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INNOVATION IN THE INDUSTRIAL STRATEGY SECTORS: 2025-2026

An Innovation State of the Nation Survey

IRC Report No: 094

REPORT PREPARED BY

Uily Nafizah

Warwick Business School

Stephen Roper

Warwick Business School



Delivered with
ESRC and
Innovate UK

Authors

The core members of the research team for this project were as follows:

- » Uly Nafizah, Warwick Business School
- » Stephen Roper, Warwick Business School

This document relates to IRC Project IRCP0054: Innovation State of the Nation 2026

Acknowledgements

This work was supported by Economic and Social Research Council (ESRC) grant ES/X010759/1 to the Innovation and Research Caucus (IRC) and was commissioned by Innovate UK (IUK). We are very grateful to the project sponsors at UK Research & Innovation (UKRI) for their input into this research. The interpretations and opinions within this report are those of the authors and may not reflect the policy positions of IUK.

We would also like to acknowledge and appreciate the efforts of the IRC Project Administration Team involved in proofreading and formatting, for their meticulous attention to detail and support.

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Contact

You are also welcome to email us if you have any questions about this report or the work of the IRC generally: info@ircaucus.ac.uk

Cite as: Nafizah, U and Roper, S (2026) *'Innovation in the Industrial Strategy Sectors: 2025-26: An Innovation State of the Nation Survey'*, Oxford, UK: Innovation and Research Caucus.

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Executive Summary

Innovation sits at the heart of the UK Industrial Strategy and is seen as a critical driver of productivity, growth, resilience and international competitiveness. Yet national evidence suggests that innovation activity has weakened over time, with the share of innovation-active firms declining across much of the economy. Against this backdrop, this report provides a benchmark assessment of innovation across six of the Industrial Strategy's priority sectors: Advanced Manufacturing, Creative Industries, Digital and Technologies, Financial Services, Life Sciences, and Professional and Business Services (PBS). The report draws on a dedicated survey of almost 1,000 UK firms conducted in spring 2026 and is intended to inform future innovation policy development.

The findings reinforce the economic significance of innovation. Firms that innovate were found to grow about three times faster than non-innovating firms (6.6% annual growth compared with 2.1%). At the same time, the report shows that innovation is not a single phenomenon. Different sectors innovate in different ways, invest in different capabilities, collaborate through different networks and face markedly different barriers. This diversity has important implications for policy. While economy-wide support for R&D, technology adoption and innovation remains important, the evidence strongly suggests that future policy effectiveness will depend on recognising sector-specific needs. This report aims to support these sectoral diagnoses. The focus is therefore on understanding each sector in its own right rather than directly benchmarking sectors against each other. Future analysis could usefully extend the UK-specific analysis reported here to include other international comparisons.

Innovation patterns across the Industrial Strategy sectors

Among the sectors covered, Life Sciences emerges as the most innovation-intensive. More than seven in ten firms (71.3%) introduced a new or improved product or service in 2025-26, well above the cross-sector average of 53.9% in the six sectors covered. Life Sciences firms also generated some of the highest levels of new-to-market innovation, with 58.6% introducing products new to the market and 48.5% introducing market-first services. The sector combines exceptional innovation performance with very high levels of R&D investment, with 63.2% of firms conducting R&D.

Advanced Manufacturing and Digital and Technologies also stand out as highly innovative sectors. In Advanced Manufacturing, 64.1% of firms introduced new or improved products or services during the last 12 months. Innovation is strongly product-led, supported by intensive investment in R&D (56.4%) and associated technologies. Advanced Manufacturing firms are particularly notable for the novelty of their innovations, with 60.9% of innovators introducing products new to the market.

Digital and Technologies recorded an innovation activity rate of 62.0%, substantially above the all-sector average. Unlike Advanced Manufacturing, innovation in Digital and Technologies is characterised by a combination of service innovation, integrated product-service offerings and organisational transformation. Half of firms invested in R&D, and almost two-thirds invested in machinery, equipment or software supporting innovation. The sector also exhibits particularly strong rates of technology adoption and commercial experimentation.

Innovation performance in the Creative Industries is mixed but still positive. Overall innovation rates are slightly above the all-sector average, with 55.0% of firms introducing new or improved products or services. The sector's innovation model is less reliant on formal R&D and more closely linked to design, content creation, digital technologies and combined product-service innovation. Creative firms also invested heavily in software, equipment and design-related activities. AI adoption was particularly strong, at 76.5%, among the highest levels observed in the survey.

Financial Services exhibits a distinct innovation profile. Overall innovation activity is almost identical to the IS-sector average at 54.3%, but it takes the form of service innovation, process improvement and organisational transformation rather than technological product development. The sector is particularly strong in new-to-market services, with 47.4% of innovating firms introducing service innovations that were new to the market. Investment patterns are centred on skills, training and customer-facing innovation rather than formal R&D.

Professional and Business Services recorded the lowest overall innovation rate across the sectors examined, with 50.0% of firms introducing new or improved products or services. While innovation activity remains substantial, the sector generally mirrors economy-wide patterns rather than outperforming them. Levels of novelty, formal R&D investment and collaboration are all somewhat below average.

Innovation investment and adoption

Investment across sectors reveals equally important differences. Life Sciences, Advanced Manufacturing and Digital and Technologies show the strongest commitment to formal R&D. R&D investment reached 63.2% in Life Sciences, 56.4% in Advanced Manufacturing and 50.2% in Digital and Technologies, compared with 33.5% across all sectors. These sectors also tend to generate the highest levels of market-first innovation.

By contrast, Financial Services and Professional and Business Services rely less on formal research investment and more on workforce capability, organisational development and customer-focused innovation. Financial Services firms were notably more likely to invest in innovation-related training than the all-sector average, underscoring the importance of skills and service delivery models.

Digital technology adoption is widespread but uneven. Digital and Technology firms unsurprisingly recorded some of the strongest results in cloud computing, AI, big data analytics and IoT. Creative Industries also emerged as leading adopters of AI. Advanced Manufacturing and Life Sciences were more distinctive in their adoption of production-based technologies, such as 3D printing, robotics and IoT systems. Financial Services demonstrated strong adoption of AI and big data analytics, consistent with its focus on service innovation and customer management.

Importantly, high innovation performance does not always coincide with high adoption of all digital technologies. Life Sciences firms, for example, despite being among the most innovative businesses in the survey, reported below-average use of AI, cloud computing and big data analytics.

Collaboration and innovation ecosystems

Life Sciences and Advanced Manufacturing show the strongest engagement with universities, research institutes, technology hubs and specialist R&D organisations. Life Sciences firms were particularly likely to collaborate with universities (16.2%) and with private R&D organisations (21.7%).

Digital and Technology firms combine commercial and public-sector collaboration, working extensively with suppliers, customers, government research institutes and innovation support organisations. These networks appear important for supporting rapid technological change and commercial scaling.

Financial Services exhibits a more commercially oriented ecosystem, relying heavily on customers, suppliers and specialist consultants while engaging less frequently with universities and innovation centres. The Creative Industries occupy an intermediate position, showing relatively strong collaboration with other businesses and support organisations but weaker links to research institutions.

Professional and Business Services firms generally report lower levels of collaboration than more innovation-intensive sectors, potentially limiting knowledge exchange and innovation diffusion.

Cross-sector lessons for innovation policy

The most significant finding from the study is that innovation barriers vary substantially across sectors (see table below). These differences are closely linked to industrial structures, international exposure, regulatory environments and business models.

Three broad themes emerge:

First, financial constraints remain important, though not universal. The most severe funding challenges are concentrated in Creative Industries and Digital and Technologies. In Creative Industries, 47.1% of firms report internal finance constraints, and 37.1% experience difficulties accessing bank or equity finance. Similarly, almost half of Digital and Technologies firms report internal finance constraints. By contrast, finance plays a much smaller role in constraining innovation in Financial Services and PBS.

Second, regulation is a dominant challenge in highly regulated sectors. Financial Services firms are far more likely than any other sectors to cite regulation as a barrier, with 73.1% identifying it as a constraint. Life Sciences shows a similar, though less pronounced, pattern, with 65.4% reporting regulatory barriers. Conversely, regulation is much less problematic in Creative Industries and Digital and Technologies.

Third, external market conditions are crucial for internationally exposed sectors. Advanced Manufacturing, Digital and Technologies and Life Sciences all report particularly high levels of concern about international trade instability and market uncertainty. These sectors depend heavily on international markets, supply chains and knowledge networks, making stable global trading conditions critical for innovation investment.

Skills challenges also vary considerably. Skills shortages are prominent in Advanced Manufacturing and PBS but much less evident in Life Sciences, suggesting that workforce constraints should not be treated as a uniform innovation challenge.

Innovation barriers and policy priorities

Sector	Key barriers to innovation (% firms citing each barrier)	Potential policy priorities
Advanced Manufacturing	Uncertain demand (67.6%), international trade instability (62.0%), skills shortages (35.5%)	Export support, supply-chain resilience, advanced technical skills programmes, collaborative support for technology adoption and commercialisation
Creative Industries	Internal finance (47.1%), external finance (37.1%), public funding (36.6%), public support gaps (31.0%)	Improved access to venture and growth finance, creative-sector funding programmes, stronger innovation advisory support
Digital & Technologies	Internal finance (49.9%), public support gaps (30.9%), international trade instability (60.5%)	Scale-up finance, innovation funding, support for global market access, AI and digital infrastructure investment
Financial Services	Regulation and standards (73.1%), International trade instability (42.7%)	Regulatory innovation frameworks, regulatory sandboxes, proportionate compliance systems, support for global market access
Life Sciences	Public funding (53.2%), regulation and standards (65.4%), International trade instability (57.3%)	Long-term R&D funding commitments, streamlined regulatory pathways, support for commercialisation and internationalisation
Professional & Business Services	Skills shortages (32.1%), regulation and standards (49.8%)	Digital and AI capability programmes, management skills development, support for technology adoption

Conclusions and policy implications

Our central conclusion is that innovation barriers are highly heterogeneous across sectors and closely mirror sector-specific business models, market structures and institutional settings. Financial constraints remain important but are concentrated in particular sectors rather than constituting a universal challenge. Equally, regulation, skills availability and international market conditions often matter more than finance in shaping innovation outcomes. These barriers may also be felt more strongly by some groups of firms – typically smaller and younger firms – than other companies.

For policymakers, the evidence points strongly towards a dual-track approach. Economy-wide innovation measures remain essential. Continued support for R&D, innovation adoption, commercialisation and investment will be necessary if the UK is to reverse the longer-term decline in innovation activity. However, the survey shows that generic interventions alone are unlikely to be sufficient.

Future policy effectiveness will depend on combining horizontal innovation programmes with sector-specific interventions that target the barriers that matter most across industries. For Creative Industries and Digital and Technologies, this may mean expanding access to growth and scale-up finance. For Life Sciences, the priority is likely to be more predictable public funding and streamlined regulation. In Financial Services, regulatory innovation frameworks may have greater impact than additional funding. In Advanced Manufacturing and PBS, workforce and capability development are likely to be critical.

Overall, the findings provide strong empirical support for the sector-based approach adopted in the Industrial Strategy. The evidence suggests that innovation policy is likely to be most effective when it combines common national objectives with targeted, sector-specific responses that reflect the distinct needs of different sectors and places.

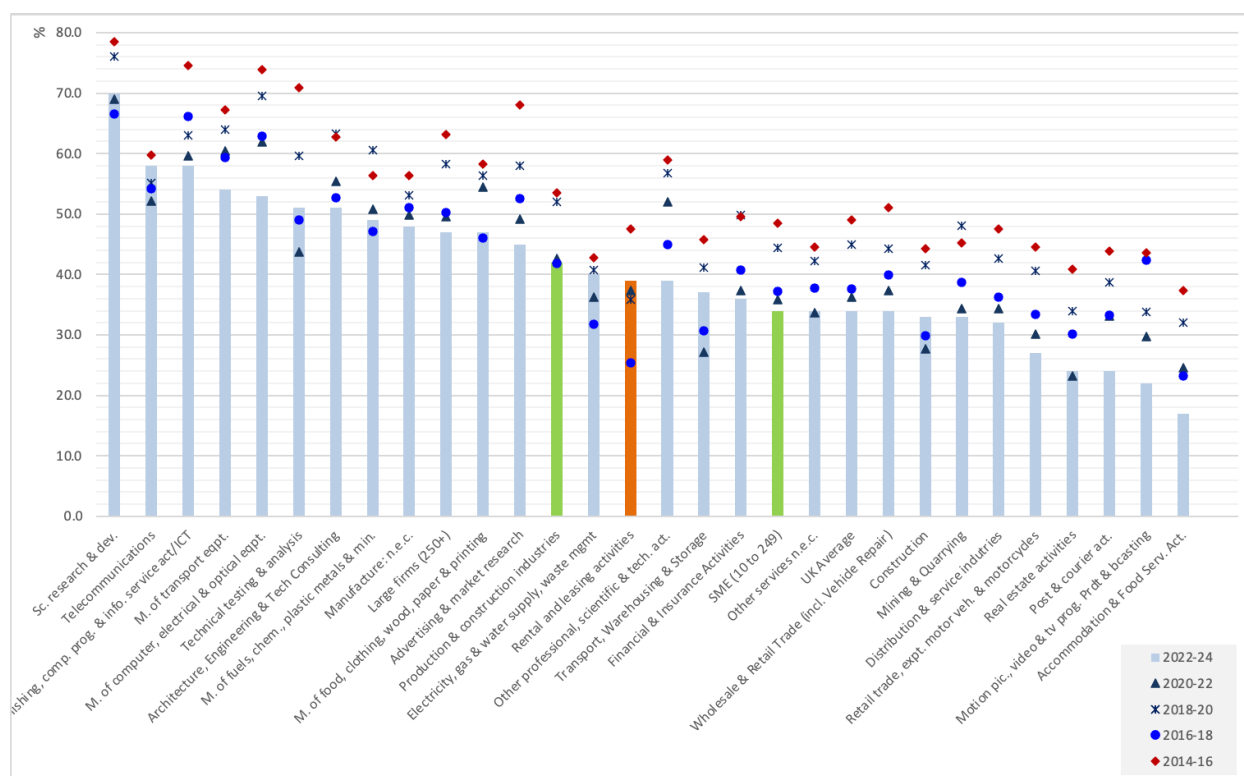
Section 1: Introduction

1.1 Background

Innovation is central to the UK Industrial Strategy (2025), driving productivity growth, economic resilience, and international competitiveness. The Strategy describes the UK economy as "propelled by world-leading sectors and companies" and as having "a record of extraordinary research and innovation" (p.10). It positions innovation as a driver of growth, suggesting that successful firms are those "fuelled by innovation, disruption, tech adoption, effective use of data" (p.18). To further this development, one of the ten major cross-cutting interventions proposed in the Strategy is to "Drive innovation, underpinned by an £86 billion investment into UK R&D, targeted towards the IS-8, leveraging private investment in cutting-edge research, technologies, and commercial applications" (p.12).

