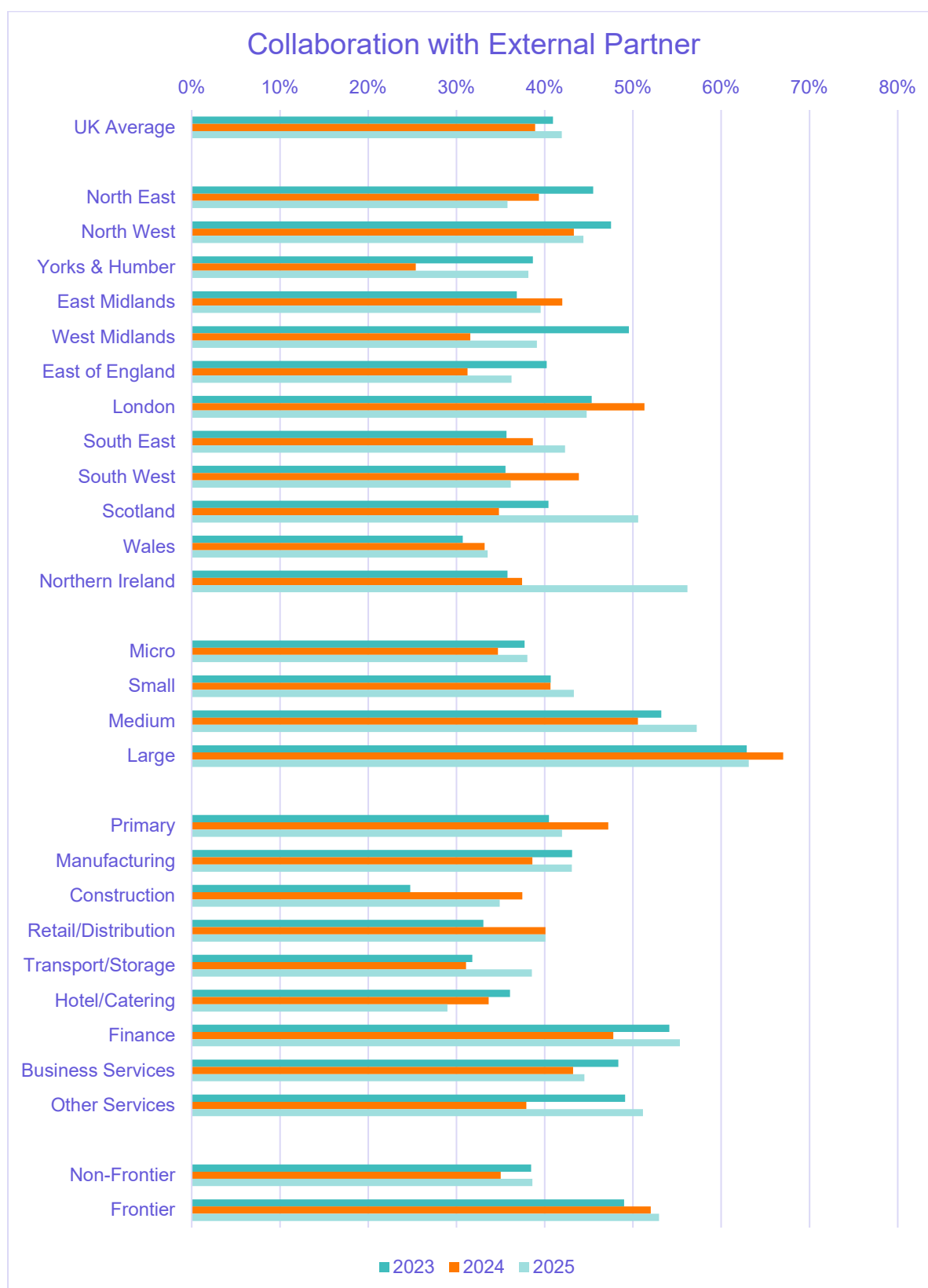
Notes: The ISNS 2023 question listed different options for sources of external funding; therefore, we report only the 2024 and 2025 data for a consistent comparison.

### 3.3 Collaboration Activity

The ISNS asked firms whether they collaborate with other organisations as part of their efforts to develop new products, services, processes, or organisational practices. If they answer yes, they are then asked to specify the types of partners they have worked with over the past year.

The proportion of firms working with external partners grew from 39% in 2024 to 42% in 2025, returning to the level seen in 2023 (Figure 3.7). While regional differences persist, the most notable increases were observed in firms located in Yorkshire & the Humber and Scotland. Medium-sized firms experienced a significant 7% rise in collaboration activity, while non-frontier firms saw a 4% increase.





**Figure 3.7: Collaboration with External Partners for Innovation**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

Consistent with the ISNS 2024 findings, evidence continues to show that UK firms more commonly collaborate with supply chain partners, namely suppliers, customers, and other businesses (Table 3.3). However, in 2025, collaboration with suppliers and customers declined by around 3% and 5%, respectively, a trend particularly evident among larger firms.

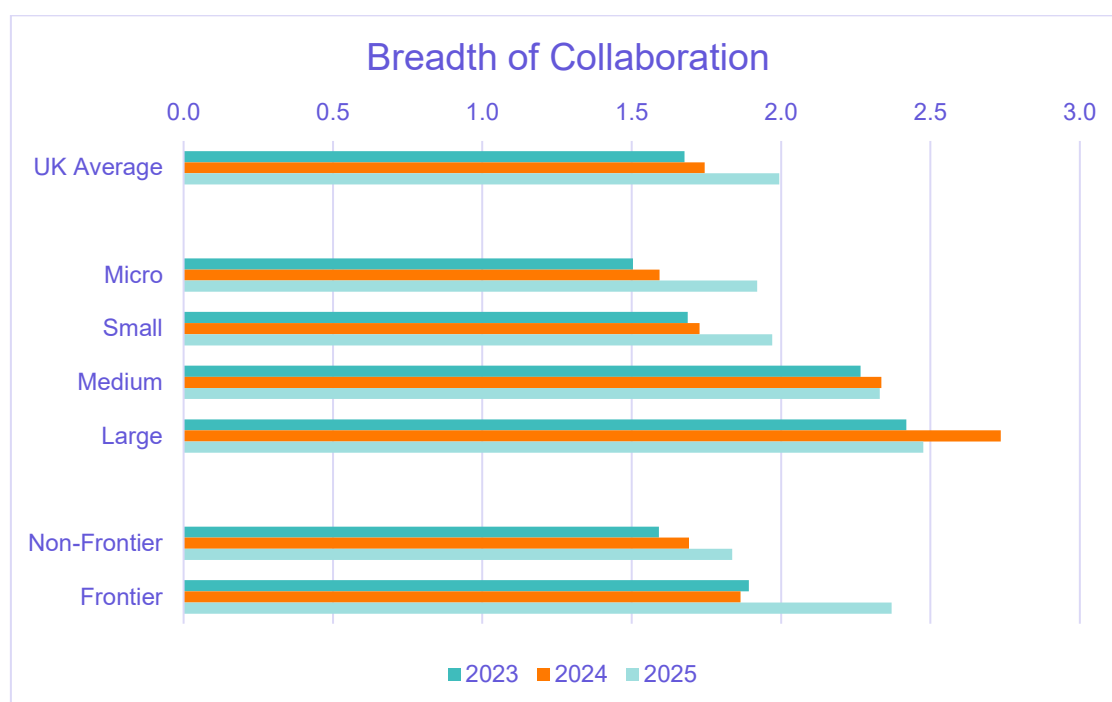
In contrast, by 2025, there was a noticeable increase in collaboration with various partner types: technology hubs (up by almost 9%), consultants (up by around 6%), universities (up by around 5%), business support organisations (up by around 3%), and government or public sector bodies (up by around 2%). These trends varied according to firm size, sector, and region, highlighting the changing preferences in collaboration types across different business contexts.

**Table 3.3: Collaboration profile by type of firm (N, Year 2023=890, 2024 = 868; 2025 = 913)**

	SUPPLIERS			CLIENTS/CUSTOMERS			OTHER BUSINESSES			ACCELERATORS			TECHNOLOGY HUBS/ INNOVATION CENTRES			CONSULTANTS			UNIVERSITIES			GOVERNMENT/ PUBLIC RESEARCH INSTITUTES			BUSINESS SUPPORT PROVIDERS		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
UK Average	43.9%	42.8%	39.3%	25.9%	29.9%	25.1%	39.5%	39.4%	42.2%	5.4%	4.2%	0.8%	12.2%	12.9%	21.6%	18.1%	16.8%	23.0%	7.0%	9.4%	14.8%	9.4%	8.8%	10.9%	6.4%	10.3%	13.4%
Micro	45.8%	40.7%	37.7%	25.7%	24.8%	21.8%	37.2%	45.8%	37.0%	3.1%	0.1%	10.5%	8.8%	10.3%	26.3%	16.3%	13.2%	21.0%	3.7%	9.4%	13.6%	7.7%	6.1%	10.7%	2.1%	9.0%	13.5%
Small	41.0%	43.3%	38.3%	22.9%	32.9%	28.1%	43.2%	35.1%	50.6%	5.4%	5.3%	7.1%	12.1%	11.7%	15.9%	18.4%	16.8%	22.5%	8.4%	6.9%	13.1%	10.2%	10.3%	10.3%	7.0%	10.3%	11.4%
Medium	46.8%	51.2%	49.7%	42.8%	35.9%	26.2%	35.6%	35.0%	34.0%	13.8%	12.5%	9.5%	24.5%	24.5%	21.0%	20.1%	24.0%	31.8%	11.4%	21.2%	27.0%	12.0%	16.4%	14.0%	19.6%	12.7%	19.7%
Large	52.8%	55.7%	49.5%	30.0%	43.5%	31.9%	22.9%	22.6%	23.5%	17.8%	19.2%	14.3%	24.9%	29.4%	38.4%	37.2%	43.9%	35.4%	21.5%	25.6%	20.0%	13.4%	16.1%	13.1%	21.5%	17.5%	21.4%
Non-Frontier	44.2%	45.1%	35.6%	26.0%	30.1%	22.8%	38.5%	41.4%	46.4%	3.0%	2.5%	7.6%	11.8%	9.9%	16.0%	16.2%	16.1%	20.9%	4.5%	6.0%	12.7%	8.9%	7.5%	9.0%	6.2%	10.4%	12.6%
Frontier	43.0%	37.8%	46.9%	25.9%	29.4%	30.8%	42.0%	34.7%	33.6%	11.6%	8.0%	12.5%	13.2%	19.5%	34.6%	22.9%	18.4%	28.4%	13.3%	16.9%	19.7%	10.6%	11.7%	15.2%	6.8%	10.1%	15.4%

Notes: The question was only asked for those firms collaborate with any external partners to help with product/service development, or organizational development in the last year. Due to that there are smaller number of observations. Sectoral and regional sample sizes here are small and, therefore, are not reported.

Based on the different types of collaboration partners, we constructed a 'count' variable called breadth of collaboration, which represents the total number of partner types each firm engaged with (Figure 3.8). On average, the number of types of partners who collaborated with each firm increased slightly, from 1.7 in 2024 to 1.9 in 2025. Notably, there is an increase for micro-business (increased from 1.6 in 2024 to 1.9 in 2025) and small business (increased from 1.7 in 2024 to 1.9 in 2025). Similarly, there was a rising breadth of collaboration in frontier firms by 0.5 in 2025. To note, this does not represent number of partners, but the number of partner types.



**Figure 3.8: Breadth of Collaboration (Max 9)**

(N, Year 2023=1,001, N, Year 2024 = 1,013; N Y 2025 = 913)

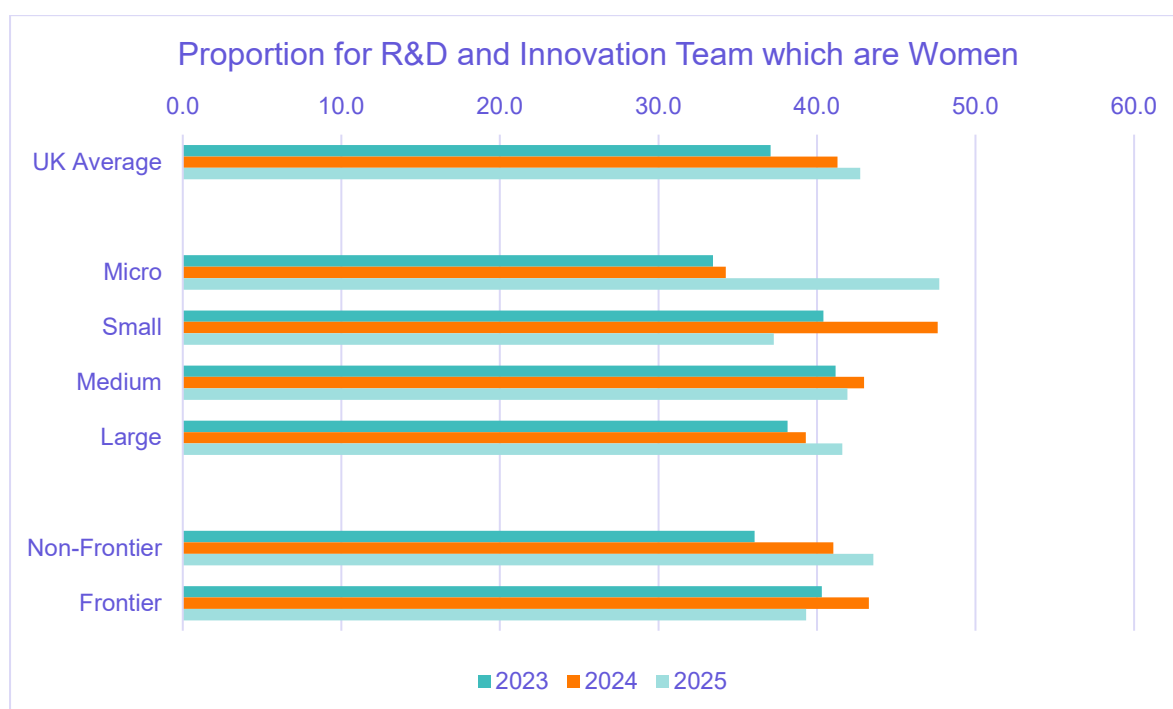
Notes: The question was only asked for those firms collaborate with any external partners to help with product/service development, or organizational development in the last year. Due to that there are smaller number of observations. Sectoral and regional sample sizes here are small and, therefore, are not reported.

### 3.4 Innovation Team and Leadership Diversity

In the ISNS, UK firms were asked to provide information about the size and composition of their innovation teams. The initial question was: *"How many people are involved in delivering or implementing changes to products or services in your organisation?"*

Subsequent questions focused on team diversity, specifically the percentage of team members who were female (Figure 3.9) and from ethnic minority backgrounds (Figure 3.10).

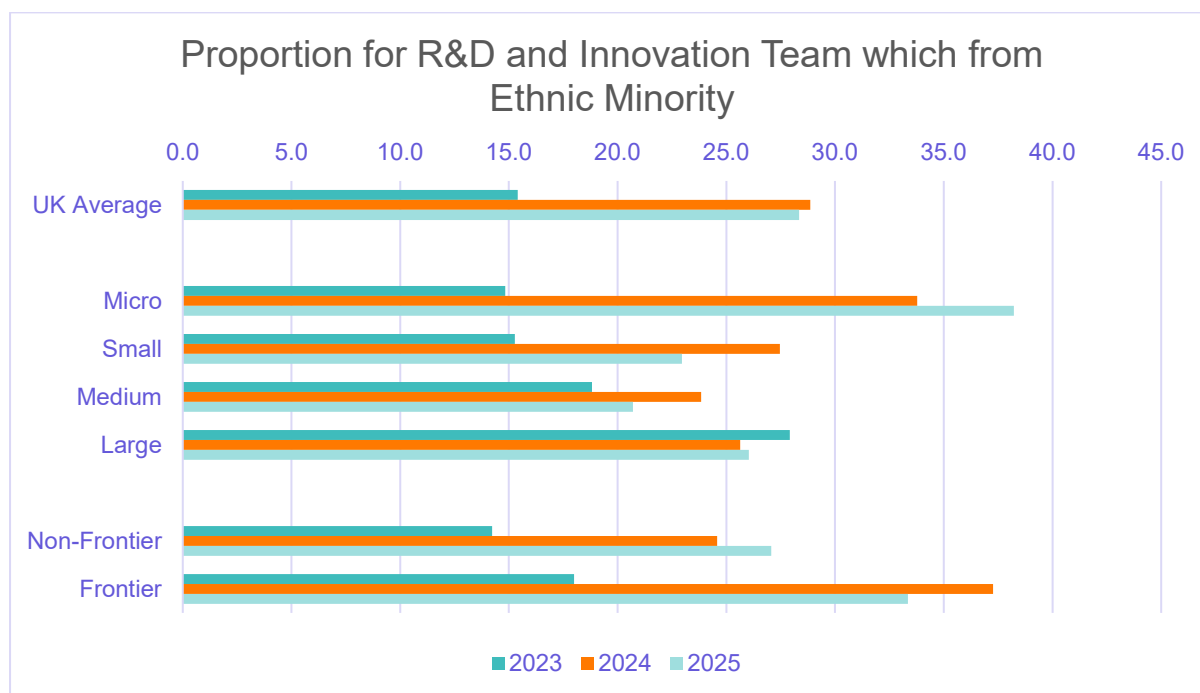
Overall, 43% of UK businesses' innovation team members were female in 2025, a slight rise from 41% in 2024. Interestingly, the proportion of women is notably higher in micro-businesses (48% in 2025). Additionally, 28% of UK businesses' innovation teams in 2025 come from ethnic minority backgrounds. Once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



**Figure 3.9: Proportion of R&D and Innovation Teams which are Female**

(N, Y 2023= 1030, N, Y 2024 = 987; N Y 2025 = 956)

Notes: Due to interview restrictions, only half of the survey respondents were asked this question, so sectoral and regional sample sizes here are small. Sectoral and regional results are therefore not reported. Due to different outliers handling approach, the results for 2023 and 2024 have changed compared with the previous year report.



**Figure 3.10: Proportion of R&D and innovation team which are from ethnic minorities**

(N, Y 2023= 1030, N, Y 2024 = 987; N Y 2025 = 956)

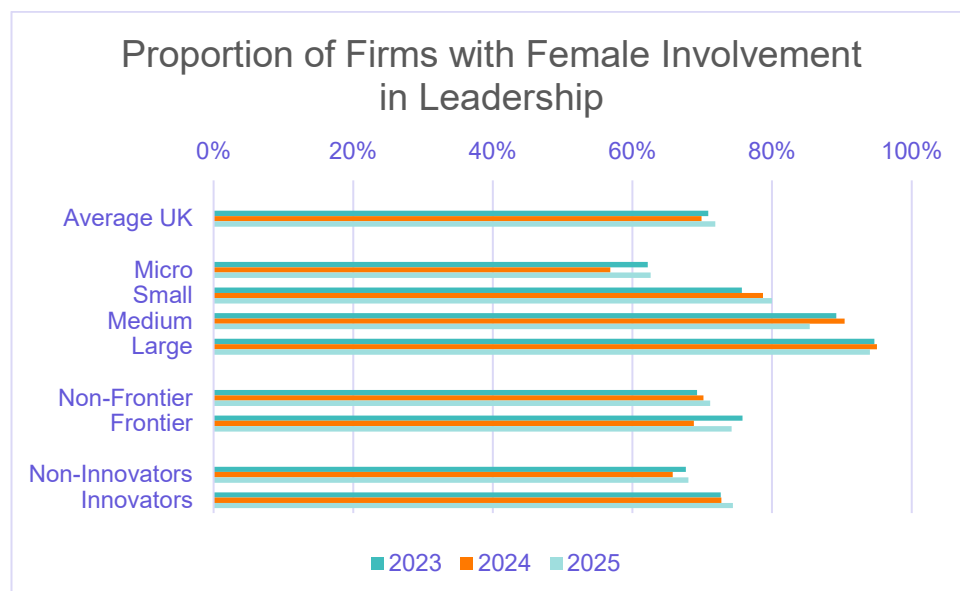
Notes: Due to interview restrictions, only half of the survey respondents were asked this question, so sectoral and regional sample sizes here are small. Sectoral and regional results are therefore not reported.

Connecting with innovation teams and focusing on diversity, the survey also includes questions about female and ethnic minority representation at the leadership level. To assess gender diversity, firms were asked, “How many of the people who manage the business are women?” Similarly, to measure ethnic diversity in leadership, they were asked, “How many of the people who manage the business are from ethnic minority groups?”.

Figure 3.11 illustrates the proportion of firms that had one or more women in leadership roles. The results show that around 72% of respondent firms had at least one woman in leadership positions in 2025, compared to 70% in 2024 and 71% in 2023. Notably, a higher proportion of larger firms reported female involvement in leadership roles across the years (approximately 94%-95% of firms over the past three years) compared to micro-businesses (63% in 2025, 57% in 2024, and 62% in 2023). Additionally, a higher number of innovating firms reported female involvement in leadership roles (74% in

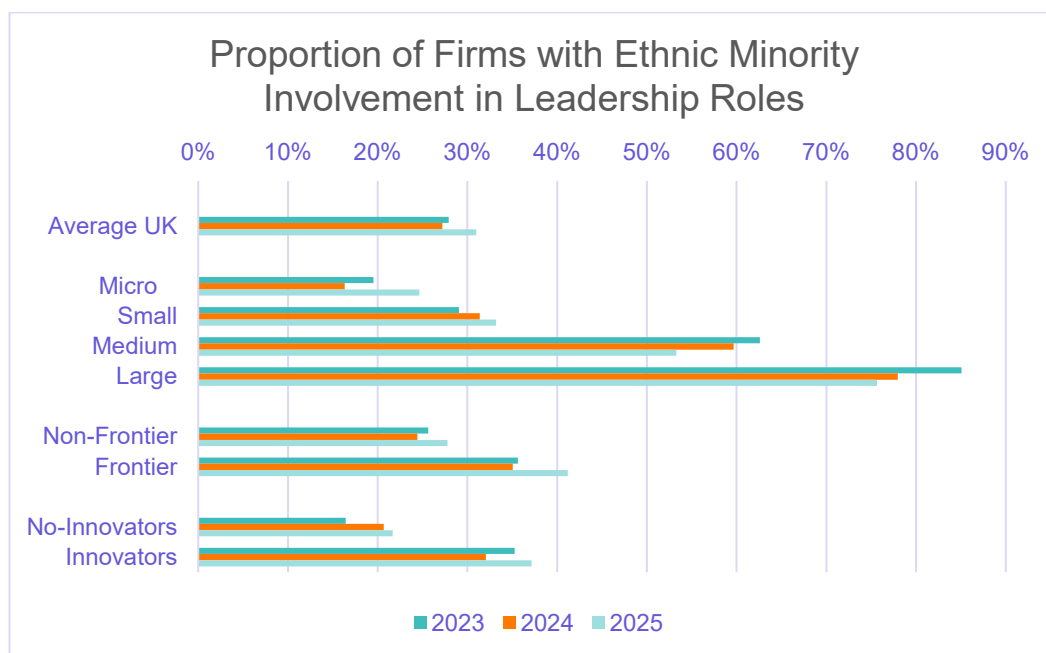
2025, 73% in 2024, and 73% in 2023) compared to non-innovating firms (68% in 2025, 66% in 2024, and 68% in 2023).

Meanwhile, Figure 3.12 shows the proportion of firms with one or more ethnic minorities in leadership roles. Overall, the percentage of respondent firms reporting ethnic minorities' involvement in leadership increased over the past three years, rising from 28% in 2023 and 27% in 2024 to 31% in 2025. Notably, a higher proportion of larger firms consistently reported ethnic minority involvement over the years (85% in 2023, 78% in 2024, and 76% in 2025) compared to micro-businesses (20% in 2023, 16% in 2024, and 25% in 2025). Additionally, a greater number of innovating firms reported ethnic minority involvement in leadership (35% in 2023, 32% in 2024, and 37% in 2025) compared to non-innovating firms (16% in 2023, 21% in 2024, and 22% in 2025).



**Figure 3.11: Proportion of firms with females involved in leadership roles**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)



**Figure 3.12: Proportion of firms with ethnic minority involved in leadership roles**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

### 3.5 External Support

In the ISNS, UK businesses were asked whether they had sought external business support. For firms that reported accessing external support, a follow-up question inquired about the specific focus of that support, whether it was aimed at business growth, innovation, or another area of business performance.