The Industrial Strategy frames innovation around both invention and adoption, recognising the importance of transformational technologies and the economy-wide benefits of broad-based innovation take-up. The UK's strengths in R&D and invention are contrasted with weaknesses in widespread innovation and adoption. Specifically, the Strategy notes "there has been a slowdown in innovation, with the proportion of 'innovation active' firms decreasing" (p.55). This "slowdown" is evident across almost all sectors, with data from the UK Innovation Survey showing a period-on-period decline in the proportion of innovation-active firms (Figure 1). This poses a particular challenge for the Industrial Strategy, which cites an increasing proportion of innovation-active firms as a key success metric.

Figure 1: Proportion of innovation-active firms by sector in successive UK innovation surveys



Notes: Data from the UK Innovation Survey.

1.2 Aims of this report

In this report, we examine the drivers, enablers and barriers to innovation in six of the eight IS-8 sectors. Sectors are defined using the standard SIC code groupings but we exclude the defence industries due to the nature of the sector and clean energy industries due to the relatively small size of the sector. Investigating innovation in these sectors is likely to require a different, more qualitative approach than the survey-based approach adopted here.

Our study, based on computer-aided telephone interviews (CATI) with senior managers in more than 990 UK firms, provides a benchmark for innovation in the Industrial Strategy sectors and is intended to inform future policy development. Supporting innovation effectively has significant potential gains, with our survey suggesting that innovating firms grow around three times as fast as non-innovating businesses (6.6% v 2.1%), a finding consistent with earlier years' Innovation State of the Nation Surveys.

The survey is based on the Innovation State of the Nation Survey (ISNS), which provides an annual overview of innovation activity in a representative sample of UK businesses. The ISNS has been conducted annually since 2023 and covers around 2,000 firms each year. Survey fieldwork for this report on the IS sectors was undertaken alongside the regular ISNS fieldwork, which covered around 2,000 companies. Therefore, this report should be read alongside the companion report on the Innovation State of the Nation Survey 2026 (ISNS 2026), which provides economy-wide coverage of the same aspects of innovation addressed here.

The structure of this report recognises the structural and technological differences that shape innovation across the IS-8 sectors. For example, there is little overlap between innovation in the creative industries and that in the life sciences. Our primary focus is therefore on profiling innovation in each sector in Sections 2-7. Section 8 highlights some of the key contrasts in innovation across the IS sectors.

1.3 Introducing the ISNS IS sector survey

The annual ISNS provides a timely indication of short-term trends in innovation activity, and the challenges firms face each year when innovating. Therefore, the main focus is on a short-term assessment of innovation levels and the factors driving innovation, as well as the barriers that firms encounter when starting and sustaining innovation.

The ISNS covers a wide range of innovation-related topics which can be grouped into four main areas:

- » **Innovation activities and outcomes** – innovation activity, innovation and business objectives, innovation and sales growth
- » **Enablers of innovation** – related investment activity, funding innovation, collaboration, external support and digital adoption
- » **Barriers to innovation** – for innovating firms, for non-innovating firms
- » **Future R&D and innovation plans** – future investment plans, needs for future innovation support

The IS sector survey 2026 was conducted using Computer-Assisted Telephone Interviewing (CATI). Within each organisation, a member of the senior management team or a senior decision-maker involved in developing new products or services was targeted for interview. Businesses with five or

more employees were included in the survey. This employment definition excluded owners, partners, agency staff, and contractors, but included other directors, as well as temporary and casual staff. Organisations were screened to ensure they were not charities, not-for-profit entities, or public sector organisations.

In total, 1,000 responses were collected. 8 responses were from the Clean Energy sector, but this was considered too low a response rate to draw meaningful conclusions, so these firms were omitted from the reporting. Responses were collected between 16 March 2026 and 24 June 2026. CATI interviews averaged 20 minutes.

For the CATI survey, a sample of relevant UK private-sector organisations was purchased from a commercial list broker, and a stratified sampling approach was applied within each of the IS-8 sectors. Targets were set within each sector and across 4 size bands (5-9, 10-49, 50-249, 250+). Organisations with 50 or more employees were intentionally over-sampled to ensure sufficient representation and to enable more robust sub-analyses of these groups. Annex 1 provides an overview of the weighting approach used to produce sectorally representative results.

1.4 Overview of ISNS IS sector survey respondents

In this section, we provide a brief overview of key characteristics of respondent firms. In each case, responses are weighted to ensure representative results. On average, about 34.0 per cent of firms across the respondent sectors were micro-businesses (1-9 employees). This proportion was highest in the Creative Industries (39.3%) and lowest in the Life Sciences (25.8%) (Table 1.1). Larger firms (250+ employees) were most common in Life Sciences and Financial Services.

Table 1.1: Sizeband distribution by sector (% firms)

	Micro	Small	Medium	Large	Total
Advanced Manuf.	27.7	47.5	18.8	5.9	100.0
Creative Inds.	39.3	45.5	11.7	3.5	100.0
Digital and Tech	30.0	44.6	18.0	7.3	100.0
Financial Serv.	35.4	41.7	15.0	7.9	100.0
Life Sciences	25.8	45.2	21.0	8.1	100.0
Prof. and Bus. Serv.	33.6	45.9	15.1	5.4	100.0
Total	34.0	45.5	15.0	5.5	100.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Looking at the average age of respondents to the survey, we see that, overall, respondent firms were 18.6 years old. This figure was marginally higher for larger firms and for those in Advanced Manufacturing and Digital and Technologies (Table 1.2). On average, around a third of firms were exporting (Table 1.3), although this rose to around 73.2-73.5% in Life Sciences and Advanced Manufacturing.

Table 1.2: Average age of firms by sizeband and sector (% firms)

	Micro	Small	Medium	Large	Total
Advanced Manuf.	19.9	21.6	23.5	25.0	21.7
Creative Inds.	18.1	18.0	18.9	22.5	18.3
Digital and Tech	19.6	21.2	22.0	16.3	20.5
Financial Serv.	16.5	16.7	19.1	25.0	17.6
Life Sciences	18.0	17.8	18.1	20.0	18.1
Prof. and Bus. Ser	17.0	17.9	21.8	18.8	18.2
Total	17.6	18.3	21.1	20.2	18.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Table 1.3: Exporting by sizeband and sector (% firms)

	Micro	Small	Medium	Large	Total
Advanced Manuf.	56.7	73.3	96.6	75.0	73.2
Creative Inds.	28.1	44.3	71.4	75.0	42.2
Digital and Tech	54.5	55.8	50.0	50.0	54.0
Financial Serv.	18.8	17.1	25.0	0.0	17.5
Life Sciences	61.3	75.0	75.0	100.0	73.5
Prof. and Bus. Serv.	28.4	29.6	23.5	22.2	27.9
Total	31.6	38.2	42.3	38.4	36.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Finally, in terms of ownership and group membership, most firms in each sector were Single Site businesses (Table 1.4). Subsidiary companies with UK headquarters were most common in Digital and Technologies (9.5%) and Financial Services (8.3%), whereas those with foreign headquarters were most common in life sciences (19.8%) and Advanced Manufacturing (16.4%).

Table 1.4: Firm type by sector

	Single site firms	Subsidiary with UK HQ	Subsidiary with non-UK HQ	Total
Advanced Manuf.	81.1	2.6	16.4	100.0
Creative Inds.	92.4	4.7	2.9	100.0
Digital and Tech	79.7	9.5	10.9	100.0
Financial Serv.	84.0	8.3	7.7	100.0
Life Sciences	78.7	1.6	19.8	100.0
Prof. and Bus. Serv.	89.5	6.8	3.7	100.0
Total	88.0	6.2	5.8	100.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Section 2: Innovation in Advanced Manufacturing

2.1 Introduction

Innovation is arguably the central element of the Advanced Manufacturing sector plan. The sector is described as being positioned at the intersection of: "Decarbonisation, the AI revolution, and increasing global focus on economic resilience" (Industrial Strategy, p.117). The Industrial Strategy notes that there are "unprecedented commercial opportunities for companies at the frontiers as well as those who are fastest to commercialise the latest innovations" (Industrial Strategy, p.117). Given this, a core objective for this sector is to "Scale up" innovation and automation, with increased deployment of state-of-the-art technologies, industrial robotics, AI, digital twins, and Internet of Things" (Industrial Strategy, p.118).

The Advanced Manufacturing sector plan positions innovation as a core policy priority. One of the government's principal objectives is to help the sector "be a global leader in scaling up innovation and automation" (Sector Plan, pages 8 and 12). To achieve this, the plan commits "up to £4.3 billion in funding for the Advanced Manufacturing sector, including up to £2.8 billion in research and development funding programmes over the next 5 years" (Sector Plan, p.8). Key initiatives outlined in the Sector Plan include:

- » Increased finance and support for technology translation institutions (p.18) to help bridge the "valley of death" between invention and commercialisation through increased finance and support for technology translation institutions (p.18).
- » Support for programmes such as Made Smarter Innovation, which develops industrial digital technologies including "AI, 3D printing, 'smart factories' and Robotics" (p.20), and Made Smarter Adoption, which helps SMEs integrate these technologies into business operations (p.21).
- » Related sector-specific innovation initiatives include the Battery Innovation Programme (p.35), the Aerospace Technology Institute programme (p.38), the National Materials Innovation Programme (p.45), and the Farming Innovation Programme (p.48).

The Sector Plan concludes that by 2035 success will be measured partly through increases in R&D expenditure and the number of firms classified as "innovation active" (p.64).

2.2 Innovation activity and investment in Advanced Manufacturing

Advanced Manufacturing is one of the sectors most strongly associated with innovation in the Industrial Strategy, and survey evidence suggests that firms in the sector are generally more innovative than those across the Industrial Strategy sectors as a whole. As shown in Table 2.1, 64.1% of Advanced Manufacturing firms introduced a new or improved product or service during 2025-26, compared with 53.9% across all Industrial Strategy (IS) sectors. This difference in innovation activity is evident across all size bands, with particularly strong performance among micro and small firms. Much of this activity is product-led. Advanced Manufacturing firms were also more likely than average to introduce both product and service innovations simultaneously (31.0% compared with 24.9%) (Table 2.1).

The pattern is somewhat different for business process innovation. Rates of process change in Advanced Manufacturing were broadly similar to the all-sector average (44.8% compared with 48.6%). However, manufacturers were less likely than firms across all IS sectors to report major changes to business practices, organisational methods, external relationships or marketing strategies. For

example, only 33.9% reported major changes to methods of organising work, compared with 42.9% across all IS sectors. This suggests that innovation in Advanced Manufacturing remains focused on products and production processes rather than on wider business model or organisational transformation.

Table 2.1: Innovation in advanced manufacturing: 2025-26

	Advanced Manufacturing				All IS Sectors			
	Micro	Small	Med/ Large	All	Micro	Small	Med/ Large	All
New or improved products or services (% firms)	66.1	63.6	62.7	64.1	50.7	51.1	65.8	53.9
New or improved products or services (% firms)	25.4	23.8	38.5	28.0	5.4	7.7	11.0	7.6
New or improved services (% firms)	5.1	4.8	2.7	4.3	25.3	19.5	18.8	21.4
Both product and services new/improved (% firms)	35.6	33.3	21.5	31.0	19.8	23.7	36.0	24.9
Process changes (% firms)	45.0	50.0	34.8	44.8	43.9	49.9	53.8	48.6
Major changes to business practices (% firms)	31.7	35.6	26.2	32.2	35.5	40.9	40.3	39.0
Major changes to methods of organising work (% firms)	31.7	37.8	28.8	33.9	39.6	43.0	48.4	42.9
Major changes to organising external relationships (% firms)	15.0	22.2	18.3	19.3	22.3	27.2	25.4	25.2
Major changes to marketing concepts or strategies (% firms)	26.7	42.2	23.6	33.3	38.8	46.8	41.3	43.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Table 2.2 reinforces the picture of a sector characterised by relatively novel forms of innovation. Among firms that were innovating, 60.9% reported introducing products new to the market, substantially above the all-sector figure of 48.1%. Similarly, 56.1% of firms introducing service innovations reported these were new to the market, compared with 36.6% across all IS sectors. Rates of market-first innovation are consistently high across all firm size bands, suggesting that smaller firms are contributing alongside larger manufacturers to the sector's innovation pipeline.