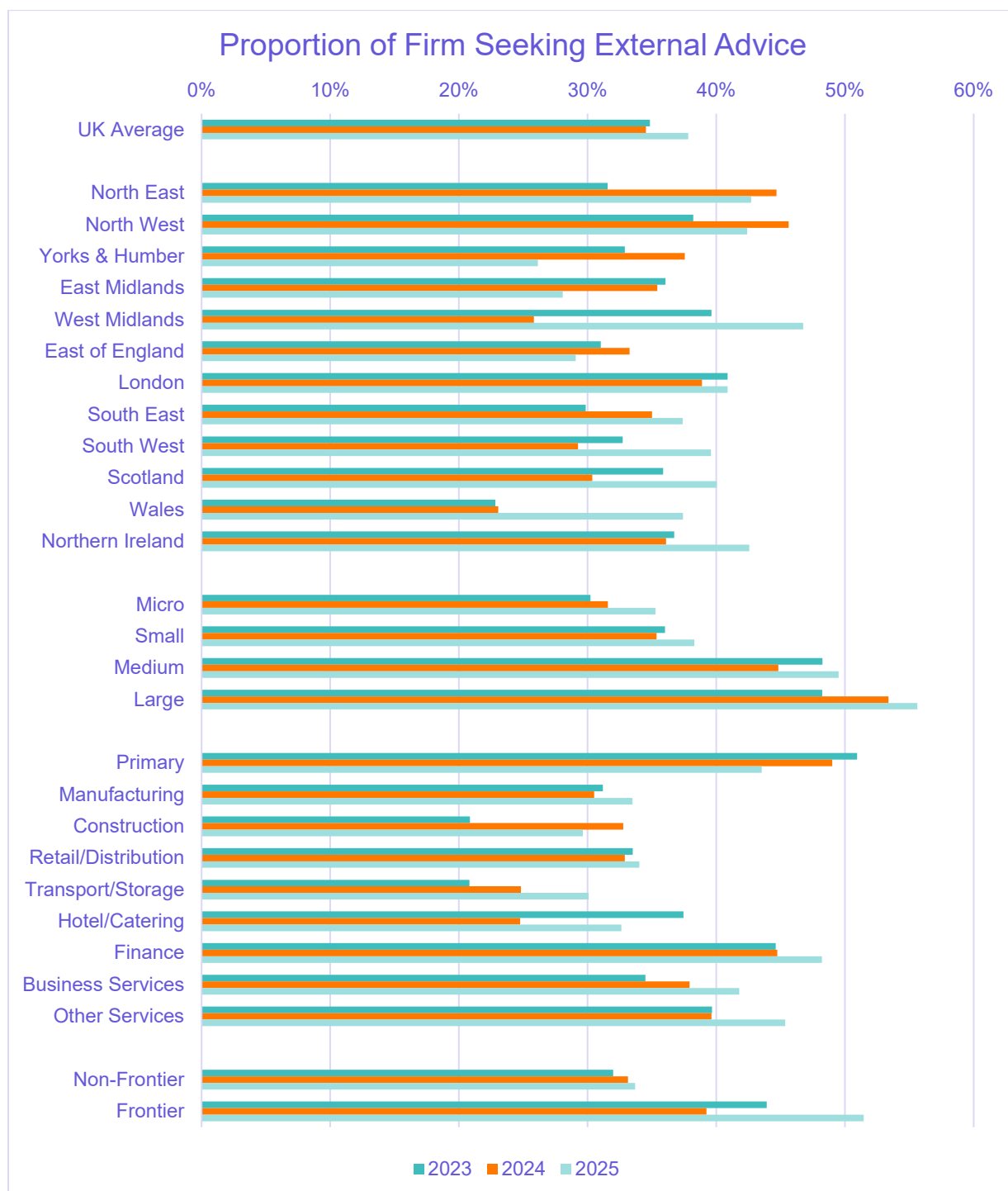
Overall, the proportion of UK businesses seeking external advice rose from 35% in 2024 to 38% in 2025 (Figure 3.13). The proportion of frontier firms seeking external advice saw a notable rise, increasing from 39% in 2024 to 51% in 2025.

Table 3.4 highlights the focus areas for external support. While the most commonly sought support continued to be related to business operations and growth, 2025 saw a rising trend in firms seeking assistance with digital technologies (increased by 9%), product/service changes (increased by around 8%), and net zero initiatives (increased by almost 6%).

The proportion of small firms seeking support for digital technologies increased by around 14%, while large firms showed a 19% increase in seeking support for product



and service changes. Medium-sized firms experienced a 15% increase in support-seeking related to net-zero goals. Similar variations were also observed across regions and sectors.



**Figure 3.13: Proportion of firms seeking external advice**

(N, Year 2023 = 2,018; 2024 = 2,000; 2025 = 2020)

**Table 3.4: Percentage of firms seeking advice of different types (N, Y 2023 = 729, N, Y 2024 = 743; N Y 2025 = 791)**

	Running the Business			Grow the Business			Digital Technologies			Net Zero			Product/ Service Changes		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
UK Average	55.0%	49.7%	49.5%	49.9%	51.0%	52.5%	41.1%	41.0%	50.0%	24.8%	23.3%	29.0%	42.8%	40.0%	47.7%
Micro	59.8%	50.8%	48.2%	48.0%	51.7%	56.6%	38.9%	40.3%	46.3%	17.3%	19.7%	23.3%	39.0%	39.5%	43.5%
Small	54.3%	50.7%	51.7%	52.0%	52.2%	48.0%	41.8%	39.5%	54.1%	28.3%	23.9%	32.0%	42.3%	39.0%	51.3%
Medium	41.5%	45.2%	48.4%	47.3%	43.3%	48.9%	46.1%	53.5%	54.3%	32.0%	27.4%	42.4%	58.3%	46.2%	51.0%
Large	35.3%	34.1%	40.5%	45.5%	43.5%	64.5%	43.9%	45.4%	53.2%	51.5%	45.6%	35.2%	50.6%	36.9%	55.8%
Non-Frontier	55.4%	51.6%	50.0%	48.0%	49.2%	51.8%	37.2%	38.8%	50.8%	21.0%	19.7%	23.2%	39.7%	39.1%	46.3%
Frontier	54.0%	44.1%	47.9%	54.3%	56.0%	53.2%	49.9%	47.4%	50.6%	33.6%	33.6%	41.1%	49.8%	42.5%	51.8%

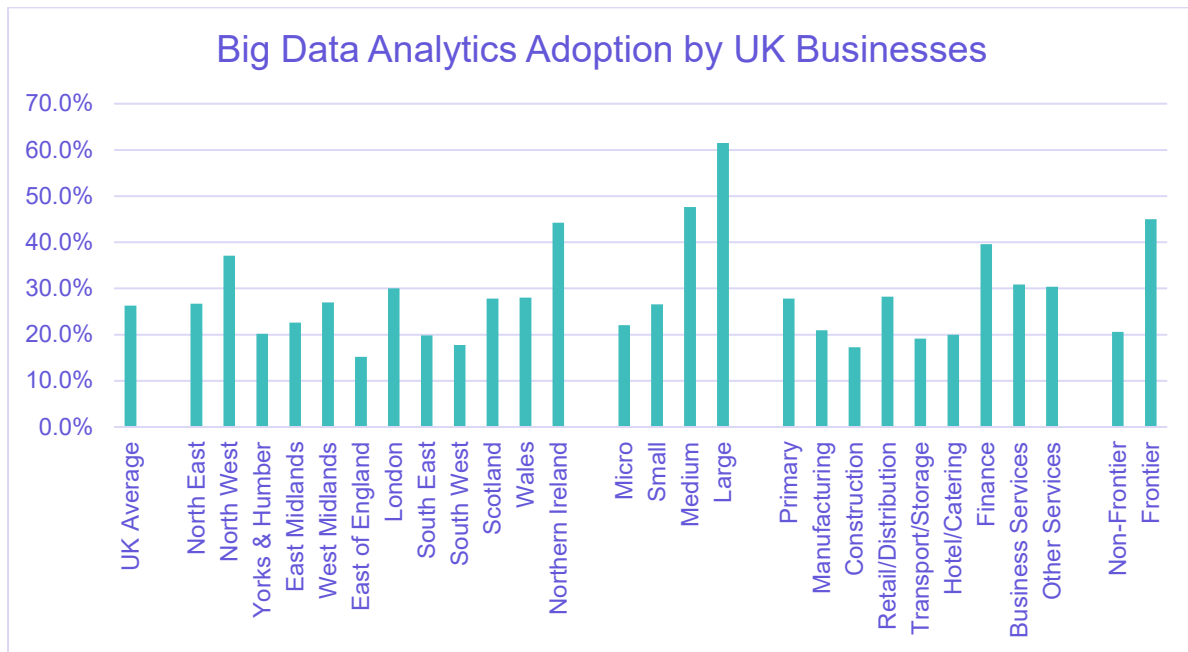
Notes: The question was only asked for those sought external advice or information on matters affecting businesses. Due to that there are smaller number of observations. Sectoral and regional sample sizes here are small and, therefore, are not reported.

### 3.6 Digital Adoption

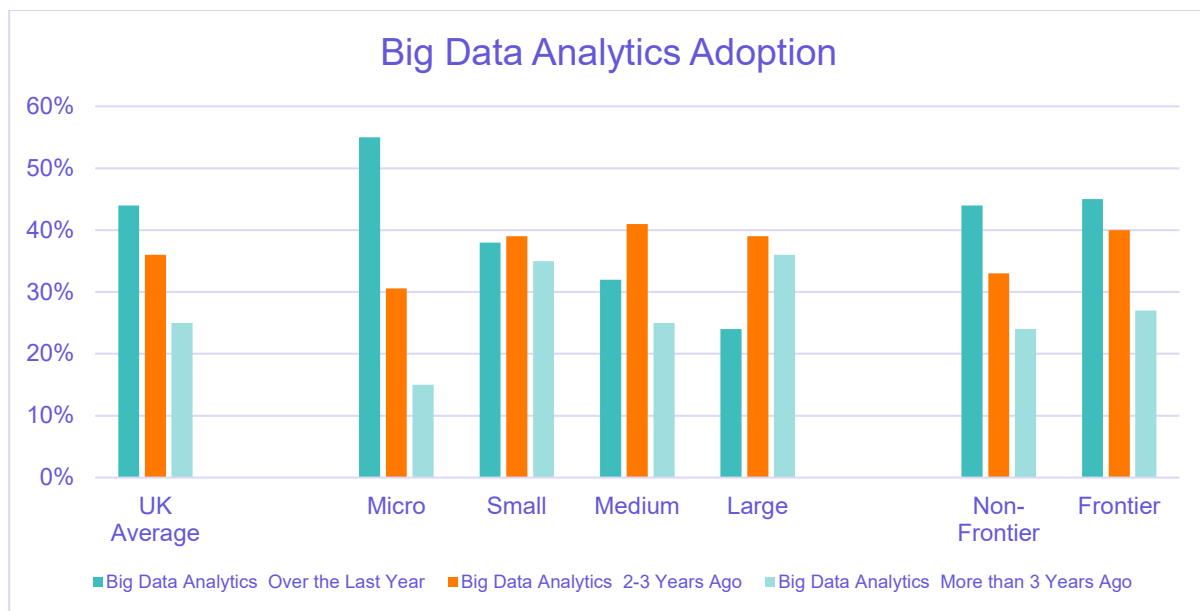
The ISNS 2025 questionnaire features an additional question regarding UK businesses' adoption of advanced digital technologies, such as big data analytics, artificial intelligence (AI), cloud computing, 3D printing, the Internet of Things (IoT), and robotics. For firms that reported adopting any of these technologies, a follow-up question asked when they began using them. Overall, the findings highlight the adoption trends of advanced digital technologies over the past few years.

In particular, artificial intelligence (AI) has experienced notably high adoption rates during this period. The data also shows that large firms and frontier firms are among the highest adopters of these technologies, suggesting that firm size and innovation capacity may significantly influence the adoption of advanced digital tools. Some technologies are also reported to be more relevant to specific sectors than others. For example, 3D printing and robotics are more commonly employed in the manufacturing sector, while cloud computing is more relevant in the finance and business services sectors.