Table 2.2: New-to-market innovation in advanced manufacturing: 2025-26

	Advanced manufacturing				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New to the market products (% firms)	58.3	62.5	61.1	60.9	45.2	52.9	43.2	48.1
New to the market services (% firms)	52.2	62.5	44.4	56.1	29.5	46.0	29.6	36.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

The investment profile in Table 2.3 helps explain this strong innovation performance. Over half of Advanced Manufacturing firms (56.4%) invested in R&D during the year, compared with only 33.5% across all IS sectors. This is one of the most striking differences between the sector and the other Industrial Strategy sectors, reflecting the technology-intensive nature of manufacturing innovation. Firms in Advanced Manufacturing were also more likely than average to invest in licensing patents and know-how (18.0% versus 9.1%), product and service design (47.1% versus 32.7%), and innovation-related training (42.1% versus 38.6%).

More than half of Advanced Manufacturing firms (53.9%) purchased machinery, equipment or software to support innovation in the year before the survey, broadly matching the all-sector average (Table 2.3). By contrast, Advanced Manufacturing firms were slightly less likely than the average to invest in developing new marketing channels, again underlining the sector's stronger emphasis on technological rather than commercial or organisational innovation.

Table 2.3: Investing in innovation – advanced manufacturing 2025-26

	Advanced manufacturing				All IS Sectors			
	Micro	Small	Med/ Large	All	Micro	Small	Med/ Large	All
Research and development (% firms)	59.3	48.9	67.8	56.4	28.5	35.6	37.3	33.5
Licensing of patents or know-how (% firms)	11.7	15.6	29.6	18.0	8.4	7.1	14.3	9.1
Training specifically linked (% firms)	40.0	44.4	40.1	42.1	32.3	41.1	43.3	38.6
Product or service design (% firms)	43.3	44.4	56.6	47.1	26.5	35.3	37.3	32.7
Market introduction of innovations (% firms)	20.0	26.7	36.3	27.2	20.0	23.2	26.1	22.7
Developing new marketing relationships or channels (% firms)	40.0	40.0	27.0	36.8	37.9	42.0	38.5	39.9
Purchased any machinery, equipment or software (% firms)	60.0	44.4	65.2	53.9	56.7	53.4	63.2	56.5

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

2.3 Innovation Barriers

Despite strong innovation performance, Table 2.4 highlights several significant barriers facing Advanced Manufacturing firms. The most prominent challenge is uncertain demand, cited by 67.6% of firms, compared with 46.1% across all IS sectors. International trade instability is also a major concern, reported by 62.0% of firms, compared with 44.7% overall. Given the sector's export orientation, with almost three-quarters of firms exporting, these findings are unsurprising and underscore the importance of stable market conditions for long-term innovation investment in the sector. Skills shortages are another notable challenge, affecting 35.5% of firms, compared with 26.7% across all IS sectors.

Interestingly, financial barriers appear less severe than in the wider IS sector population. Fewer firms reported a lack of internal finance, public funding or wider public support as constraints. This may reflect the sector's comparatively strong innovation ecosystem and the range of dedicated policy initiatives outlined in the Industrial Strategy.

Table 2.4: Innovation barriers – advanced manufacturing 2025-26

	Advanced manufacturing	All IS Sectors
	All firms	All firms
Uncertain demand (% firms)	67.6	46.1
Lack of internal finance (% firms)	25.9	32.6
Lack of bank or equity finance (% firms)	19.2	20.7
Lack of public funding (% firms)	21.1	30.0
Lack of other public support e.g. advice (% firms)	12.6	20.6
Lack of skills (% firms)	35.5	26.7
Regulation or standards (% firms)	38.6	44.8
International trade instability (% firms)	62.0	44.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

2.4 Collaboration and technology adoption

Collaboration patterns, shown in Table 2.5, present a mixed picture. Advanced Manufacturing firms are somewhat less likely than the average to collaborate with suppliers and other businesses, although collaboration with customers is marginally more common. More strikingly, the sector shows above-average engagement with innovation infrastructure and knowledge institutions. Firms are about twice as likely as the all-sector average to work with technology hubs and innovation centres (6.6% versus 3.7%), universities (13.9% versus 10.5%), and government or public research institutes (5.0% versus 3.3%). These findings reflect the importance of research partnerships, Catapults, and technology-translation mechanisms prioritised in the Sector Plan.

Table 2.5: Collaborating for innovation – advanced manufacturing 2025-26

	Advanced Manufacturing	All IS sectors
Suppliers of equipment, materials, services (% firms)	24.7	28.4
Clients or customers (% firms)	22.7	20.9
Other businesses (% firms)	22.4	29.6
Accelerators, incubators or science parks (% firms)	5.0	2.1
Technology hubs or innovation centres (e.g. Catapults) (% firms)	6.6	3.7
Consultants, commercial labs or private R&D institutes (% firms)	12.5	11.0
Universities or other higher education institutions (% firms)	13.9	10.5
Government or public research institutes (% firms)	5.0	3.3
Business support providers (e.g. Growth Hubs, IUK Business Growth) (% firms)	4.2	6.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Finally, Table 2.6 shows that Advanced Manufacturing is adopting many of the key digital technologies, though adoption is uneven across technologies. The sector leads the wider IS economy in the use of 3D printing (42.6% compared with 12.0%), robotics (14.4% compared with 4.3%) and the Internet of Things (36.0% compared with 27.6%). Cloud computing adoption is also slightly above average.

By contrast, adoption of AI and big data analytics is below the all-sector average. Just 53.5% of firms report using AI, compared with 67.1% across all IS sectors, while 16.3% use big data analytics, compared with 18.0% overall. This suggests that, while the sector is relatively advanced in deploying physical and production technologies, there may still be scope to increase the use of data-driven and AI-enabled systems.

Table 2.6: Digital technology adoption – advanced manufacturing 2025-26

	Advanced Manufacturing				All IS sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Big Data analytics (% firms)	10.0	20.0	16.1	16.3	13.3	17.4	28.1	18.0
AI (% firms)	51.7	52.3	58.1	53.5	68.0	65.9	68.4	67.1
Cloud Computing (% firms)	65.0	63.6	68.6	65.2	65.3	62.1	63.4	63.5
3D Printing (% firms)	40.0	40.0	50.6	42.6	9.8	12.3	15.0	12.0
IOT (The Internet of Things) (% firms)	39.3	33.3	37.9	36.0	26.4	27.5	30.0	27.6
Robotics (% firms)	13.3	6.7	30.3	14.4	1.8	4.9	7.4	4.3

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

2.4 Summary

Advanced Manufacturing is among the most innovation-intensive sectors identified in the Industrial Strategy and closely aligns with the government's ambition to make the UK a global leader in innovation, automation and the adoption of industrial technology. The sector exhibits substantially higher levels of innovation activity than the Industrial Strategy economy, with 64.1% of firms introducing new or improved products or services during 2025-26, compared with 53.9% across all IS sectors.

This innovation is strongly product-focused: firms are more likely than average to introduce product innovations and combined product-service innovations, while service-only innovation remains relatively uncommon. The evidence suggests that innovation in Advanced Manufacturing continues to centre on technologies, products and production systems rather than on broader organisational or business model change.

The sector also stands out for the novelty of its innovation activity. Among innovating firms, 60.9% introduced products new to the market, compared with 48.1% across all IS sectors, while 56.1% reported service innovations new to the market, compared with 36.6% overall. These high levels of market-first innovation are evident across firms of all sizes.

Strong innovation performance is underpinned by above-average investment in innovation-related activities. More than half of Advanced Manufacturing firms (56.4%) invested in R&D during the year, far exceeding the all-sector average of 33.5%. Firms are also significantly more likely to invest in patent licensing and know-how acquisition, product and service design, and innovation-related training. In addition, over half purchased machinery, equipment or software to support innovation.

Despite these strengths, Advanced Manufacturing firms face several significant innovation barriers. The most prominent constraints are uncertain demand and instability in international trade, both reported at substantially higher rates than in other IS sectors. Skills shortages are also a significant challenge, affecting over one-third of firms and potentially limiting the sector's capacity to adopt and deploy emerging technologies.

Advanced Manufacturing firms are also among the leading adopters of several advanced production technologies. Adoption rates for 3D printing, robotics and the Internet of Things are substantially above the all-sector average, reflecting the sector's focus on industrial automation and smart manufacturing. However, adoption of AI and big data analytics is lower than in the wider IS economy. This suggests that while manufacturers are relatively advanced in deploying physical and operational technologies, there remains significant scope to expand the use of data-driven and AI-enabled systems.

Section 3: Innovation in the Creative Industries

3.1 Introduction

The Industrial Strategy and the Creative Industries Sector Plan present innovation as a defining characteristic of the UK's Creative Industries and a central mechanism through which the sector will contribute to economic growth, productivity and competitiveness. In particular, the Sector Plan states that the Creative Industries "drive innovation and productivity, improve our living standards and drive growth in the wider economy" (p. 6). It argues that changing technologies and markets are creating opportunities for new business models and products, and that the UK is "uniquely well placed to innovate and adapt" (p. 4). A key mechanism driving these impacts is technology-enabled innovation, particularly through the emerging "createch" sector, defined as the combination of "creative innovation and cutting-edge technology to generate novel products, services and experiences" (p. 7).

While the Creative Industries have the potential to contribute to economy-wide growth, the Sector Plan also notes that creative businesses face ongoing challenges, including "their ability to innovate, access finance, access skills, and export to the world" (p. 7).

Government intervention is focused on accelerating "innovation-led growth" to benefit companies in the sector and the wider economy (Sector Plan, pages 9, 14). Key measures include increasing public funding for creative R&D, supporting commercialisation, strengthening intellectual property protection, and helping firms adopt emerging technologies, including AI (Sector Plan, pages 16-18). The Strategy commits to a £100 million UKRI investment in new creative R&D clusters over the 2023-28 period and to a £25 million Creative Futures programme to expand creative innovation infrastructure (p. 16). As in the advanced manufacturing sector, a key success measure will be the anticipated increase in the proportion of "innovation active businesses" (Sector Plan, p. 73).

3.2 Innovation activity and investment

The Industrial Strategy presents innovation as central to the future success of the Creative Industries, emphasising the need for continuous adaptation if the UK is to maintain its international competitive position. The IS sector survey suggests the sectors' overall innovation performance is broadly in line with that of the other Industrial Strategy sectors, though the nature of innovation differs in important respects. Rather than being driven primarily by formal R&D or technology development, innovation in the Creative Industries is characterised by a combination of creative content development, service and marketing innovation, and the adoption of digital technologies.

Table 3.1 shows that 55.0% of Creative Industries firms introduced a new or improved product or service in 2025-26, marginally above the average for all IS sectors (53.9%). On the surface, this suggests only a modest innovation advantage. However, the aggregate figures mask substantial variation by firm size. Among medium and large firms, 89.0% introduced innovations, compared with 65.8% across all IS sectors, indicating exceptionally high innovation intensity among the small number of larger creative businesses. Smaller firms, by contrast, innovate at rates much closer to the all-sector average. This suggests the sector comprises a relatively small group of highly innovative larger firms alongside a much larger population of SMEs whose innovation activity is more constrained.

The composition of innovation also differs from that observed across the IS-8 sectors. A marginally higher proportion of Creative Industries firms introduced product innovations alone (6.1%), a rate lower than the all-sector average of 7.6%. Similarly, service-only innovation affected 20.5% of firms, slightly below the benchmark of 21.4%. The key distinguishing feature is the relatively high proportion of firms introducing both product and service innovations simultaneously, with 28.4% reporting this type of combined innovation, compared with 24.9% across all IS sectors.

The sector's innovation profile is also evident in its approach to business change. Levels of process innovation are broadly comparable to the all-sector average (46.7% versus 48.6%), but Creative Industries firms are marginally more likely than average to introduce major changes to methods of organising work (44.7% compared with 42.9%) and to marketing concepts or strategies (45.0% compared with 43.0%). By contrast, rates of innovation in external relationships are almost identical to the all-sector average (Table 3.1).

Table 3.1: Innovation in creative industries: 2025-26

	Creative Industries				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New or improved products or services (% firms)	47.4	50.0	89.0	55.0	50.7	51.1	65.8	53.9
New or improved products or services (% firms)	1.5	8.5	11.0	6.1	5.4	7.7	11.0	7.6
New or improved services (% firms)	23.7	18.9	16.8	20.5	25.3	19.5	18.8	21.4
Both product and services new/improved (% firms)	22.2	22.6	61.3	28.4	19.8	23.7	36.0	24.9
Process changes (% firms)	46.3	49.5	38.3	46.7	43.9	49.9	53.8	48.6
Major changes to business practices (% firms)	39.3	37.4	28.3	36.7	35.5	40.9	40.3	39.0
Major changes to methods of organising work (% firms)	44.4	43.0	50.3	44.7	39.6	43.0	48.4	42.9
Major changes to organising external relationships (% firms)	25.9	28.0	11.5	24.7	22.3	27.2	25.4	25.2
Major changes to marketing concepts or strategies (% firms)	45.2	52.3	22.5	45.0	38.8	46.8	41.3	43.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

While Creative Industries firms are slightly more innovation-active than average, Table 3.2 suggests they are somewhat less likely to generate market-first innovations. Among innovating firms, 43.2% reported introducing products new to the market, compared with 48.1% across all IS sectors. Similarly, 32.8% introduced new-to-market services, compared with a benchmark of 36.6% (Table 3.2). These figures indicate that much of the sector's innovation involves adaptation, refinement and commercialisation rather than frontier innovation.

Table 3.2: New to the market innovation in creative industries: 2025-26

	Creative industries				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New to the market products (% firms)	46.7	51.5	27.4	43.2	45.2	52.9	43.2	48.1
New to the market services (% firms)	31.7	39.5	20.6	32.8	29.5	46.0	29.6	36.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Variation by firm size is again notable. Small creative businesses report relatively high rates of new-to-market products and services, suggesting that smaller firms in the Creative Industries remain important sources of experimentation and creative entrepreneurship. Larger firms, meanwhile, appear to focus more on scaling, commercialisation and organisational innovation (Table 3.2).

The investment data in Table 3.3 highlight both strengths and weaknesses in the creative innovation system. The proportion of firms undertaking R&D (41.6%) exceeds the all-sector average of 33.5%, contradicting the assumption that innovation in the sector is entirely informal or non-technological. Creative Industries firms are also significantly more likely than average to invest in product and service design. Some 41.1% undertake design-related investment, compared with 32.7% across all IS sectors. Given that design capability is often central to value creation in creative markets, this is unsurprising. It also reflects the growing convergence between creative content, technology and user experience.

Perhaps the most striking result concerns investment in machinery, equipment and software. Nearly two-thirds of firms (65.4%) report such investment, compared with 56.5% across all IS sectors. This suggests strong investment in digital tools, software platforms, production technologies and creative infrastructure. The finding also aligns closely with the Industrial Strategy's focus on "Createch" and the intersection of creative activity and digital innovation (Table 3.3). However, other forms of innovation investment remain relatively modest. 18.0% of firms in the Creative Industries invested in market introduction activities, slightly below the 22.7% across all IS sectors.

Table 3.3: Investing in innovation – creative industries 2025-26

	Creative industries				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Research and development (% firms)	35.6	51.4	28.3	41.6	28.5	35.6	37.3	33.5
Licensing of patents or know-how (% firms)	9.6	9.3	16.8	10.6	8.4	7.1	14.3	9.1
Training specifically linked (% firms)	35.6	39.3	50.3	39.5	32.3	41.1	43.3	38.6
Product or service design (% firms)	34.1	42.1	56.0	41.1	26.5	35.3	37.3	32.7
Market introduction of innovations (% firms)	18.5	19.6	11.5	18.0	20.0	23.2	26.1	22.7
Developing new marketing relationships or channels (% firms)	40.7	42.1	39.3	41.1	37.9	42.0	38.5	39.9
Purchased any machinery, equipment or software (% firms)	63.7	68.2	61.3	65.4	56.7	53.4	63.2	56.5

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

3.3 Barriers to innovation

The most distinctive feature of the Creative Industries results is the prevalence of financial barriers to innovation. Table 3.4 shows that firms in the sector report substantially higher rates of finance-related constraints than businesses across IS sectors overall. Nearly half of firms (47.1%) identify a lack of internal finance as a barrier, compared with 32.6% across all sectors. Concerns about external finance are even more pronounced, with 37.1% citing difficulties accessing bank or equity finance, compared with only 20.7% across IS sectors overall. Similarly, a lack of public funding affects 36.6% of Creative Industries firms, compared with 30.0% overall (Table 3.4). These findings reflect concerns identified in the Sector Plan about access to finance as a longstanding constraint on growth and innovation in the Creative Industries. Our survey evidence suggests that this remains one of the principal obstacles to innovation. Other issues – regulation, skill shortages – are less of a barrier to innovation in the Creative Industries (Table 3.4).

Table 3.4: Innovation barriers – creative industries 2025-26

	Creative industries	All IS Sectors
	All firms	All firms
Uncertain demand (% firms)	53.0	46.1
Lack of internal finance (% firms)	47.1	32.6
Lack of bank or equity finance (% firms)	37.1	20.7
Lack of public funding (% firms)	36.6	30.0
Lack of other public support e.g. advice (% firms)	31.0	20.6
Lack of skills (% firms)	19.8	26.7
Regulation or standards (% firms)	26.7	44.8
International trade instability (% firms)	36.7	44.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

3.4 Collaboration and digital adoption

Collaboration patterns in the Creative Industries largely mirror those in the other IS sectors (Table 3.5), with some marginal differences. More than a third of Creative Industries businesses collaborate with other firms (35.4%), above the all-sector figure of 29.6%. Creative businesses are also more likely than average to engage with technology hubs and business support organisations, but marginally less likely to collaborate with universities.

Table 3.5: Collaborating for innovation – creative industries 2025-26

	Creative industries	All IS sectors
	All firms	All firms
Suppliers of equipment, materials, services (% firms)	27.4	28.4
Clients or customers (% firms)	18.9	20.9
Other businesses (% firms)	35.4	29.6
Accelerators, incubators or science parks (% firms)	3.0	2.1
Technology hubs or innovation centres (e.g. Catapults) (% firms)	5.5	3.7
Consultants, commercial labs or private R&D institutes (% firms)	12.5	11.0
Universities or other higher education institutions (% firms)	9.8	10.5
Government or public research institutes (% firms)	3.7	3.3
Business support providers (e.g. Growth Hubs, IUK Business Growth) (% firms)	9.6	6.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

The strongest evidence on the nature of innovation activity in the Creative Industries comes from Table 3.6, which examines digital technology adoption. The most notable finding is AI adoption. More than three-quarters of firms (76.5%) report using AI, compared with 67.1% across all IS sectors. This is among the highest adoption rates observed in the survey and underscores the growing role of AI in content creation, design, marketing and creative workflows. Adoption of other digital technologies - cloud computing, IoT technologies and big data - is close to benchmark levels.

Table 3.6: Digital technology adoption – creative industries 2025-26

	Creative industries				All IS sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Big Data analytics (% firms)	8.2	18.4	36.3	16.5	13.3	17.4	28.1	18.0
AI (% firms)	77.8	74.8	78.0	76.5	68.0	65.9	68.4	67.1
Cloud Computing (% firms)	64.4	61.5	72.3	64.3	65.3	62.1	63.4	63.5
3D Printing (% firms)	20.0	20.0	16.8	19.5	9.8	12.3	15.0	12.0
IOT (The Internet of Things) (% firms)	26.4	25.2	50.0	29.2	26.4	27.5	30.0	27.6
Robotics (% firms)	3.0	5.7	5.8	4.6	1.8	4.9	7.4	4.3

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

3.5 Summary

Innovation in the Creative Industries can drive wealth creation both directly in the innovating firms and indirectly by supporting growth and productivity elsewhere. The key evidence points from the IS survey are:

- » Overall innovation activity in the Creative Industries is slightly higher than the IS-sector average. In 2025-26, 55.0% of firms introduced new or improved products or services compared with 53.9% across all IS sectors.
- » Creative Industry firms are more likely to introduce combined product and service innovations (28.4% vs 24.9%) and show slightly higher rates of organisational and marketing innovation (44.7% vs 42.9% for workplace organisation changes; 45.0% vs 43.0% for marketing innovation).
- » Creative Industries firms are somewhat less likely to produce new-to-market innovations. Among innovators, 43.2% introduced products new to the market compared with 48.1% across IS sectors, while 32.8% introduced new-to-market services versus 36.6%.
- » Innovation investment is comparatively strong. Creative Industries firms are more likely to undertake R&D (41.6% vs 33.5%), invest in product and service design (41.1% vs 32.7%), and purchase machinery, equipment and software (65.4% vs 56.5%).
- » The most significant barriers to innovation are financial. Firms report much higher levels of internal finance constraints (47.1% vs 32.6%), difficulties accessing bank or equity finance (37.1% vs 20.7%), and shortages of public funding (36.6% vs 30.0%). Uncertain demand is also a more common barrier to innovation (53.0% vs 46.1%).
- » Collaboration levels are broadly similar to other sectors, but Creative Industries firms are more likely to collaborate with other businesses (35.4% vs 29.6%) and with technology hubs and business-support organisations.
- » Digital adoption is a notable strength. AI adoption reaches 76.5%, well above the IS-sector average of 67.1%, one of the highest rates observed in the survey. Adoption of cloud computing, IoT and other digital technologies is broadly in line with sector averages.

Section 4: Digital and Technologies

4.1 Introduction

Continued innovation is central to the Digital and Technologies Sector Plan. The report argues that future economic growth will be driven by technology, noting that the UK has "a proud history as a science and innovation nation" and must strengthen its position in an increasingly competitive global environment (Sector Plan, p. 6). A major theme is innovation through frontier technologies. The Sector Plan argues that these technologies will "unlock growth across all Industrial Strategy growth sectors, driving productivity and creating new products, services and business models" (p. 29).

Research and development (R&D) is regarded as the foundation of innovation. The Sector Plan states that "R&D investment is fundamental to all sectors, but it is particularly critical for the R&D-intensive Digital and Technologies sector" (p. 12). The Sector Plan also emphasises the importance of commercialisation and adoption for innovation to support widespread productivity and growth (p. 50).

Innovation is closely linked to regulation in the Sector Plan. The Sector Plan suggests that "pro-innovation regulation and standards can be strong enablers of growth" (p. 20) and outlines commitments to making the UK's regulatory system "more innovator friendly" through the Regulatory Innovation Office and related reforms (pp. 20-22). The Industrial Strategy itself also outlines a range of spending commitments for the digital and technology sector. These include: a £670 million investment to support the development and adoption of quantum computers (p. 14), and investments in AI and supercomputing capacity to support AI development.

4.2 Innovation and investment in Digital and Technologies

Our survey results confirm that Digital and Technologies is one of the most innovation-intensive parts of the UK economy. Across the range of innovation indicators in Table 4.1, firms in Digital and Technologies outperform the all-sector benchmark, demonstrating both higher rates of innovation activity and a greater propensity for organisational and business transformation.

Overall, 62.0% of Digital and Technologies firms introduced new or improved products or services during 2025-26, compared with 53.9% across all Industrial Strategy sectors. The difference is particularly pronounced among larger firms, where 73.2% reported introducing innovations, compared with 65.8% across all sectors. At the same time, innovation rates among micro and small firms also exceed benchmark levels, indicating that innovation is broadly distributed across the sector rather than concentrated only among a small number of large technology companies.

The composition of innovation offers further insight into how the sector differs from the wider Industrial Strategy economy. Product-only innovation is slightly less prevalent than the all-sector average (5.8% compared with 7.6%), but firms are substantially more likely to introduce service innovations and combined product-service innovations. One quarter of firms introduced service innovations alone, compared with 21.4% across all sectors, while 31.2% introduced both product and service innovations, compared with 24.9% across IS sectors generally.

The sector also stands out for the breadth of organisational innovation. While process innovation levels (49.9%) were broadly similar to the average across the IS sectors (48.6%), a slightly higher proportion of Digital and Technologies firms reported organisational innovation. 46.4% introduced major changes to business practices, compared with 39.0% across IS sectors overall. Similarly, 45.8% reported major changes to methods of organising work, compared with 42.9% across all sectors.

The Digital and Technologies sector performs less strongly in external relationships and marketing practices. Around 20.7% of firms in the sector reported major changes to external relationships, compared with 25.2% across all sectors, while marketing innovation was also slightly below average.

Table 4.1: Innovation in digital and technologies: 2025-26

	Digital and technologies				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New or improved products or services (% firms)	59.1	58.1	73.2	62.0	50.7	51.1	65.8	53.9
New or improved products or services (% firms)	6.1	4.7	7.7	5.8	5.4	7.7	11.0	7.6
New or improved services (% firms)	28.8	25.6	19.2	25.0	25.3	19.5	18.8	21.4
Both product and services new/improved (% firms)	24.2	27.9	46.4	31.2	19.8	23.7	36.0	24.9
Process changes (% firms)	40.9	47.6	64.4	49.9	43.9	49.9	53.8	48.6
Major changes to business practices (% firms)	37.9	41.9	64.4	46.4	35.5	40.9	40.3	39.0
Major changes to methods of organising work (% firms)	37.9	48.8	50.0	45.8	39.6	43.0	48.4	42.9
Major changes to organising external relationships (% firms)	19.7	20.9	21.4	20.7	22.3	27.2	25.4	25.2
Major changes to marketing concepts or strategies (% firms)	37.9	41.9	39.2	40.0	38.8	46.8	41.3	43.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Strong innovation intensity in the Digital and Technologies sector is matched by relatively strong performance in innovation novelty. Table 4.2 shows that 49.3% of innovating firms introduced products new to the market, compared with 48.1% across all IS sectors. A more significant difference emerges for service innovation. Some 40.6% of firms introduced services new to the market, compared with 36.6% across all sectors. The relatively consistent levels of new-to-market innovation across size classes also suggest a sector characterised by widespread experimentation rather than innovation confined to a handful of dominant firms.

Table 4.2: New-to-market innovation in digital and technologies: 2025-26

	Digital and technologies				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New to the market products (% firms)	47.1	50.0	50.0	49.3	45.2	52.9	43.2	48.1
New to the market services (% firms)	37.5	38.1	47.1	40.6	29.5	46.0	29.6	36.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

The strong innovation performance recorded in Table 4.1 is underpinned by high levels of investment. Table 4.3 shows that 50.2% of firms invested in R&D during the year, compared with only 33.5% across all IS sectors. This is one of the largest positive deviations from the all-sector benchmark and confirms the sector's research-intensive nature. Larger firms are particularly active, with almost two-thirds undertaking R&D.

The sector also exceeds the benchmark across a range of complementary innovation investments. Around 46.1% of firms invested in innovation-related training, compared with 38.6% across all sectors, indicating a strong commitment to skills development. Similarly, 41.4% invested in product or service design, compared with only 32.7% across all sectors. Investment in market introduction activities is also slightly above average, with 25.2% of firms investing in commercialisation, compared with 22.7% across all sectors.