First, 26% of UK businesses adopted big data analytics in 2025 (Figure 3.14). Notably, adoption rates increased with firm size. For instance, 61% of large businesses in the UK adopted big data analytics in comparison to 22% of micro businesses. The proportion of adoption is also higher for frontier firms, at 45%, compared to 20% of non-frontier firms. There are regional and sectoral variations. Notably, there is higher adoption in finance. Additionally, regarding the timing of adoption, large firms are reported to be first-movers, adopting big data analytics earlier, while micro-businesses are reported to have adopted big data analytics more recently, over the last year (Figure 3.15).

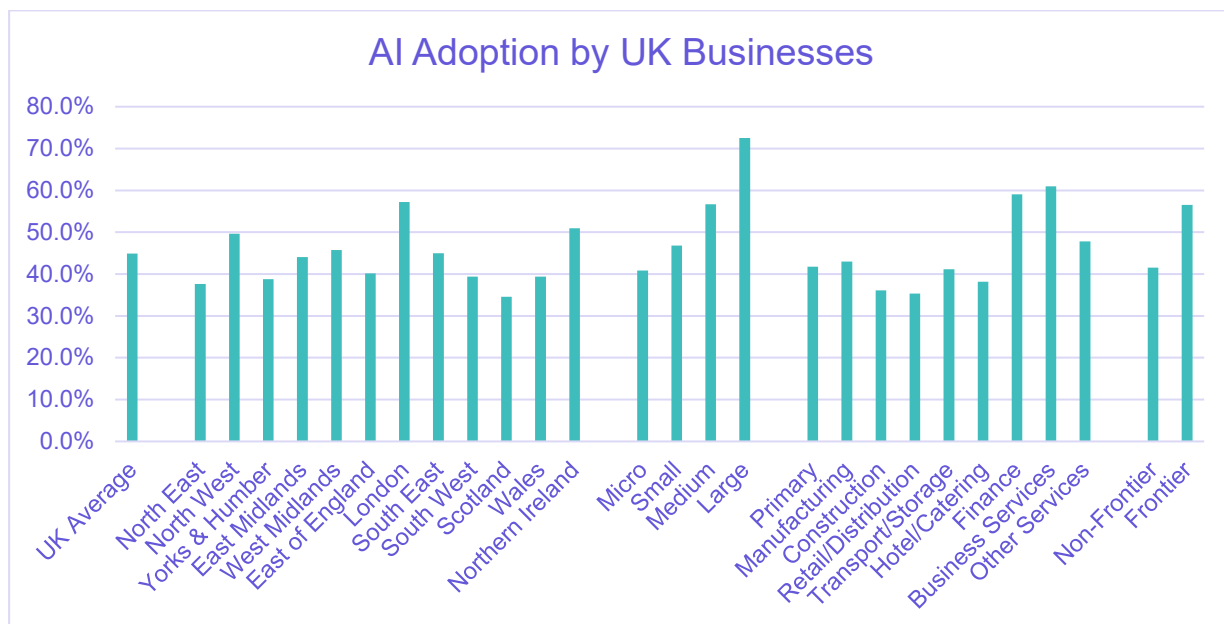


**Figure 3.14: Big data analytics adoption (N Y 2025 = 2,020)**

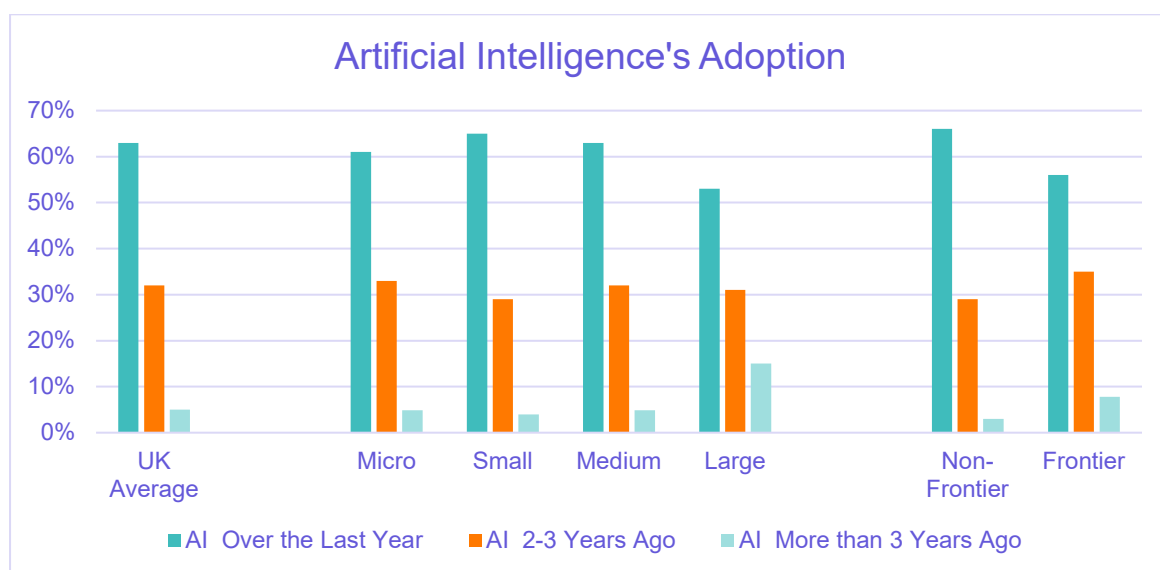


**Figure 3.15: Time of adoption of big data analytics (N = 617)**

Next, 45% of UK businesses had adopted Artificial Intelligence (AI) in 2025 (Figure 3.16). As expected, the rate of adoption increases with firm size. It was reported that 72% of large businesses had adopted AI in 2025, compared to only 41% of UK businesses. Notably, the adoption rate is higher among frontier firms and those in business services. In terms of timing, the majority of firms began using AI within the past year (Figure 3.17).



**Figure 3.16: Artificial Intelligence adoption (N Y 2025 = 2,020)**



**Figure 3.17: Time of adoption of Artificial Intelligence (N = 991)**

In 2025, 57% of UK businesses reported adopting cloud computing (Figure 3.18). Adoption rates were significantly higher among large firms (81%), as well as in the business services (74%) and finance (71%) sectors. Frontier firms also exhibited a higher adoption rate at 61%. Regarding when firms adopted the technology, 41% stated they had been using cloud computing for more than three years, while only 27% reported adopting it within the past year (Figure 3.19).

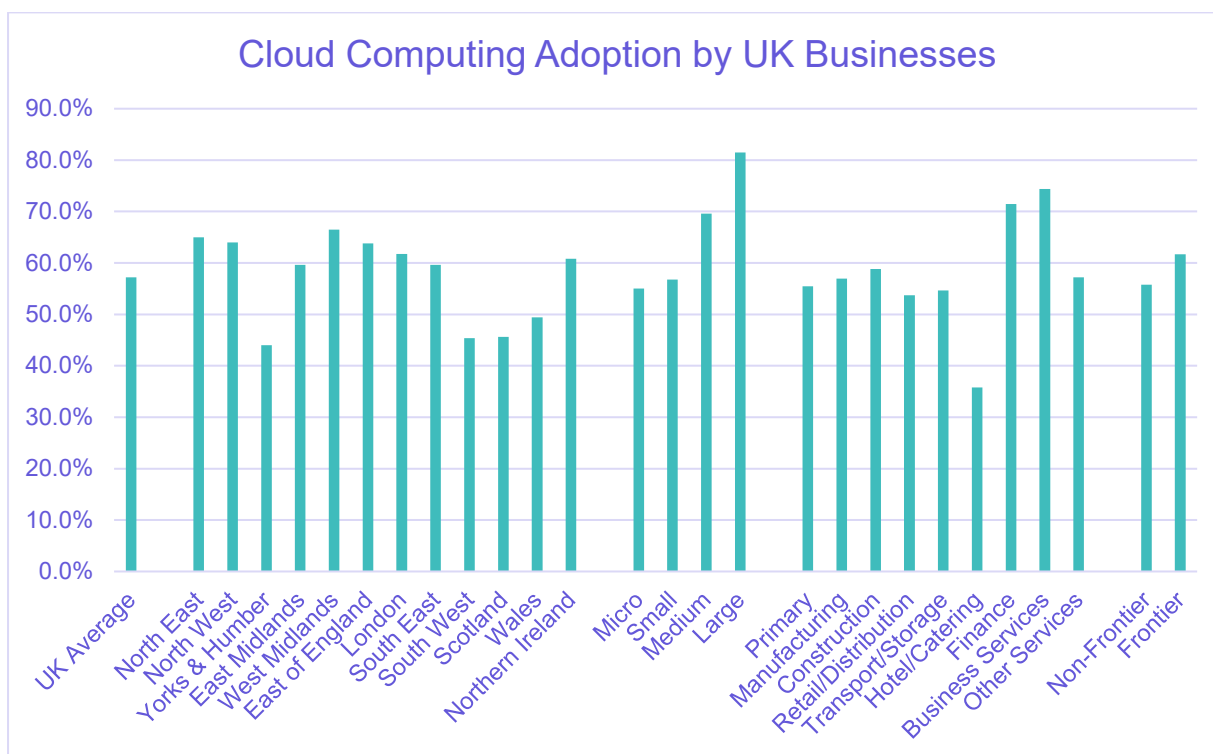


Figure 3.18: Cloud computing adoption (N Y 2025 = 2,020)

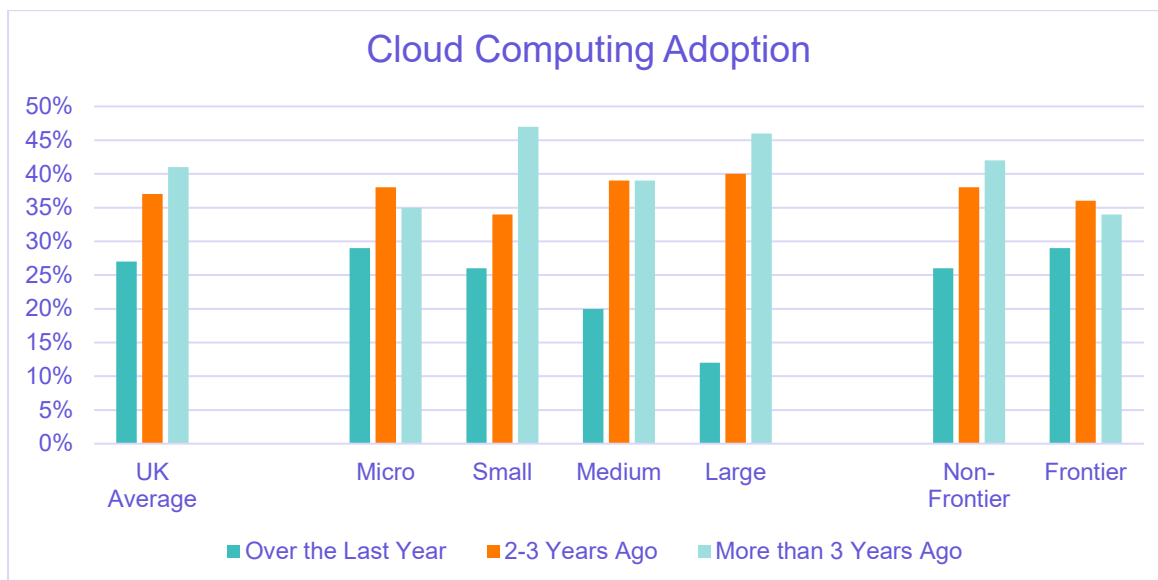


Figure 3.19: Time of adoption of cloud computing (N = 1,228)

In 2025, 22% of UK businesses reported having adopted 3D printing (Figure 3.20). Adoption was especially high among medium-sized firms (33%) and those in manufacturing (34%). Frontier firms also had a higher-than-average adoption rate at 39%. In terms of timing, 43% of firms reported adopting 3D printing in the last year, compared to 26% that adopted it more than three years ago (Figure 3.21).