Capital investment is another notable strength. Nearly two-thirds of firms (63.8%) purchased machinery, equipment or software, compared with 56.5% across all sectors.

Not every investment category exceeds benchmark levels. Investment in developing new marketing channels (35.2%) is slightly below the all-sector average of 39.9%. This aligns with the slightly below-par performance of Digital and Technologies firms in marketing innovation, as noted earlier (Table 4.1).

Table 4.3: Investing in innovation – digital and technologies 2025-26

	Digital and technologies				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Research and development (% firms)	49.2	41.5	66.8	50.2	28.5	35.6	37.3	33.5
Licensing of patents or know-how (% firms)	12.1	7.0	21.5	12.2	8.4	7.1	14.3	9.1
Training specifically linked (% firms)	34.8	37.2	75.1	46.1	32.3	41.1	43.3	38.6
Product or service design (% firms)	31.8	34.9	64.4	41.4	26.5	35.3	37.3	32.7
Market introduction of innovations (% firms)	25.8	20.9	32.2	25.2	20.0	23.2	26.1	22.7
Developing new marketing relationships or channels (% firms)	31.8	37.2	35.6	35.2	37.9	42.0	38.5	39.9
Purchased any machinery, equipment or software (% firms)	60.6	53.5	85.8	63.8	56.7	53.4	63.2	56.5

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

4.3 Barriers to innovation

Despite strong innovation performance, Digital and Technologies firms report significant barriers to innovation. However, regulation, which figures strongly in the Sector Plan as a hindrance to innovation, was cited as an innovation barrier by only 30.6% of Digital and Technologies firms, compared with 44.8% of firms across the IS sectors (Table 4.4).

Other barriers to innovation are more commonly cited. The most striking finding from Table 4.4 concerns finance. Nearly half of Digital and Technology firms (49.9%) report a lack of internal finance as a constraint, compared with only 32.6% across all IS sectors. This is among the highest levels observed in the survey. Concerns about public funding (34.4% versus 30.0%) and access to business support (30.9% versus 20.6%) are also above average. These results suggest that many firms in the sector perceive persistent gaps in the innovation support system despite substantial public investment in areas such as AI, quantum technologies and advanced digital infrastructure.

External factors are also considered important by Digital and Technology firms. Around 60.5% of firms cite this as a barrier, compared with 44.7% across all sectors. Given the global nature of digital markets and technology supply chains, this heightened sensitivity is perhaps unsurprising.

Table 4.4: Innovation barriers – digital and technologies 2025-26

	Digital and technologies	All IS Sectors
	All firms	All firms
Uncertain demand (% firms)	40.1	46.1
Lack of internal finance (% firms)	49.9	32.6
Lack of bank or equity finance (% firms)	21.3	20.7
Lack of public funding (% firms)	34.4	30.0
Lack of other public support e.g. advice (% firms)	30.9	20.6
Lack of skills (% firms)	23.9	26.7
Regulation or standards (% firms)	30.6	44.8
International trade instability (% firms)	60.5	44.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

4.4 Collaboration and digital adoption

Digital and Technology firms are considerably more likely than the average to collaborate with suppliers (34.0% versus 28.4%) and customers (28.1% versus 20.9%). The sector also shows particularly strong engagement with public-sector innovation organisations. Collaboration with government or public research institutes stands at 8.7%, more than double the all-sector average of 3.3%. Firms are also more likely to work with technology hubs, universities and business support providers. However, collaboration with other businesses (25.0%) is slightly below the all-sector average.

Table 4.5: Collaborating for innovation – digital and technologies 2025-26

	Digital and technologies	All IS sectors
	All firms	All firms
Suppliers of equipment, materials, services (% firms)	34.0	28.4
Clients or customers (% firms)	28.1	20.9
Other businesses (% firms)	25.0	29.6
Accelerators, incubators or science parks (% firms)	2.4	2.1
Technology hubs or innovation centres (e.g. Catapults) (% firms)	4.4	3.7
Consultants, commercial labs or private R&D institutes (% firms)	10.5	11.0
Universities or other higher education institutions (% firms)	10.7	10.5
Government or public research institutes (% firms)	8.7	3.3
Business support providers (e.g. Growth Hubs, IUK Business Growth) (% firms)	11.0	6.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Not surprisingly, the most pronounced contrasts with the wider IS economy arise in technology adoption (Table 4.6). The sector records above-average adoption rates for almost all technologies covered by our survey. AI adoption stands at 70.6%, compared with 67.1% across all sectors. More pronounced differences appear for cloud computing (72.0% versus 63.5%), big data analytics (26.8% versus 18.0%) and IoT technologies (37.1% versus 27.6%).

Table 4.6: Digital technology adoption – digital and technologies 2025-26

	Digital and technologies				All IS sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Big Data analytics (% firms)	18.8	16.3	55.7	26.8	13.3	17.4	28.1	18.0
AI (% firms)	72.7	60.5	85.8	70.6	68.0	65.9	68.4	67.1
Cloud Computing (% firms)	61.5	65.1	96.4	72.0	65.3	62.1	63.4	63.5
3D Printing (% firms)	16.7	11.6	28.6	17.5	9.8	12.3	15.0	12.0
IOT (The Internet of Things) (% firms)	38.1	26.2	55.5	37.1	26.4	27.5	30.0	27.6
Robotics (% firms)	4.5	2.3	7.1	4.2	1.8	4.9	7.4	4.3

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

4.4 Summary

Taken together, the evidence suggests that Digital and Technologies firms combine high innovation intensity, strong investment, and rapid adoption of enabling technologies. The principal challenge appears not to be generating innovation opportunities but securing the resources and finance necessary to invest in commercialisation strategies that can exploit them fully.

Overall, 62.0% of firms reported introducing new or improved products or services, compared with 53.9% across all Industrial Strategy sectors. This innovation advantage holds across firms of all sizes and is particularly pronounced among medium and large firms, where innovation rates reached 73.2% compared with 65.8% across the wider IS economy. The sector's innovation profile is characterised by a strong emphasis on services and integrated solutions. While product-only innovation is less common than the IS-sector average (5.8% versus 7.6%), firms are more likely to introduce service innovations (25.0% versus 21.4%) and combined product-service innovations (31.2% versus 24.9%). Rates of new-to-market innovation were also slightly above average, particularly for services, where 40.6% of firms reported introducing services new to the market, compared with 36.6% across all IS sectors.

Innovation activity is underpinned by relatively high levels of investment. Half of all firms (50.2%) undertook R&D, substantially above the all-sector average of 33.5%. Firms were also more likely than average to invest in innovation-related training (46.1% versus 38.6%), product and service design (41.4% versus 32.7%) and machinery, equipment or software (63.8% versus 56.5%).

Despite this strong performance, firms report a number of significant barriers to innovation. Financial constraints are particularly prominent, with 49.9% of firms citing a lack of internal finance as a barrier, compared with 32.6% across all sectors. Concerns about public funding (34.4% versus 30.0%) and access to wider innovation support (30.9% versus 20.6%) are also more common than average. By contrast, regulation appears less problematic than in many other sectors, affecting 30.6% of firms compared with 44.8% across the IS sectors overall. However, international trade instability remains a major concern, affecting 60.5% of firms compared with 44.7% across all sectors.

Digital and Technology firms are more likely than average to collaborate with suppliers (34.0% versus 28.4%), customers (28.1% versus 20.9%), public research organisations (8.7% versus 3.3%) and business support providers (11.0% versus 6.7%). Technology adoption is similarly strong, with above-average use of AI (70.6% versus 67.1%), cloud computing (72.0% versus 63.5%), big data analytics (26.8% versus 18.0%) and IoT technologies (37.1% versus 27.6%).

Overall, the evidence suggests a sector with strong innovation capabilities and high levels of technology adoption, but where future growth may increasingly depend on addressing constraints related to finance, commercialisation and international market conditions.

Section 5: Innovation in Financial services

5.1 Introduction

The Financial Services Growth and Competitiveness Report, published alongside the Industrial Strategy in 2025, highlights the UK's established strengths in financial innovation. It describes the UK as having "a long history as a powerhouse of financial services innovation" and notes achievements such as the world's first Open Banking initiative and the Faster Payments system (p. 31). This "culture of innovation" is identified as one reason the UK has become a leading location for Fintech firms (p. 31).

The Report stresses the sectors' continuing need to adapt to technological change, arguing that government should work with business "to innovate and to adapt" to support growth (p. 4). A central theme is the ambition to strengthen the UK's Fintech ecosystem. To achieve this, the Growth and Competitiveness Report suggests prioritising financial services within cross-government innovation support, emphasising the need for focused R&D funding to support AI adoption in financial services (p. 32). The Report also links innovation to regulatory reform, suggesting a need for regulatory clarity and faster regulatory approvals (pages 33-35).

5.2 Innovation activity and investment in Financial Services

Our survey evidence suggests that the sector's overall level of innovation activity is broadly comparable to that of the wider Industrial Strategy economy, but the character of innovation differs significantly. Table 5.1 shows that 54.3% of Financial Services firms introduced new or improved products or services during 2025-26, almost identical to the all-sector figure of 53.9%. Financial Services firms are relatively unlikely to introduce product-only innovations, with only 4.7% reporting such activity, compared with 7.6% across all IS sectors. Similarly, service-only innovation accounts for 18.6% of firms, slightly below the all-sector average of 21.4%. The sector's strongest performance is in firms introducing both product and service innovations simultaneously, with 30.7% reporting such activity, compared with 24.9% across all IS sectors.

More striking contrasts emerge in relation to process and organisational innovation. 55.9% of Financial Services firms introduced process innovations, compared with 48.6% across all IS sectors. Similarly, 47.3% introduced major changes to business practices, compared with 39.0% across the wider IS economy. Firms were also more likely than average to report changes in working methods (46.6% compared with 42.9%) and in marketing strategies (46.9% compared with 43.0%). These results suggest that innovation in Financial Services is often focused on improving efficiency, redesigning customer interactions and transforming internal operating systems rather than developing entirely new products.

Table 5.2 provides further evidence of the distinctive nature of innovation in Financial Services. The sector performs relatively modestly in new-to-market product innovation, with 41.5% of innovating firms reporting products new to the market, compared with 48.1% across all Industrial Strategy sectors. By contrast, performance on service innovation is considerably stronger. Almost half of innovating firms in Financial Services (47.4%) introduced services new to the market, compared with 36.6% across all sectors. This represents one of the largest positive deviations from the all-sector benchmark observed in the survey.

Table 5.1: Innovation in financial services: 2025-26

	Financial services				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New or improved products or services (% firms)	50.0	57.1	55.7	54.3	50.7	51.1	65.8	53.9
New or improved products or services (% firms)	4.8	2.9	8.2	4.7	5.4	7.7	11.0	7.6
New or improved services (% firms)	23.8	20.0	8.2	18.6	25.3	19.5	18.8	21.4
Both product and services new/improved (% firms)	20.6	34.3	39.4	30.7	19.8	23.7	36.0	24.9
Process changes (% firms)	50.0	50.0	75.4	55.9	43.9	49.9	53.8	48.6
Major changes to business practices (% firms)	43.8	45.7	55.7	47.3	35.5	40.9	40.3	39.0
Major changes to methods of organising work (% firms)	39.1	54.3	44.3	46.6	39.6	43.0	48.4	42.9
Major changes to organising external relationships (% firms)	20.3	22.9	27.9	23.1	22.3	27.2	25.4	25.2
Major changes to marketing concepts or strategies (% firms)	50.0	45.7	44.3	46.9	38.8	46.8	41.3	43.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Table 5.2: New-to-market innovation in financial services: 2025-26

	Financial services				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New to the market products (% firms)	53.3	23.1	58.6	41.5	45.2	52.9	43.2	48.1
New to the market services (% firms)	50.0	27.8	82.8	47.4	29.5	46.0	29.6	36.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

The investment data in Table 5.3 show that the innovation model in Financial Services differs from that in sectors such as Digital and Technologies or Life Sciences. Only 30.3% of firms report undertaking R&D activity, compared with 33.5% across all IS sectors. Financial Services firms are also less likely than average to invest in patent licensing and know-how acquisition, with only 5.7% undertaking such activity, compared with 9.1% across IS sectors overall. Fewer than half of firms (47.9%) purchased machinery, equipment or software, compared with 56.5% across all sectors.

However, Financial Services firms are more likely than average to invest in innovation-related training, with 45.1% reporting such activity, compared with 38.6% across all sectors. This reflects the importance of workforce capabilities for implementing digital technologies and adapting to evolving regulatory and market environments. Investment in developing new marketing relationships and channels is also above average, with 43.2% of firms reporting such activity, compared with 39.9% across IS sectors generally. Taken together, the evidence suggests that innovation investment in Financial Services emphasises people, skills, customer relationships and service delivery rather than R&D, patents or physical capital assets.

Table 5.3: Investing in innovation – financial services 2025-26

	Financial services				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Research and development (% firms)	26.6	28.6	39.4	30.3	28.5	35.6	37.3	33.5
Licensing of patents or know-how (% firms)	9.4	5.7	0.0	5.7	8.4	7.1	14.3	9.1
Training specifically linked (% firms)	37.5	45.7	55.7	45.1	32.3	41.1	43.3	38.6
Product or service design (% firms)	25.0	40.0	39.4	34.5	26.5	35.3	37.3	32.7
Market introduction of innovations (% firms)	34.4	14.3	39.4	27.1	20.0	23.2	26.1	22.7
Developing new marketing relationships or channels (% firms)	46.9	48.6	27.9	43.2	37.9	42.0	38.5	39.9
Purchased any machinery, equipment or software (% firms)	45.3	45.7	55.7	47.9	56.7	53.4	63.2	56.5

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

5.3 Barriers to innovation

The profile of innovation barriers reported in Table 5.4 is arguably the most distinctive across all sectors covered by the survey. In contrast to the Creative Industries and Digital and Technologies, financial constraints are comparatively unimportant. Only 17.1% of firms identify a lack of internal finance as a barrier, compared with 32.6% across all IS sectors. Concerns about external finance are even lower, affecting only 7.6% of firms, compared with 20.7% across the wider IS economy. Public funding constraints are likewise much less significant than elsewhere.

Instead, the dominant challenge is regulation, as reflected in the Growth and Competitiveness Report. More than seven in ten firms (73.1%) identify regulation or standards as a barrier to innovation, compared with only 44.8% across all sectors. This is by far the largest divergence from the all-sector benchmark observed in the survey. It reflects the sector's highly regulated nature and the need to balance innovation with financial stability, consumer protection and compliance requirements.

Financial Services firms are also significantly less concerned than the average about uncertain demand, skills shortages and public support. This suggests the sector benefits from relatively favourable commercial conditions and access to resources. The principal challenge is therefore not generating innovative ideas or securing investment but rather navigating the regulatory environment in which innovation occurs.

Table 5.4: Innovation barriers – financial services 2025-26

	Financial services	All IS Sectors
	All firms	All firms
Uncertain demand (% firms)	27.2	46.1
Lack of internal finance (% firms)	17.1	32.6
Lack of bank or equity finance (% firms)	7.6	20.7
Lack of public funding (% firms)	8.0	30.0
Lack of other public support e.g. advice (% firms)	13.5	20.6
Lack of skills (% firms)	17.3	26.7
Regulation or standards (% firms)	73.1	44.8
International trade instability (% firms)	42.7	44.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

5.3 Collaboration and digital adoption

Table 5.5 indicates that Financial Services firms operate within a distinctive collaborative ecosystem. Collaboration rates with suppliers (33.1% versus 28.4%) and customers (25.3% versus 20.9%) exceed the all-sector benchmark, while more than one-fifth of firms (21.1%) collaborate with consultants, almost double the all-sector average of 11.0%. By contrast, collaboration with universities, innovation centres and technology hubs is below average. Only 6.6% collaborate with higher education institutions, compared with 10.5% across all sectors. Overall, the sector's innovation system appears to be commercially rather than scientifically oriented, relying more heavily on customers, suppliers and specialist consultants than on formal research partnerships.

Table 5.5: Collaborating for innovation –financial services 2025-26

	Financial services All firms	All IS sectors All firms
Suppliers of equipment, materials, services (% firms)	33.1	28.4
Clients or customers (% firms)	25.3	20.9
Other businesses (% firms)	34.1	29.6
Accelerators, incubators or science parks (% firms)	1.1	2.1
Technology hubs or innovation centres (e.g. Catapults) (% firms)	1.1	3.7
Consultants, commercial labs or private R&D institutes (% firms)	21.1	11.0
Universities or other higher education institutions (% firms)	6.6	10.5
Government or public research institutes (% firms)	3.5	3.3
Business support providers (e.g. Growth Hubs, IUK Business Growth) (% firms)	5.1	6.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Regarding digital adoption, the sector ranks among the highest in big data analytics adoption in the survey, with 30.9% of firms using these technologies, compared with 18.0% across all IS sectors. AI adoption is also slightly above average at 69.2%, compared with 67.1% across all sectors. As might be expected, adoption of 3D printing, robotics and the IoT is uncommon in Financial Services.

Table 5.6: Digital technology adoption –financial services 2025-26

	Financial services				All IS sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Big Data analytics (% firms)	20.3	35.3	39.4	30.9	13.3	17.4	28.1	18.0
AI (% firms)	64.1	79.4	59.1	69.2	68.0	65.9	68.4	67.1
Cloud Computing (% firms)	65.1	55.9	75.4	63.7	65.3	62.1	63.4	63.5
3D Printing (% firms)	0.0	0.0	0.0	0.0	9.8	12.3	15.0	12.0
IOT (The Internet of Things) (% firms)	22.6	21.2	16.4	20.6	26.4	27.5	30.0	27.6
Robotics (% firms)	0.0	2.9	0.0	1.2	1.8	4.9	7.4	4.3

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

5.4 Summary

Financial Services has an innovation profile broadly comparable with the wider Industrial Strategy (IS) economy in overall innovation activity, but markedly different in focus, investment patterns and barriers. Just over half of firms (54.3%) introduced new or improved products or services during 2025-26, almost identical to the IS average (53.9%). However, innovation is less concentrated on standalone product development and more on integrated product-service offerings, with 30.7% of firms introducing both product and service innovations, compared with 24.9% across IS sectors.

Financial Services firms were significantly more likely than the IS average to implement process innovations (55.9% versus 48.6%), major changes to business practices (47.3% versus 39.0%), changes to working methods (46.6% versus 42.9%) and new marketing strategies (46.9% versus 43.0%).

While Financial Services lags the IS average in new-to-market product innovation (41.5% versus 48.1%), it substantially outperforms in new-to-market service innovation, with 47.4% of innovating firms introducing services new to the market, compared with 36.6% across IS sectors.

Innovation-related investment is also more people- and service-focused than technology- or research-intensive. Firms are less likely to undertake R&D (30.3% versus 33.5%), licence patents or know-how (5.7% versus 9.1%), or invest in machinery, equipment and software (47.9% versus 56.5%). By contrast, investment in innovation-related training exceeds the IS average (45.1% versus 38.6%), as does investment in developing new marketing relationships and channels (43.2% versus 39.9%).

The most distinctive finding concerns barriers to innovation. Financial constraints are far less significant than in the wider economy, with only 17.1% of firms citing a lack of internal finance, compared with 32.6% across IS sectors, while concerns about external finance are similarly lower (7.6% versus 20.7%). Instead, regulation and standards dominate, identified as a barrier by 73.1% of firms, compared with 44.8% across all sectors. This aligns closely with the Industrial Strategy's emphasis on regulatory reform as a key enabler of growth and innovation in financial services.

The sector also has a commercially oriented innovation ecosystem, collaborating more frequently than average with suppliers (33.1% versus 28.4%), customers (25.3% versus 20.9%) and consultants (21.1% versus 11.0%), while engaging less with universities (6.6% versus 10.5%). Digitally, Financial Services is a strong adopter of data-driven technologies, particularly big data analytics (30.9% versus 18.0%) and AI (69.2% versus 67.1%), which support its focus on service innovation, operational improvement and customer engagement.

Section 6: Innovation in Life Sciences

6.1 Introduction

As in other sectors, innovation is at the heart of the Life Sciences Sector Plan and is presented as a driver of economic growth and a means of improving health outcomes. The Sector Plan emphasises the UK's continuing "track record of innovation", citing examples such as the UK's role as the first country to license COVID-19 vaccines and to provide "the world's first regulatory approval for a medicine utilising CRISPR technology" (p. 6). However, it also acknowledges a persistent weakness: the UK "excels at discovery" but "struggles with commercialisation and adoption" (p. 7).

The Sector Plan notes that Life Sciences is "one of the UK's most innovation-intensive sectors" and argues that "innovation is a key enabler of long-term growth" (p. 15). A major priority is to accelerate innovation through data, genomics, and artificial intelligence. The Sector Plan and Innovation Strategy commit up to £600 million to a Health Data Research Service to create "the world's most advanced, secure, and AI-ready health data platform" (Sector Plan, p. 8). It also argues that AI is "revolutionising the Life Sciences sector across research, diagnostics, treatment, and manufacturing" (Sector Plan, p. 24) and positions the UK as a future leader in AI-driven Life Sciences innovation.

6.2 Innovation activity and investment in the Life Sciences sector

Among the sectors examined in this report, Life Sciences stands out as one of the most innovation-intensive and research-driven. This aligns with the Industrial Strategy, which identifies Life Sciences as a sector where technological advances are reshaping the economy and where the UK has ambitions to become one of the world's leading innovation locations. Across almost every innovation indicator, Life Sciences firms either match or exceed the performance of firms across Industrial Strategy sectors as a whole (Table 6.1).

71.3% of Life Sciences firms introduced a new or improved product or service in 2025-26, compared with 53.9% across all IS sectors. This 17.4 percentage-point gap is the largest observed across the sectors covered in the report and highlights the central role innovation plays in the business models of Life Sciences firms. Innovation activity is particularly pronounced among larger firms, with every respondent reporting the introduction of a new or improved product or service.

The composition of innovation also differs significantly from the IS-sector average. Product innovation dominates. Around 34.9% of firms introduced product innovations alone, compared with only 7.6% across all IS sectors. This is one of the most striking contrasts in the survey. By contrast, service-only innovation is relatively uncommon, affecting just 4.8% of firms, compared with 21.4% across the wider IS economy. The Life Sciences innovation model is therefore strongly oriented towards the development of new products and technologies rather than service innovation. At the same time, 31.6% of firms introduced both product and service innovations, exceeding the all-sector average of 24.9%. This suggests that many firms are combining new products with complementary services and support offerings.

The sector's performance is more mixed when considering organisational innovation. Process innovation levels (46.4%) are broadly similar to the all-sector average (48.6%), but Life Sciences firms report significantly lower rates of change in business practices, work organisation and organisational methods. For example, only 30.8% introduced major changes to methods of organising work, compared with 42.9% across all sectors. This contrasts sharply with sectors such as Financial Services and Digital and Technologies, where organisational innovation forms a major part of innovation activity.

The highly innovative nature of the Life Sciences sector, as evidenced by Table 6.1, is also reflected in innovation novelty (Table 6.2). Among innovating firms, 58.6% introduced products new to the market, compared with 48.1% across all IS sectors. This contrast is also apparent in service innovation. Around 48.5% of innovating Life Sciences firms introduced services new to the market, compared with 36.6% across all sectors.

Across both products and services, the evidence suggests that Life Sciences firms operate closer to the technological frontier than many other sectors. The combination of high innovation rates and high levels of novelty strongly supports the Industrial Strategy's identification of Life Sciences as one of the UK's key innovation assets.

Table 6.1: Innovation in. life sciences: 2025-26

	Life Sciences				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New or improved products or services (% firms)	61.3	58.6	100.0	71.3	50.7	51.1	65.8	53.9
New or improved products or services (% firms)	22.6	20.7	68.1	34.9	5.4	7.7	11.0	7.6
New or improved services (% firms)	6.5	6.9	0.0	4.8	25.3	19.5	18.8	21.4
Both product and services new/improved (% firms)	32.3	31.0	31.9	31.6	19.8	23.7	36.0	24.9
Process changes (% firms)	35.5	41.4	63.9	46.4	43.9	49.9	53.8	48.6
Major changes to business practices (% firms)	22.6	27.6	45.8	31.6	35.5	40.9	40.3	39.0
Major changes to methods of organising work (% firms)	29.0	31.0	31.9	30.8	39.6	43.0	48.4	42.9
Major changes to organising external relationships (% firms)	22.6	34.5	31.9	30.7	22.3	27.2	25.4	25.2
Major changes to marketing concepts or strategies (% firms)	38.7	48.3	50.0	46.3	38.8	46.8	41.3	43.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Table 6.2: New to the market innovation in life sciences: 2025-26

	Life sciences				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New to the market products (% firms)	56.3	53.3	63.9	58.6	45.2	52.9	43.2	48.1
New to the market services (% firms)	58.3	45.5	43.5	48.5	29.5	46.0	29.6	36.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

The exceptional innovation performance of Life Sciences is matched by equally strong investment patterns. Notably, 63.2% of Life Sciences firms invested in research and development, compared with only 33.5% across all IS sectors. No other sector in the survey shows a stronger commitment to research investment. The sector also records above-average investment in intellectual property acquisition. Around 17.4% of firms licensed patents or know-how, compared with 9.1% across all sectors.

Life Sciences firms are also much more likely than average to invest in commercialisation. One-third of firms invested in market introduction activities, compared with 22.7% across IS sectors generally. Nearly two-thirds of firms (63.5%) reported investment in developing new marketing relationships, compared with 39.9% across all sectors. This represents one of the largest positive deviations from the benchmark in the survey and suggests that firms place considerable emphasis on building commercial partnerships and routes to market.

Table 6.3: Investing in innovation – life sciences 2025-26

	Life sciences				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Research and development (% firms)	48.4	71.4	63.9	63.2	28.5	35.6	37.3	33.5
Licensing of patents or know-how (% firms)	19.4	6.9	31.9	17.4	8.4	7.1	14.3	9.1
Training specifically linked (% firms)	29.0	55.2	31.9	41.7	32.3	41.1	43.3	38.6
Product or service design (% firms)	35.5	44.8	31.9	38.7	26.5	35.3	37.3	32.7
Market introduction of innovations (% firms)	32.3	34.5	31.9	33.2	20.0	23.2	26.1	22.7
Developing new marketing relationships or channels (% firms)	54.8	65.5	68.1	63.5	37.9	42.0	38.5	39.9
Purchased any machinery, equipment or software (% firms)	54.8	69.0	81.9	69.1	56.7	53.4	63.2	56.5

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

6.3 Barriers to innovation

Despite their strong innovation performance, Life Sciences firms face a number of significant barriers. The pattern of constraints differs markedly from that observed elsewhere in the IS sectors. Perhaps the most striking finding concerns public funding for innovation. More than half of Life Sciences firms (53.2%) identify a lack of public funding as a barrier to innovation, compared with only 30.0% across all sectors. Regulation is also seen as a major challenge. Around 65.4% of firms cite regulation and standards as a barrier, compared with 44.8% across IS sectors overall. International trade instability is similarly significant, affecting 57.3% of firms, compared with 44.7% across all sectors.