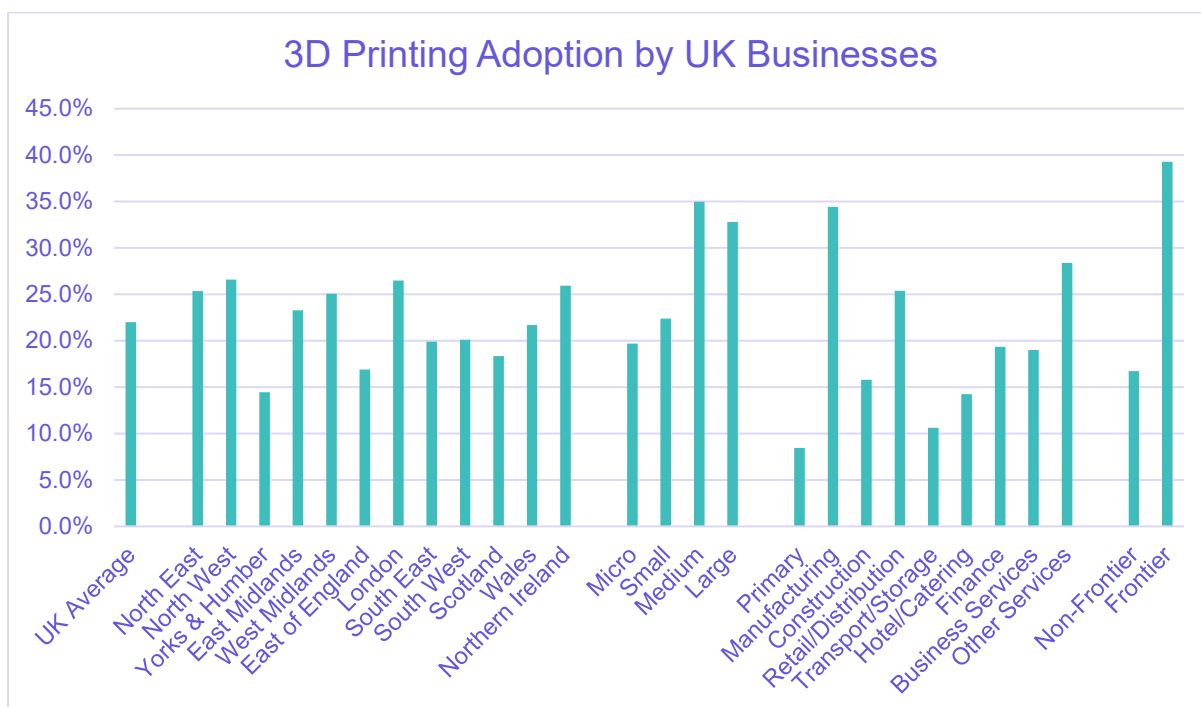


Figure 3.20: 3D printing adoption (N Y 2025 = 2,020)

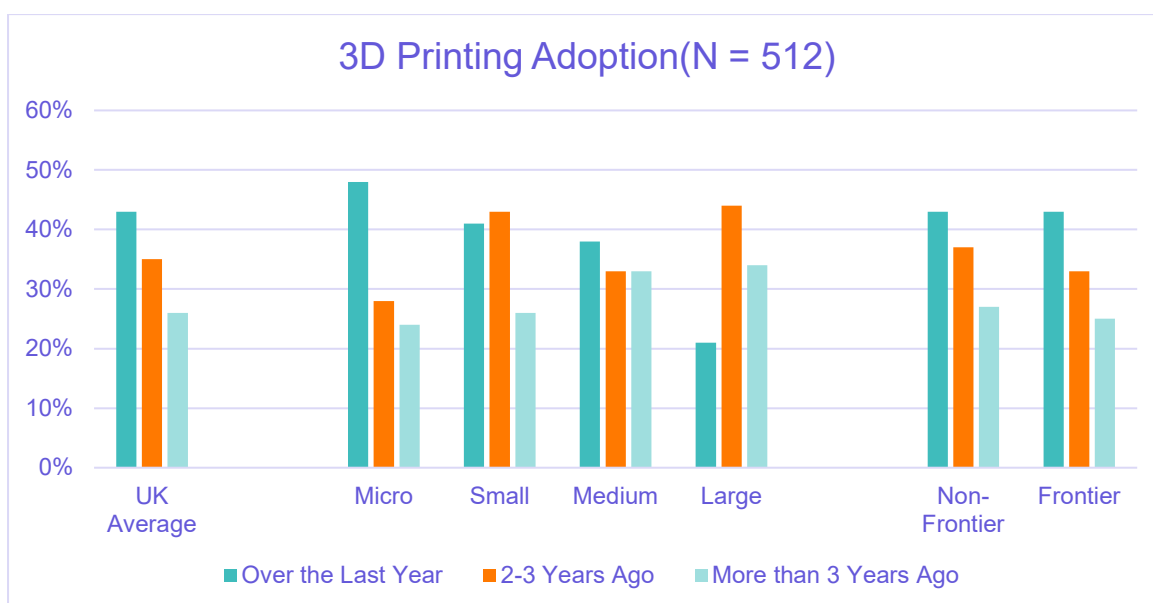
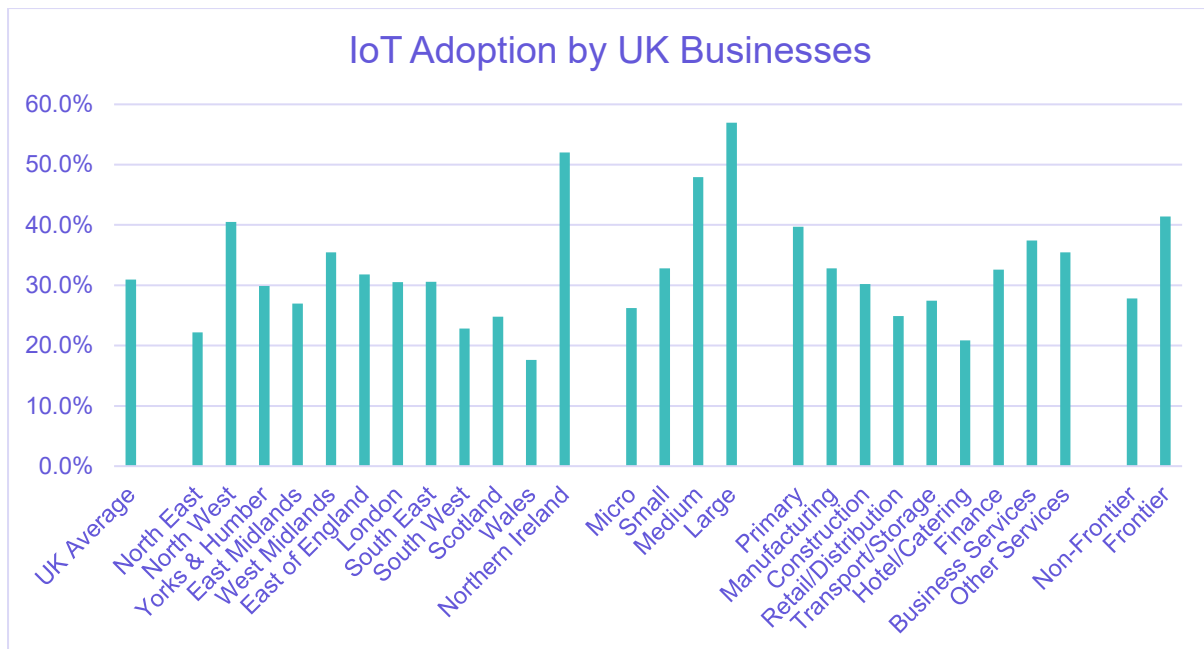


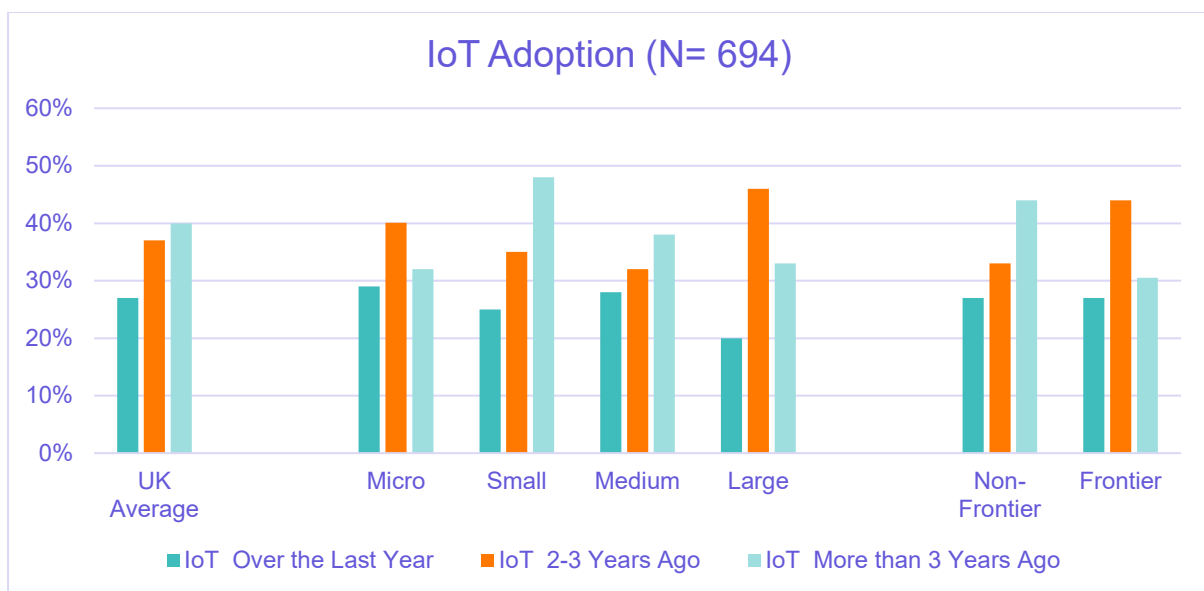
Figure 3.21: Time of adoption of 3D printing (N Y 2025 = 512)

31% of UK businesses had adopted the Internet of Things (IoT) by 2025 (Figure 3.22). Once again, the rate of adoption was considerably higher among large firms (57%) and medium-sized firms (45%). Furthermore, the proportion of firms that had adopted IoT was greater in primary sector businesses (40%) and frontier firms (41%). Regarding the

timing of adoption, 40% of UK businesses had implemented IoT more than three years earlier, compared to 27% that had adopted it within the last year (Figure 3.23).



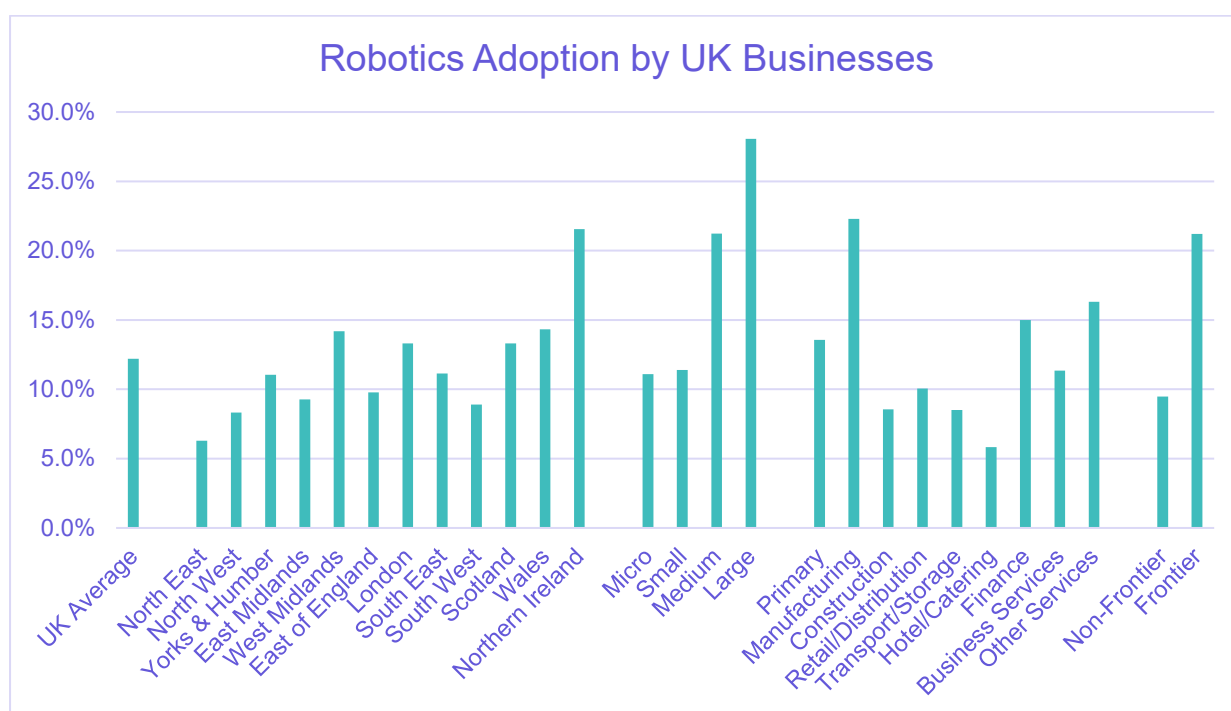
**Figure 3.22: Internet of Things (IoT) adoption (N 2025 = 2,020)**