Interestingly, skills shortages appear less problematic in Life Sciences than elsewhere. Only 14.7% of firms cite a lack of skills as a barrier, compared with 26.7% across all sectors. This contrasts sharply with Advanced Manufacturing and Professional and Business Services and may reflect the sector's strong links with universities and research institutions.

Table 6.4: Innovation barriers –life sciences 2025-26

	Life sciences All firms	All IS Sectors All firms
Uncertain demand (% firms)	37.1	46.1
Lack of internal finance (% firms)	37.2	32.6
Lack of bank or equity finance (% firms)	19.9	20.7
Lack of public funding (% firms)	53.2	30.0
Lack of other public support e.g. advice (% firms)	34.3	20.6
Lack of skills (% firms)	14.7	26.7
Regulation or standards (% firms)	65.4	44.8
International trade instability (% firms)	57.3	44.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

6.4 Collaboration and digital adoption

Life Sciences firms collaborate extensively across both commercial and research networks. Some 16.2% of firms collaborate with universities, compared with 10.5% across all sectors, while 21.7% collaborate with consultants, commercial laboratories or private R&D institutes, compared with only 11.0% across the wider IS economy. These are among the highest collaboration rates recorded in the survey. Collaboration with suppliers (36.1%) and customers (30.5%) also significantly exceeds the all-sector average. Engagement with accelerators, innovation centres and public research institutes is likewise above average.

Table 6.5: Collaborating for innovation –life sciences 2025-26

	Life sciences	All IS sectors
	All firms	All firms
Suppliers of equipment, materials, services (% firms)	36.1	28.4
Clients or customers (% firms)	30.5	20.9
Other businesses (% firms)	30.0	29.6
Accelerators, incubators or science parks (% firms)	5.8	2.1
Technology hubs or innovation centres (e.g. Catapults) (% firms)	5.7	3.7
Consultants, commercial labs or private R&D institutes (% firms)	21.7	11.0
Universities or other higher education institutions (% firms)	16.2	10.5
Government or public research institutes (% firms)	4.9	3.3
Business support providers (e.g. Growth Hubs, IUK Business Growth) (% firms)	3.3	6.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

The technology adoption results present a more mixed picture than might be expected. While Life Sciences is highly innovative, it is not necessarily a leader across every digital technology category. AI adoption stands at 53.7%, considerably below the all-sector average of 67.1%. Similarly, cloud computing adoption (56.1%) lags the all-sector figure of 63.5%, and use of big data analytics is also below average.

By contrast, adoption of technologies for scientific and technical applications is far stronger. Around 32.2% of firms use 3D printing, compared with 12.0% across all sectors, making Life Sciences one of the leading adopters of this technology. Robotics adoption is similarly more than twice the all-sector average (9.5% versus 4.3%).

Table 6.6: Digital technology adoption –life sciences 2025-26

	Life sciences				All IS sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Big Data analytics (% firms)	12.9	10.3	13.9	12.0	13.3	17.4	28.1	18.0
AI (% firms)	58.1	53.6	50.0	53.7	68.0	65.9	68.4	67.1
Cloud Computing (% firms)	61.3	57.1	50.0	56.1	65.3	62.1	63.4	63.5
3D Printing (% firms)	22.6	17.2	63.9	32.2	9.8	12.3	15.0	12.0
IOT (The Internet of Things) (% firms)	31.0	28.6	0.0	20.6	26.4	27.5	30.0	27.6
Robotics (% firms)	3.2	10.3	13.9	9.5	1.8	4.9	7.4	4.3

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

6.4 Summary

Life Sciences is one of the most innovation-intensive sectors covered by the Industrial Strategy, significantly outperforming the all-sector benchmark across most measures of innovation activity, novelty and innovation investment. Consistent with the Sector Plan's emphasis on the UK's scientific strengths, 71.3% of firms introduced a new or improved product or service in 2025-26, compared with 53.9% across all Industrial Strategy (IS) sectors. This 17.4 percentage-point advantage is the largest observed among the sectors analysed.

The sector's innovation profile is particularly distinctive for its strong focus on product development. Around 34.9% of firms introduced product-only innovations, compared with just 7.6% across IS sectors as a whole, while only 4.8% reported service-only innovation, substantially below the all-sector average of 21.4%. At the same time, 31.6% of firms introduced both product and service innovations, compared with 24.9% across all sectors. Life Sciences firms also demonstrate higher levels of innovation novelty, with 58.6% introducing products new to the market, compared with 48.1% across IS sectors. Similarly, 48.5% introduced services new to the market, well above the all-sector average of 36.6%.

This strong innovation performance is underpinned by exceptionally high levels of investment. Almost two-thirds of firms (63.2%) invested in R&D, nearly double the IS average of 33.5%, while 17.4% licensed patents or know-how, compared with 9.1% across all sectors. Life Sciences firms were also considerably more likely to invest in commercialisation activities, including market introduction of innovations (33.2% versus 22.7%), developing new marketing relationships and channels (63.5% versus 39.9%), and purchasing machinery, equipment or software (69.1% versus 56.5%).

Despite these strengths, Life Sciences firms face a number of significant barriers to innovation. Lack of public funding is cited by 53.2% of firms, compared with 30.0% across IS sectors, while regulation and standards are cited by 65.4%, compared with 44.8%. International trade instability is also a greater concern than average (57.3% versus 44.7%). In contrast, skills shortages are reported less frequently than in the wider economy (14.7% versus 26.7%).

The sector's innovation ecosystem is characterised by strong commercial and research collaboration. Firms are more likely than average to collaborate with suppliers (36.1% versus 28.4%), customers (30.5% versus 20.9%), universities (16.2% versus 10.5%) and private R&D organisations (21.7% versus 11.0%).

Digital adoption presents a mixed picture. While uptake of AI (53.7% versus 67.1%), cloud computing (56.1% versus 63.5%) and big data analytics (12.0% versus 18.0%) is below average, Life Sciences is a leading adopter of specialist technologies such as 3D printing (32.2% versus 12.0%) and robotics (9.5% versus 4.3%).

Section 7: Innovation in Professional and Business Services

7.1 Introduction

The Business and Professional Services (PBS) Sector Plan describes the sector as "playing a vital role fuelling innovation, investment and trade" (p. 7) and identifies "increased technology adoption and innovation" as one of the five pillars critical to the sector's future growth and competitiveness (p. 12). The Plan focuses on artificial intelligence and digital transformation. It argues that while the UK has "a leadership opportunity... to position PBS as the foremost adopter and most trusted deployer of AI in the world" (p. 14), adoption levels vary between large firms and SMEs. It also warns that businesses remain uncertain about "how best to integrate [digital technologies] into their business models" (p. 14).

The Sector Plan also links innovation to regulatory reform, including the Regulatory Innovation Office, intended to address "regulatory barriers that are holding back innovation" (p. 16). Other proposed initiatives include over £150 million for programmes supporting innovation, such as a new technology adoption programme for high-growth SMEs, expanded Innovate UK support, AI skills initiatives, and PBS innovation hubs (p. 9). The plan proposes expanding Innovate UK's programme to "accelerate the flow of ideas and convert cutting-edge research into practical, market-ready innovations" (p. 15). As in other sectors, the Sector Plan suggests increasing the proportion of innovation-active firms as a measure of future success.

7.2 Innovation activity and investment

50.0% of Professional and Business Services firms introduced a new or improved product or service in 2025-26. This places the sector slightly below the average for all Industrial Strategy sectors (53.9%). As expected, product-only innovation affected only 4.5% of firms, compared with 7.6% across all IS sectors. By contrast, service-only innovation accounted for 24.8% of PBS firms, exceeding the all-sector average of 21.4%. The proportion of firms introducing both product and service innovations (20.6%) is lower than the all-sector benchmark of 24.9%.

Performance in process and organisational innovation is closer to the IS-sector average. Around 48.8% of firms introduced process innovations, effectively identical to the all-sector figure of 48.6%. Similarly, innovation in business practices (38.9% versus 39.0%), work organisation (43.3% versus 42.9%) and external relationships (26.6% versus 25.2%) closely mirrors that of the wider Industrial Strategy economy.

Around 46.2% of innovating firms introduced products new to the market, slightly below the all-sector average of 48.1%. Similarly, 33.3% introduced services new to the market, compared with 36.6% across IS sectors overall. While these differences are modest, they consistently suggest that PBS firms are somewhat less likely than average to generate genuinely novel innovations.

Table 7.1: Innovation in professional and business services: 2025-26

	Professional and business services				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New or improved products or services (% firms)	49.3	47.7	56.3	50.0	50.7	51.1	65.8	53.9
New or improved products or services (% firms)	4.3	5.6	2.2	4.5	5.4	7.7	11.0	7.6
New or improved services (% firms)	28.8	21.5	25.4	24.8	25.3	19.5	18.8	21.4
Both product and services new/improved (% firms)	15.8	20.6	28.6	20.6	19.8	23.7	36.0	24.9
Process changes (% firms)	42.6	50.9	54.3	48.8	43.9	49.9	53.8	48.6
Major changes to business practices (% firms)	33.3	43.1	38.7	38.9	35.5	40.9	40.3	39.0
Major changes to methods of organising work (% firms)	39.0	42.2	52.6	43.3	39.6	43.0	48.4	42.9
Major changes to organising external relationships (% firms)	22.0	28.4	30.0	26.6	22.3	27.2	25.4	25.2
Major changes to marketing concepts or strategies (% firms)	35.5	45.9	48.3	42.9	38.8	46.8	41.3	43.0

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Table 7.2: New-to-market innovation in professional and business services: 2025-26

	Professional and business services				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
New to the market products (% firms)	37.0	57.7	34.5	46.2	45.2	52.9	43.2	48.1
New to the market services (% firms)	20.7	51.2	19.0	33.3	29.5	46.0	29.6	36.6

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

7.3 Investing in innovation

Compared with most other Industrial Strategy sectors, PBS firms invest less in many of the key activities associated with innovation. The most notable example is R&D. Only 23.7% of PBS firms invested in research and development, compared with 33.5% across all IS sectors. This is the lowest rate among the sectors examined in this report and almost 40% below the all-sector benchmark.

Similarly, PBS firms report lower-than-average investment in patent licensing and know-how acquisition (6.9% versus 9.1%), product and service design (25.9% versus 32.7%), and training specifically linked to innovation (35.6% versus 38.6%). None of these differences is especially large on its own, but together they indicate a sector investing less intensively than most of the IS economy in the formal inputs associated with innovation.

Investment in commercialisation activities is broadly in line with the all-sector benchmark. Around 22.3% of firms invested in market introduction activities, compared with 22.7% across IS sectors overall. Similarly, investment in new marketing relationships and channels is close to average. These findings suggest that PBS firms continue to devote resources to client acquisition and market development, even though formal innovation investment remains relatively limited.

Table 7.3: Investing in innovation – professional and business services 2025-26

	Professional and business services				All IS Sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Research and development (% firms)	18.8	25.5	27.7	23.7	28.5	35.6	37.3	33.5
Licensing of patents or know-how (% firms)	6.4	5.5	10.8	6.9	8.4	7.1	14.3	9.1
Training specifically linked (% firms)	29.1	40.4	35.6	35.6	32.3	41.1	43.3	38.6
Product or service design (% firms)	20.6	30.3	24.8	25.9	26.5	35.3	37.3	32.7
Market introduction of innovations (% firms)	17.0	24.8	25.2	22.3	20.0	23.2	26.1	22.7
Developing new marketing relationships or channels (% firms)	34.8	40.4	39.2	38.2	37.9	42.0	38.5	39.9
Purchased any machinery, equipment or software (% firms)	54.6	48.6	59.1	52.8	56.7	53.4	63.2	56.5

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

7.4 Barriers to innovation

The barrier profile for Professional and Business Services is relatively balanced and similar to the average across all sectors covered by the Industrial Strategy. Unlike Financial Services, there is no single dominant barrier, and unlike Creative Industries, there is little evidence of severe funding

constraints. Internal finance constraints are less common than across IS sectors generally (25.7% versus 32.6%), and concerns about external finance are also slightly below average.

The most notable divergence concerns skills. Around 32.1% of PBS firms cite skills shortages as a barrier, compared with 26.7% across all sectors. While this difference is modest, it is significant given the knowledge-intensive nature of many professional services activities. As AI and other digital technologies become increasingly important, securing appropriate skills may become an even more important factor shaping innovation performance. Regulatory barriers are also slightly more prominent than average, affecting 49.8% of firms, compared with 44.8% across all IS sectors.

Table 7.4: Innovation barriers – professional and business services 2025-26

	Professional and business services	All IS Sectors
	All firms	All firms
Uncertain demand (% firms)	44.3	46.1
Lack of internal finance (% firms)	25.7	32.6
Lack of bank or equity finance (% firms)	15.4	20.7
Lack of public funding (% firms)	28.4	30.0
Lack of other public support e.g. advice (% firms)	14.6	20.6
Lack of skills (% firms)	32.1	26.7
Regulation or standards (% firms)	49.8	44.8
International trade instability (% firms)	40.7	44.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

7.5 Collaboration and digital adoption

The collaboration data in Table 7.5 suggest that Professional and Business Services firms operate within relatively limited innovation networks compared with some of the more innovation-intensive sectors. Across almost every collaboration category, participation rates are either similar to or slightly lower than the all-sector average.

Collaboration with suppliers (27.2%) and customers (19.2%) is marginally less common than across all IS sectors. Similarly, engagement with other businesses (28.2%) is slightly below the 29.6% benchmark. Firms in the PBS sector also make relatively limited use of innovation intermediaries. Collaboration with consultants, commercial laboratories and private R&D organisations stands at just 8.0%, compared with 11.0% across all sectors. Participation in accelerators, innovation centres and public research organisations is also below average.