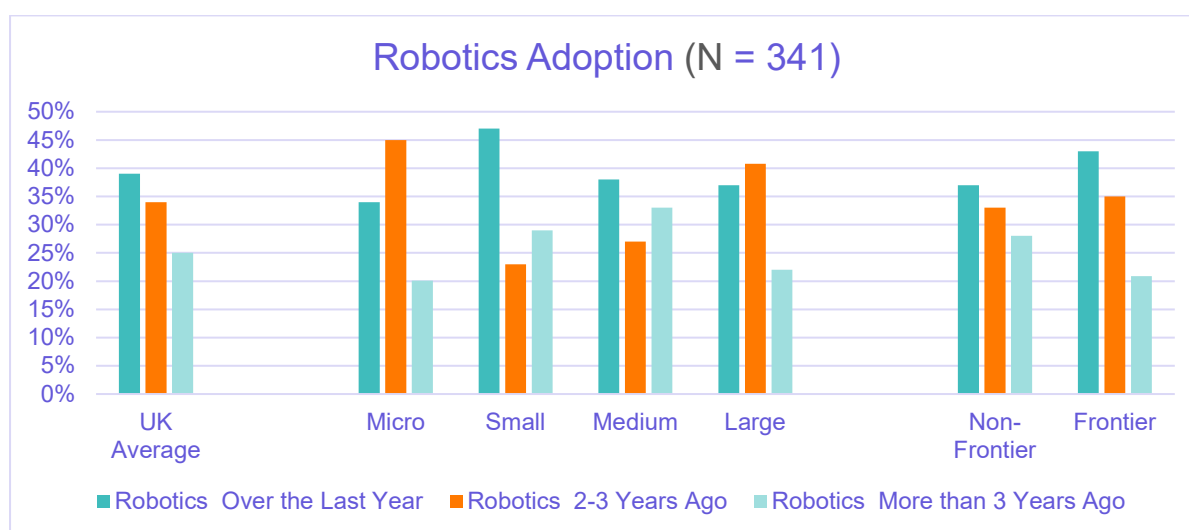
**Figure 3.23: Timing of adoption of the Internet of Things (N =694)**



In 2025, 12% of UK businesses reported adopting robotics (Figure 3.24). Adoption was particularly high among large firms (28%), and in the manufacturing (22%) sectors. Frontier firms also had a higher-than-average adoption rate at 21%. In terms of timing, 39% of firms reported using robotics within the past year, while only 25% of firms had adopted it for more than three years (Figure 3.25).



**Figure 3.24 Robotics adoption (N 2025 = 2,020)**



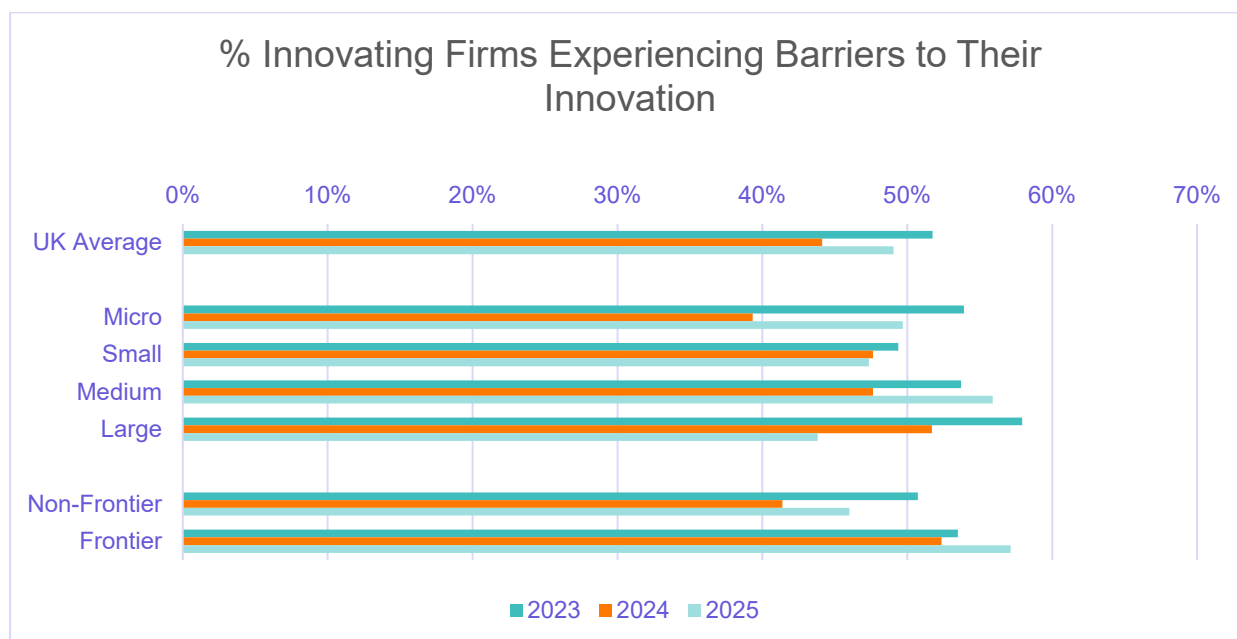
**Figure 3.25: Timing of robotics adoption**

## 4. Barriers to Innovation

### 4.1 Barriers encountered by innovating firms

Despite the rise in innovation activities in 2025, a larger share of innovating firms reported facing obstacles. About 49% of these firms reported barriers in 2025, an increase from 44% in 2024 (Figure 4.1). Notably, micro-businesses experienced a 10% rise in reported barriers, while large firms saw an 8% reduction. This indicates a growing gap in innovation barriers between large and micro-businesses. Medium-sized firms and frontier firms also reported higher levels of barriers in 2025, at 56% and 58% respectively.

In 2025, the most common barrier reported by innovating firms was a lack of finance. Notably, 74% of firms experienced innovation barriers related to bank or equity financing (see Table 4.1). This was followed by almost 50% of firms citing uncertain demand, around 49% reporting barriers due to regulations and standards, and 45% reporting barriers due to public funding. Barriers for innovating also varies across sizes. For instance, almost 74% of micro firms reported barriers due to lack of bank or equity finance, while 76% of large firms reported barriers due to regulation or standards.



**Figure 4.1: Proportion of innovating firms experiencing barriers to their innovation**

(N, Y 2023 = 1,204; N, Y 2024 = 1,185; N Y 2025 = 1,224)

Notes: The question was only asked for those introduced any new products or services or made changes to the existing products over the last 12 months. Due to that there are smaller number of observations. Sectoral and regional sample sizes here are small and, therefore, are not reported.

**Table 4.1 Barriers to innovation: All UK innovating firms in 2025 (N Y 2025 = 1,224)**

	Uncertain Demand	Lack of Internal Finance	Lack of Bank or Equity Finance	Lack of Public Funding	Lack of Other Public Support	Lack of Skills	Regulation or Standards
UK Average	49.7%	17.1%	74.0%	45.1%	41.0%	40.2%	49.5%
Micro	53.8%	17.9%	73.8%	50.4%	45.9%	42.5%	48.4%
Small	43.7%	16.3%	74.3%	38.9%	34.9%	35.4%	46.5%
Medium	53.3%	16.6%	75.2%	44.6%	48.6%	48.1%	65.2%
Large	54.0%	19.3%	62.1%	38.1%	40.7%	51.7%	76.1%
Non-Frontier	42.9%	17.6%	70.0%	40.8%	36.9%	36.3%	43.7%
Frontier	62.1%	16.5%	80.5%	53.4%	50.5%	47.9%	59.0%

Notes: The response options changed in the ISNS 2025, making comparisons between years not possible.

As part of the survey, respondents were asked an open-ended question: 'Can you tell us more about the most significant barrier that has restricted your product or service

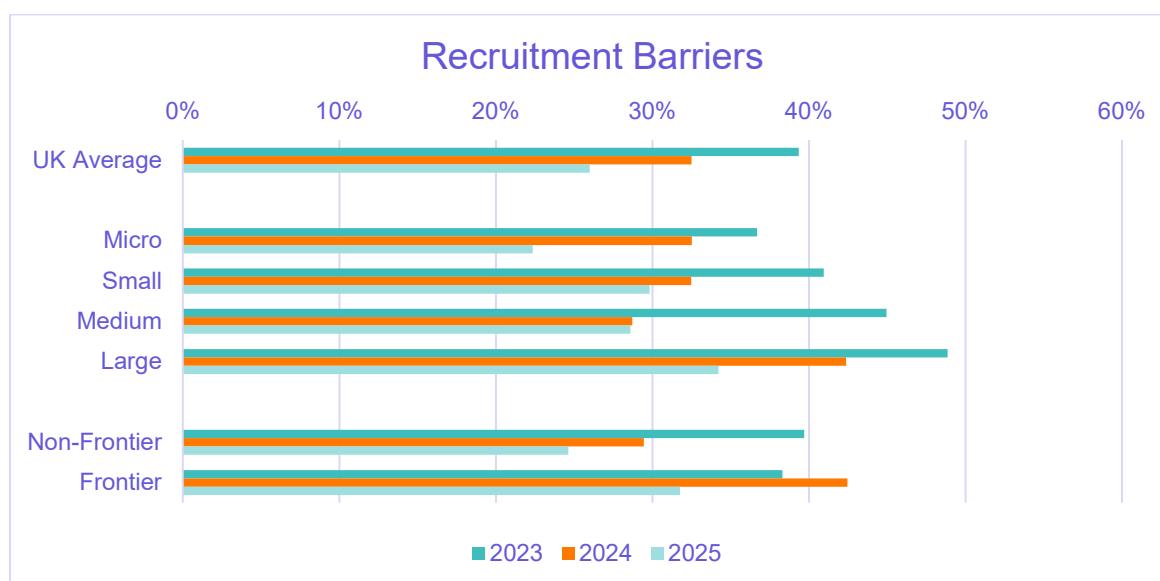
development over the last year'? We summarise some of the more typical responses in Box 2.1.

**Box 2.1: The most significant barrier that has restricted product/service development?**

- » 'Product availability' (Construction, micro)
- » 'Government funding' (Construction, micro)
- » 'Market uncertainty' (Retail/Distribution, small)
- » 'Energy cost is too high' (Manufacturing, medium)
- » 'Government policy, change of environmental policy and it is difficult to promote sustainability' (Primary, micro)
- » 'Our customs delay in sending and receiving goods overseas and the inability to recruit skilled' (Manufacturing, medium)
- » 'Legislation, EU and UK legislation on packaging' (Manufacturing, Large)
- » 'Initially it was cashflow' (Manufacturing, medium)
- » 'Brexit is still an issue and Trumps Tariffs breed uncertainty' (Manufacturing, medium)
- » 'The market and cost of living has affected mortgage rates and labour shortages and material shortages' (Construction, Large)

## 4.2 Recruitment Barriers faced by innovating firms

The ISNS inquires whether, over the past year, firms' research and development or product and service development efforts have been hindered by difficulties in recruiting staff. Interestingly, 26% of UK businesses reported that recruitment problems had restricted their innovation activities in 2025, down from 32% in 2024 (Figure 4.2). This downward trend was particularly noticeable among micro-businesses and frontier firms.



**Figure 4.2: Proportion of innovating firms experiencing recruitment difficulties**

(N, Y 2023 = 1,030, N, Y 2024 = 987; N Y 2025 = 956)

Notes: The question was only asked for those introduced any new products or services or made changes to the existing products over the last 12 months. Due to that there are smaller number of observations. Sectoral and regional sample sizes here are small and, therefore, are not reported.

## 4.2 Barriers to innovation for non-innovating firms

In the survey, firms that did not report any innovation activity in the past year were asked why they had not done so (Table 4.2). Like last year, the most common reasons for not undertaking innovation are related to making sufficient profit (47% in 2025) and demand uncertainty (almost 43% in 2025). Interestingly, fewer non-innovating firms reported barriers due to a lack of finance (decreased by around 12% in 2025) and a lack of skills (decreased by around 7% in 2025). This trend is consistent across firm size bands.

In addition, the ISNS 2025 includes three additional questions on the reason for not innovating, such as lack of bank/equity finance, lack of public funding, and lack of other public support (advice/support). In 2025, around 16% of non-innovating firms faced a shortage of bank or equity finance, 21% reported a lack of public funding, and almost 20% cited issues resulting from the absence of other forms of public support (Table 4.12).

As part of the survey respondents were asked an open-ended question: 'Why have you not made changes to your products or services? We summarise some of more typical responses in Box 2.2.

**Box 2.2: The most significant significant reason why you have not made changes to your products and services?**

- » 'Customer driven, really. Customers are happy with our products and services' (Manufacturing, small)
- » 'Uncertainty of demand of introducing new products.' (Hotel/Catering, small)
- » 'It is all about the risk of return. It is not worth doing it.' (Retail/ Distribution, small)
- » 'There are two main issues, tax and regulation.' (Finance, micro)
- » 'We are sustained doing the exact same job that we have done' (Construction, small)
- » 'Lack of demand in the industry. Things are a bit tighter financially' (Manufacturing, medium)
- » 'Lack of time' (Primary, micro)
- » 'Lack of Money' (Manufacturing, micro)
- » 'Lack of internal resources' (Manufacturing, micro)

**Table 4.2: Percentage of non-innovating firms experiencing different barriers to innovation (N, Y 2023 = 789; 2024 = 795; 2025 = 796)**

	Making sufficient profit			Uncertain Demand			Lack of Finance			Lack of Skills			Regulation/Legislation			Lack of Government Support (2023/2024)		Lack of Bank/Equity Finance	Lack of Public Funding	Lack of Other Public Support (Advice/Information)
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2025	2025
UK Average	44.4%	42.0%	47.0%	42.7%	40.9%	42.9%	29.8%	33.7%	22.1%	25.4%	24.5%	17.0%	30.4%	35.1%	30.9%	31.8%	34.9%	16.2%	21.0%	19.7%
Micro	49.3%	42.2%	44.7%	41.3%	42.6%	41.5%	34.4%	33.3%	20.0%	26.8%	25.7%	15.2%	28.1%	29.6%	28.2%	32.0%	28.7%	15.7%	17.2%	16.9%
Small	38.0%	41.4%	49.3%	38.4%	41.6%	43.5%	26.3%	32.2%	24.3%	19.9%	24.1%	17.9%	33.7%	39.8%	32.8%	30.9%	40.0%	15.8%	24.6%	22.7%
Medium	46.3%	43.3%	49.7%	60.0%	37.2%	48.4%	31.1%	38.6%	23.8%	20.8%	33.6%	23.5%	27.2%	39.4%	41.2%	35.2%	44.6%	20.7%	29.7%	25.2%
Large	64.5%	60.5%	55.7%	44.5%	64.3%	62.7%	35.6%	41.1%	33.9%	46.5%	35.5%	34.2%	35.2%	43.8%	39.1%	40.1%	52.6%	27.2%	24.2%	19.3%
Non-Frontier	42.9%	41.3%	43.9%	44.2%	41.4%	41.3%	28.4%	34.7%	22.7%	23.0%	25.4%	17.3%	28.4%	33.8%	31.4%	29.8%	30.9%	16.4%	20.1%	20.0%
Frontier	52.6%	45.5%	62.2%	34.5%	38.3%	51.2%	37.4%	28.7%	19.0%	25.5%	26.8%	14.4%	40.4%	42.3%	27.0%	43.8%	55.2%	14.8%	27.2%	18.2%

Notes: The question was only asked for those firms not doing any products/ services changes in the last year. Due to that there are smaller number of observations. Sectoral and regional sample sizes here are small and, therefore, are not reported. The ISNS 2025 includes three additional questions on the reason for not innovating, such as lack of bank/equity finance, lack of public funding, and lack of other public support (advice/support).

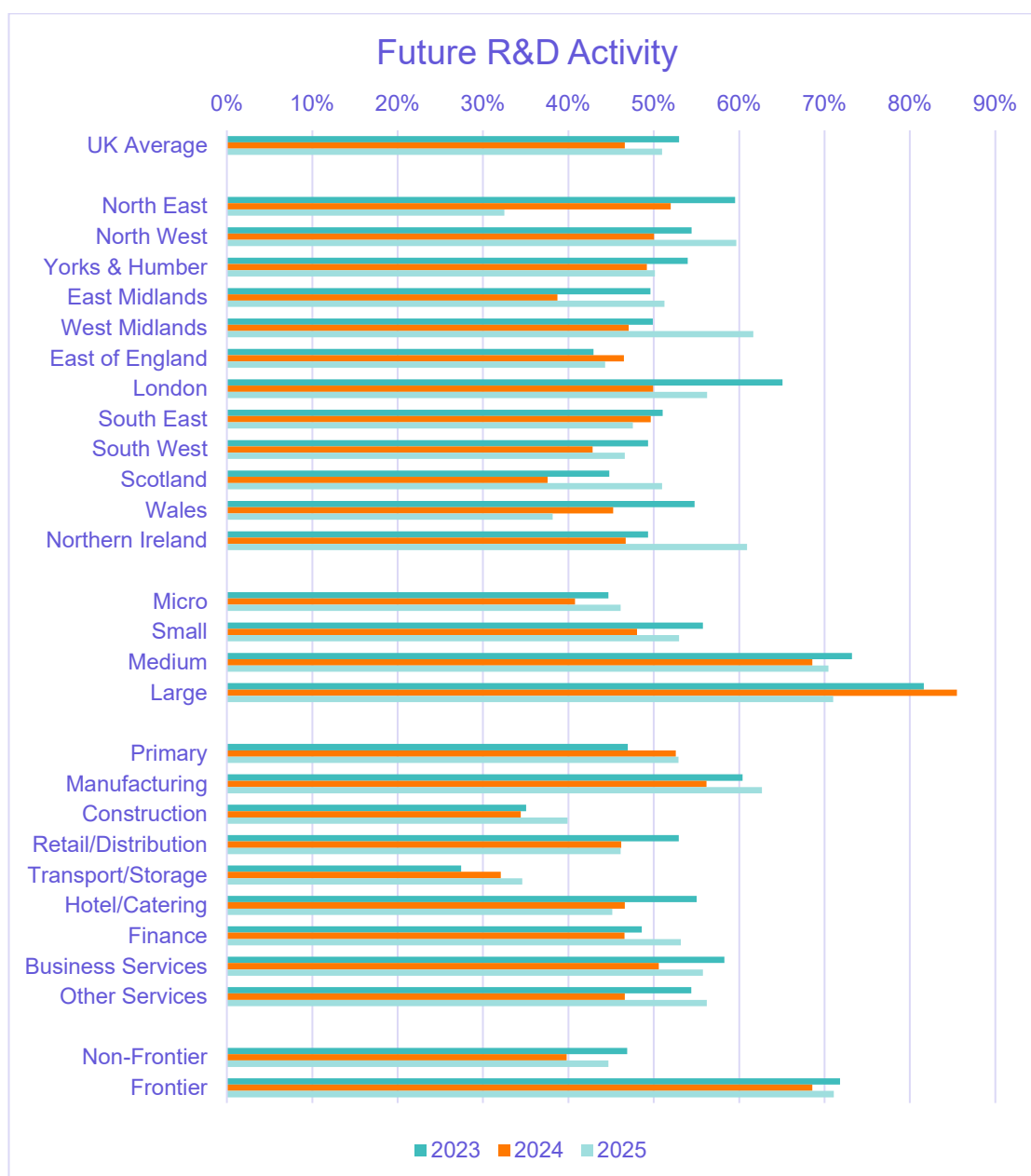
## 5. Future Innovation Support

In the survey, firms were asked whether they intend to invest in R&D over the next 12 months and what types of support they are likely to require.

Overall, 51% of UK businesses plan to invest in R&D in the next 12 months, up from 47% in 2024 (Figure 5.1). This increase in investment intention was observed among micro, small, and medium-sized businesses. However, large firms showed a notable decline, with investment intention dropping from 85% in 2024 to 71% in 2025. It is important to note that actual investment tends to be considerably lower. For example, the ISNS 2024 reports that while 54% of UK firms intended to invest in R&D in 2025, only 39% actually reported doing so. This gap underlines the discrepancy between intention and actual investment.

There were also regional and sectoral differences. For instance, firms in the West Midlands, East Midlands, and Scotland reported higher investment intentions, whereas firms in the North East showed a decline. Investment intention was especially high among firms in the 'other services' sector.

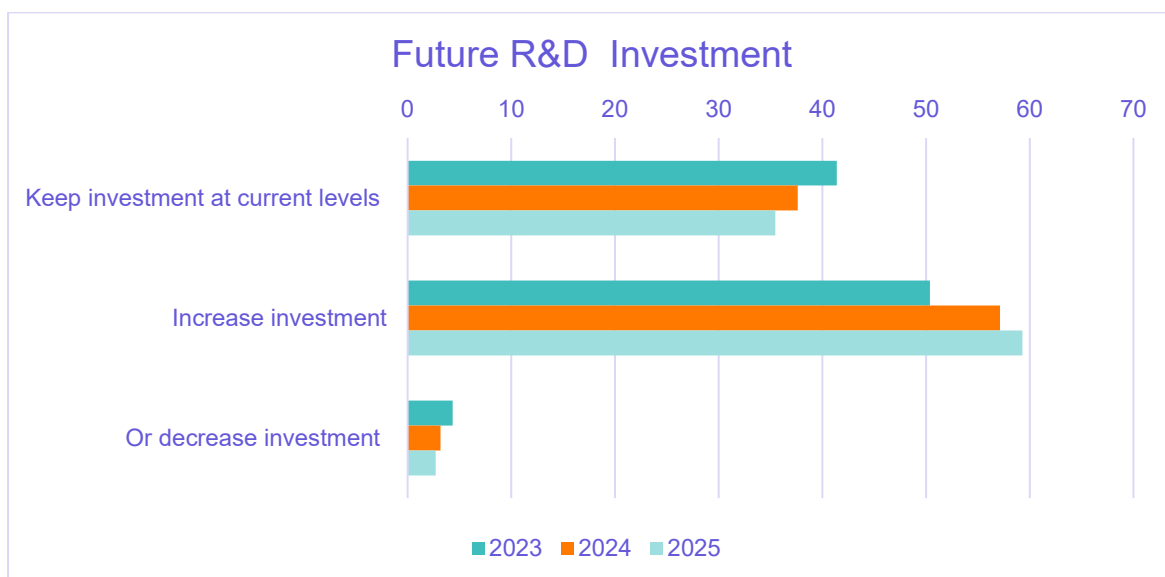




**Figure 5.1: Future R&D Activity**

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

For those firms plan to engage in R&D and innovation activities over the next 12 months, the ISNS further asked about their R&D investment in the future. Overall, there is a higher number of firms plan to increase their R&D investment (57% in 2024 and 59% in 2025), as seen in Figure 5.2.



**Figure 5.2. Future R&D Investment Plan** (N, Y 2023 = 1,068; N, Y 2024 = 1,010, N Y 2025 = 1,067)

In the ISNS 2025, we also asked whether there are any other types of support that firms would find useful for their R&D and innovation activities. We summarise some responses in Box 2.3.

**Box 2.3. Types of Support firms would find useful for their R&D and innovation activity**

- » 'Reduction in tax especially national insurance contribution.' (Manufacturing, small)
- » 'Having broader access to suppliers would be helpful.' (Business service, small)
- » 'Online resources and online courses.' (Manufacturing, small)
- » 'It is understanding AI direction and how it can be adopted in manufacturing.' (Manufacturing, medium)
- » 'Less regulations or more appropriate regulation.' (Finance, micro)
- » 'I think process implementation support.' (Manufacturing, small)
- » 'Greater support for networking both within the private sector and with the academic and also workshops on grant writing.' (Business services, small)
- » 'It is for us to get equipment upgrades.' (Business services, small)
- » 'Yes, a clearer understanding and direction on environmental work, for all.' (Primary, micro)
- » 'HMRC involvement.' (Other services, micro)
- » 'Just market research and market information to help us understand the market.' (Manufacturing, large)
- » 'The testing hubs. We were waiting for one to be opened up locally for testing.' (Manufacturing, small)

## Appendix 1: The Innovation State of the National Survey 2023, 2024, 2025

### A1.1 Survey Overview

The Innovation State of the Nation Survey (ISNS) offers insights into firms' current innovation activities and challenges, as well as their R&D and innovation plans. The ISNS was conducted through a combination of Computer-Assisted Telephone Interviewing (CATI) and an online B2B panel, resulting in 2,018 observations for 2023, 2,001 for 2024, and 2,020 for 2025. Firms were included if they had more than five employees and were not part of the public sector or a not-for-profit organisation.

Both ISNS 2023, ISNS 2024, and ISNS 2025 include companies from 12 UK regions (North East, North West, Yorks & Humber, East Midlands, West Midlands, East of England, London, South East, South West, Scotland, Wales, and Northern Ireland), 9 broad sectors (SIC codes: ABDE, C, F, G, H, I, K, JLM, NPQRS), and 4 firm size bands (5–9, 10–49, 50–249, 250+ employees). Table A1.1 provides an overview of the responses received. In the analysis, observations are weighted by size and sector to give a representative view of the UK, its sectors, and size bands. Table A1.2 offers an overview of the responses based on the regions.

As part of the survey, respondents were asked 'Thinking about how your firm compares to your main UK competitors. How strongly do you agree that: We are often the first to introduce innovative products or services?' Where a respondent strongly agreed with this statement, we classify their firm as a 'frontier' company; all other firms are classified as non-frontier. Figure A1.3 provides an overview of the proportion of firms classified as frontier. Overall, the proportion of frontier firms was 24%, 23% and 25% in the 2023, 2024 and 2025 surveys, respectively.

### A1.2 Profiling Respondent Firms

The survey includes questions about how long the business has been operating. Figure A1.4. summarises the overview of the average years that the respondent firms have been operating. The average operating age of respondents in 2025 was 15 years, compared to 16 years for the 2023 and 2024 surveys. In addition, the survey asks whether businesses have any customers outside the UK to reflect exporting activity.

Figure A1.5 provides an overview of the proportion of exporting firms in the three survey waves. Overall, 36% of respondents in 2025 were exporters, 39% in 2024, and 42% in 2023.

Table A1.1: Achieved responses by employment sizeband and sectors

	ISNS Wave 2023					ISNS Wave 2024					ISNS Wave 2025				
	Micro	Small	Medium	Large	Total	Micro	Small	Medium	Large	Total	Micro	Small	Medium	Large	Total
	5-9	10-49	50-249	250+		5-9	10-49	50-249	250+		5-9	10-49	50-249	250+	
Agriculture/Mining/Energy (A B D E)	48	62	23	10	143	47	45	20	15	127	51	67	16	10	144
Manufacturing (C)	199	303	97	59	658	150	257	112	63	582	168	224	103	48	543
Construction (F)	38	74	33	14	159	70	94	31	22	217	96	81	33	15	225
Retail/Distribution (G)	65	88	35	29	217	53	65	28	28	174	56	70	29	16	171
Transport/Storage (H)	20	72	24	17	133	40	54	35	26	155	41	61	24	17	143
Hotel/Catering (I)	34	75	31	15	155	34	68	33	20	155	37	73	25	14	149
Finance (K)	34	47	35	32	148	45	72	24	25	166	73	72	24	28	197
Property/Business Services	67	120	50	46	283	88	112	41	26	267	94	107	39	37	277
Other Services (N P Q..)	29	59	17	16	121	38	65	30	24	157	49	75	28	19	171
Total	534	900	345	238	2,017	565	832	354	249	2000	665	830	321	204	2,020

**Table A1.2: Achieved responses by region**

	2023	2024	2025
North East	59	63	59
North West	187	179	162
Yorks & Humber	153	131	143
East Midlands	149	140	137
West Midlands	196	163	158
East of England	185	171	173
London	263	313	305
South East	376	250	271
South West	209	148	177
Scotland	120	126	123
Wales	77	164	152
Northern Ireland	44	152	160
Total	2,018	2,000	2,020

**Table A1.3: Achieved responses of frontier vs non-frontier firms**

	2023	2024	2025
Non-Frontier	1,444	1,476	1,454
Frontier	536	501	539
Total	1,980	1,977	1,993

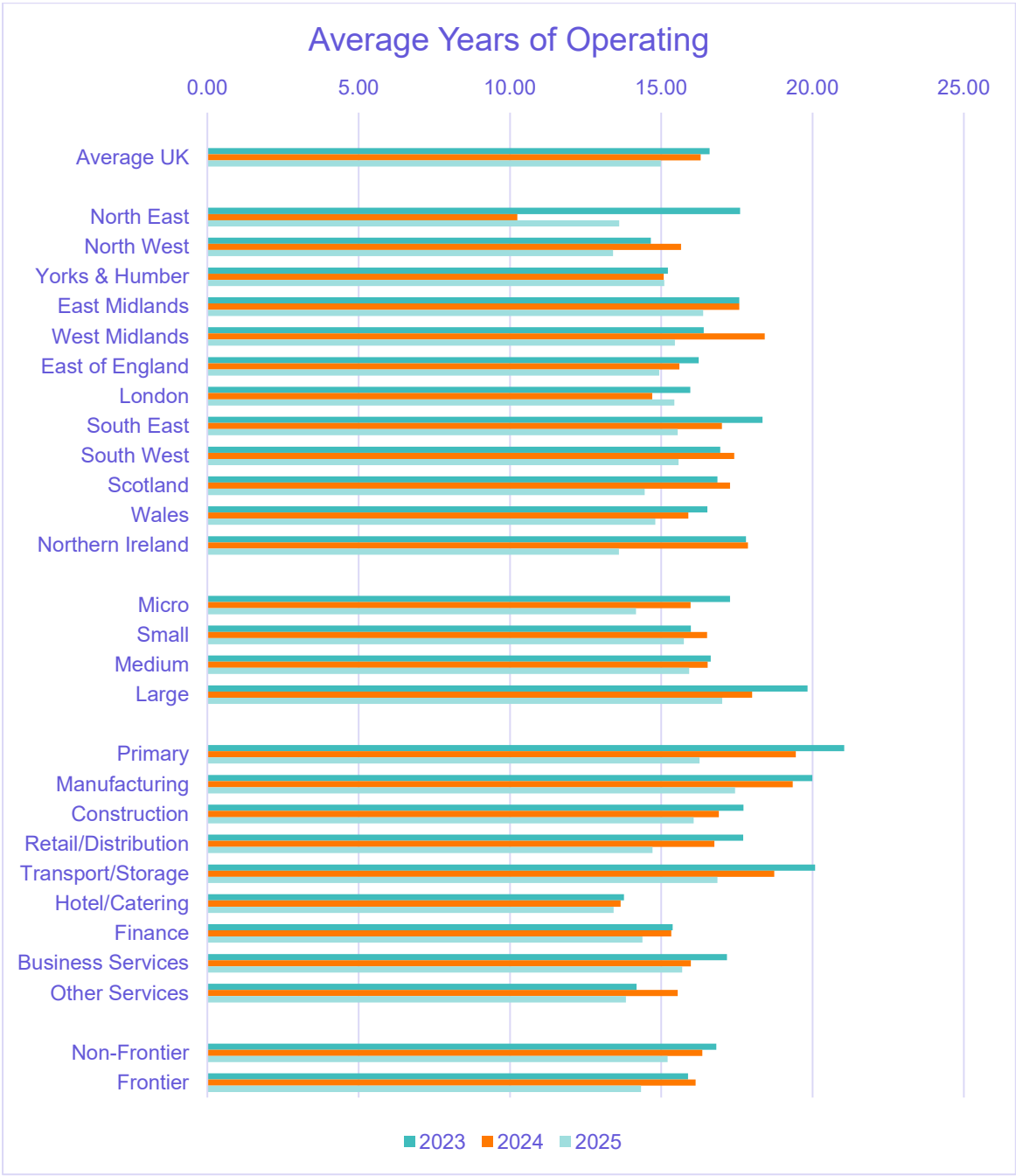


Figure A1.4: Average years the respondents have been operating

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)

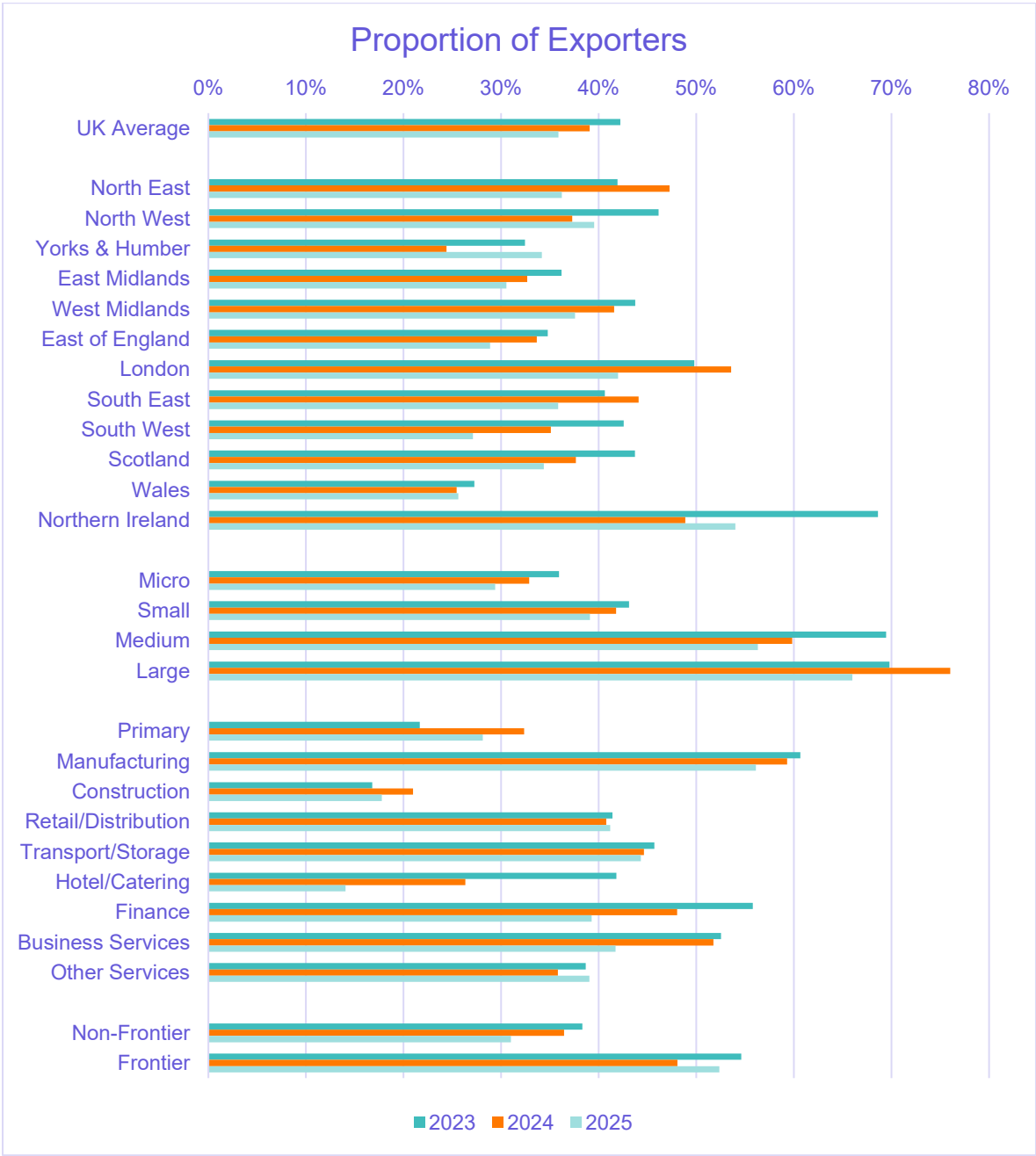


Figure A1.5: Proportion of exporters

(N, Y 2023 = 2,018; N, Y 2024 = 2,000; N Y 2025 = 2,020)



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