Given the Sector Plan's emphasis on AI adoption within Professional and Business Services, the technology adoption results are particularly important. Table 7.6 indicates that the PBS sector is engaging extensively with digital technologies, but not necessarily at levels exceeding those of the wider IS economy.

AI adoption stands at 65.2%, only slightly below the all-sector average of 67.1%. Cloud computing adoption (62.3%) is also almost identical to the all-sector benchmark. Around 16.1% of firms report using big data tools, compared with 18.0% across all IS sectors. Similarly, IoT adoption is broadly in line with the benchmark. These findings suggest that PBS firms are adopting digital tools but are not generally leading adoption trends.

Table 7.5: Collaborating for innovation –professional and business services 2025-26

	Professional and business services	All IS sectors
	All firms	All firms
Suppliers of equipment, materials, services (% firms)	27.2	28.4
Clients or customers (% firms)	19.2	20.9
Other businesses (% firms)	28.2	29.6
Accelerators, incubators or science parks (% firms)	1.3	2.1
Technology hubs or innovation centres (e.g. Catapults) (% firms)	2.9	3.7
Consultants, commercial labs or private R&D institutes (% firms)	8.0	11.0
Universities or other higher education institutions (% firms)	10.6	10.5
Government or public research institutes (% firms)	2.0	3.3
Business support providers (e.g. Growth Hubs, IUK Business Growth) (% firms)	5.7	6.7

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

Table 7.6: Digital technology adoption –professional and business services 2025-26

	Professional and business services				All IS sectors			
	Micro	Small	Med/Large	All	Micro	Small	Med/Large	All
Big Data analytics (% firms)	14.3	15.0	22.3	16.1	13.3	17.4	28.1	18.0
AI (% firms)	65.7	63.9	67.4	65.2	68.0	65.9	68.4	67.1
Cloud Computing (% firms)	66.4	63.0	53.3	62.3	65.3	62.1	63.4	63.5
3D Printing (% firms)	2.1	7.4	4.4	5.0	9.8	12.3	15.0	12.0
IOT (The Internet of Things) (% firms)	24.3	28.6	24.5	26.3	26.4	27.5	30.0	27.6
Robotics (% firms)	0.0	4.6	5.0	3.1	1.8	4.9	7.4	4.3

Source: ISNS IS Sector Survey 2026, responses are weighted. See Annex 1 for details.

7.6 Summary

Professional and Business Services (PBS) has an innovation profile broadly aligned with the wider Industrial Strategy (IS) economy. Half of PBS firms (50.0%) introduced a new or improved product or service in 2025-26, compared with 53.9% across all IS sectors. As expected for a service-based sector, product-only innovation is less common than average (4.5% versus 7.6%), while service-only innovation

is more prevalent (24.8% versus 21.4%). However, PBS firms are less likely to introduce combined product and service innovations, with 20.6% doing so compared with 24.9% across all sectors.

In contrast to sectors such as Financial Services and Life Sciences, innovation in PBS is not marked by particularly strong levels of process or organisational change. Rates of process innovation are almost identical to the IS average (48.8% versus 48.6%), while levels of innovation in business practices (38.9% versus 39.0%), work organisation (43.3% versus 42.9%) and external relationships (26.6% versus 25.2%) closely mirror wider sectoral norms.

Measures of innovation novelty also indicate slightly weaker performance than the IS benchmark. Among innovating firms, 46.2% introduced products new to the market, compared with 48.1% across all sectors, while 33.3% introduced services new to the market, compared with 36.6%.

Investment patterns reinforce this picture. PBS records the lowest level of R&D investment among the sectors examined, with only 23.7% of firms undertaking R&D, compared with 33.5% across IS sectors. Firms are also less likely to invest in patent licensing and know-how acquisition (6.9% versus 9.1%), product and service design (25.9% versus 32.7%), and innovation-related training (35.6% versus 38.6%). Investment in market introduction activities is broadly in line with the benchmark (22.3% versus 22.7%), while investment in developing new marketing relationships is only marginally below average (38.2% versus 39.9%).

The sector's barriers to innovation are broadly similar to those across the IS economy. Financial constraints are somewhat less pronounced, with fewer firms citing a lack of internal finance (25.7% versus 32.6%) or external finance (15.4% versus 20.7%) as obstacles. However, skills shortages are a more significant concern than average (32.1% versus 26.7%). Regulatory barriers are also slightly more prominent (49.8% versus 44.8%).

Collaboration levels are generally modest, with firms less likely than average to work with suppliers (27.2% versus 28.4%), customers (19.2% versus 20.9%) or consultants and private R&D organisations (8.0% versus 11.0%).

Digital technology adoption is widespread but largely mirrors economy-wide patterns, with AI adoption at 65.2% compared with 67.1% across IS sectors, cloud computing at 62.3% versus 63.5%, and big data analytics at 16.1% versus 18.0%.

Chapter 8: Cross-Sectoral Perspectives on Innovation Barriers

8.1 Introduction

While the preceding chapters demonstrate that innovation activity is widespread across all sectors examined, they also reveal significant differences in the challenges firms face when attempting to innovate. These differences are important because they suggest that a "one-size-fits-all" approach to innovation policy is unlikely to be effective. Instead, innovation barriers vary according to sectoral characteristics, business models, regulatory environments, exposure to international markets and reliance on particular forms of knowledge and technology.

The survey identifies three broad patterns of innovation constraints. First, financial constraints remain a significant challenge in some sectors, particularly the Creative Industries and Digital and Technologies, but are considerably less important in others. Second, regulation emerges as a major issue in highly regulated sectors such as Financial Services and Life Sciences. Third, market uncertainty and international trade instability are especially prominent in sectors that are heavily export-oriented or internationally integrated, notably Advanced Manufacturing, Life Sciences and Digital and Technologies.

At the same time, some barriers commonly associated with innovation policy, such as skills shortages, show much greater variation than might be expected. Skills constraints are particularly significant in Advanced Manufacturing and Professional and Business Services, but much less evident in Life Sciences. This suggests that sector-specific labour market conditions and workforce development systems play an important role in shaping innovation outcomes.

The following discussion compares the key barriers across sectors and highlights implications for future policy design.

8.2 Market uncertainty and international instability

One of the clearest findings from the survey is the importance of external market conditions in shaping innovation decisions. Advanced Manufacturing firms report the highest level of concern about uncertain demand, with 67.6% identifying it as a barrier, compared with 46.1% across all Industrial Strategy sectors. Digital and Technology firms report lower levels of concern (40.1%), while Financial Services firms appear relatively insulated from demand uncertainty, with only 27.2% identifying it as a significant challenge.

International trade instability is equally important. Advanced Manufacturing (62.0%), Digital and Technologies (60.5%) and Life Sciences (57.3%) all report substantially higher levels of concern than the all-sector average of 44.7%. Creative Industries and Professional and Business Services are less affected, while Financial Services is broadly in line with the overall average.

The pattern reflects the internationally connected nature of many innovation-intensive sectors. Advanced Manufacturing and Life Sciences depend heavily on global supply chains, export markets and international collaboration networks, while Digital and Technology firms often compete in global markets from the outset. Maintaining stable trading conditions and supporting international market

understanding and access therefore appear particularly important for innovation performance in these sectors.

8.3 Finance and innovation

Perhaps the strongest evidence of sectoral variation concerns financial constraints. The Creative Industries emerge as the sector facing the greatest financing challenges which may be related to the orientation of the sector towards smaller firms and creative individuals. Nearly half of firms (47.1%) report a lack of internal finance as a barrier, while 37.1% cite difficulties accessing bank or equity finance. Both figures substantially exceed the all-sector averages of 32.6% and 20.7%, respectively.

Digital and Technology firms report a similarly challenging funding environment. Almost half (49.9%) cite a lack of internal finance as a constraint, with concerns about public funding and business support also above average.

In contrast, financial barriers appear considerably less important in Financial Services and Professional and Business Services. Only 17.1% of Financial Services firms cite internal finance constraints, and just 7.6% report difficulties accessing external finance. Likewise, PBS firms generally report lower-than-average concern about finance.

Life Sciences presents a somewhat different picture. While internal and external finance constraints are broadly comparable to the all-sector average, concern regarding public funding is extremely high, affecting 53.2% of firms compared with 30.0% across all sectors.

Overall, the evidence suggests that innovation finance challenges are highly sector specific. Access to growth capital appears particularly important for the Creative Industries and Digital and Technologies, whereas Life Sciences firms place greater emphasis on sustained and predictable public funding.

8.4 Regulation and standards

Regulation is one of the most polarising barriers identified in the survey. In some sectors, it appears relatively unimportant, whereas in others it is the dominant challenge. The specific impact of both regulation and standards has been considered in detail in other Innovation and Research Caucus reports (see <https://ircaucus.ac.uk/publications/innovation-and-regulation-sota/>).

The most dramatic example is Financial Services, where 73.1% of firms cite regulation or standards as a barrier to innovation. This is almost thirty percentage points above the all-sector average of 44.8% and highlights the tension between innovation and regulatory compliance in the sector. Innovation in financial products and services necessarily occurs within a tightly regulated environment designed to protect consumers and maintain financial stability. Life Sciences shows a similar, though slightly less pronounced, pattern, with 65.4% of firms identifying regulation as a barrier.

By contrast, Creative Industries firms are far less likely than the average to view regulation as a major obstacle, with only 26.7% citing it as a barrier. Digital and Technologies firms also report levels of concern well below the all-sector average. These differences reinforce the case for regulatory reform to focus on sector-specific issues rather than broad economy-wide interventions.

8.5 Skills and workforce challenges

Skills shortages are often seen as a universal challenge to innovation, but the survey suggests a more nuanced picture. Advanced Manufacturing firms are most likely to identify skills shortages as a constraint, with 35.5% reporting this barrier, compared with 26.7% across all sectors. Professional and Business Services also report above-average concern, with 32.1% identifying skills-related constraints.

By contrast, only 14.7% of Life Sciences firms report skills shortages as a barrier, one of the lowest figures in the survey. Creative Industries and Financial Services also report lower-than-average concern about skills shortages. This suggests that while workforce issues remain important, they do not pose a uniform innovation challenge across sectors.

8.6 A differentiated innovation policy landscape

Taken together, the findings indicate that innovation barriers vary substantially between sectors and frequently reflect underlying industrial structures (Table 8.1).

Advanced Manufacturing faces a combination of market uncertainty, international instability and skills shortages. Digital and Technology firms face strong demand for innovation but report persistent financial constraints. Creative Industries firms face significant funding challenges, particularly in accessing private and public finance. Life Sciences combines world-leading innovation performance with concerns about public funding, regulation and global market conditions. Financial Services firms appear relatively unconstrained by finance but face overwhelming regulatory challenges. Professional and Business Services display a more balanced barrier profile, although skills remain a significant concern.

These differences suggest that innovation policy should increasingly combine horizontal measures, such as support for R&D and technology adoption, with sector-specific interventions that target the barriers most relevant to each sector.

Table 8.1: Innovation barriers and potential policy priorities by sector

Sector	Key barriers to innovation (% firms citing each barrier)	Potential policy priorities
Advanced Manufacturing	Uncertain demand (67.6%), international trade instability (62.0%), skills shortages (35.5%)	Export support, supply-chain resilience, advanced technical skills programmes, collaborative support for technology adoption and commercialisation
Creative Industries	Internal finance (47.1%), external finance (37.1%), public funding (36.6%), public support gaps (31.0%)	Improved access to venture and growth finance, creative-sector funding programmes, stronger innovation advisory support
Digital & Technologies	Internal finance (49.9%), public support gaps (30.9%), international trade instability (60.5%)	Scale-up finance, innovation funding, support for global market access, AI and digital infrastructure investment
Financial Services	Regulation and standards (73.1%), International trade instability (42.7%)	Regulatory innovation frameworks, regulatory sandboxes, proportionate compliance systems, support for global market access
Life Sciences	Public funding (53.2%), regulation and standards (65.4%), International trade instability (57.3%)	Long-term R&D funding commitments, streamlined regulatory pathways, support for commercialisation and internationalisation
Professional & Business Services	Skills shortages (32.1%), regulation and standards (49.8%)	Digital and AI capability programmes, management skills development, support for technology adoption

8.7 Conclusions

Three broad conclusions emerge from this cross-sector analysis of our survey data. First, innovation barriers are heterogeneous across sectors and closely mirror sectoral business models and market structures. Second, financial constraints remain important but are concentrated in specific sectors rather than universal. Third, regulation, skills and international market conditions are often more significant barriers than innovation finance itself.

The evidence therefore supports a dual-track policy approach. Economy-wide innovation policies remain important for supporting research, adoption and investment to boost innovation levels broadly, but their effectiveness is likely to be enhanced when combined with sector-specific interventions that address the distinct challenges faced by firms across sectors covered by the Industrial Strategy economy. The survey findings provide strong support for the sector-based approach adopted in the Industrial Strategy and suggest that future innovation policy should continue to balance common national objectives with the specific requirements of individual sectors.

Annex 1: Fieldwork overview

A1.1 Introduction

The IS-8 Innovation Survey 2026 (IS8IS) survey was conducted using Computer Assisted Telephone Interviewing (CATI).

Within each respondent organisation, a member of the senior management team or a senior decision-maker involved in developing new products or services was targeted for interview. Businesses with five or more employees were included in the survey. This employment definition excluded owners and partners, agency staff and contractors but included other directors, as well as temporary and casual staff. Organisations were further screened to ensure they were not charities, not-for-profit entities, or public sector organisations.

In total 1,000 responses were completed. 8 responses were in the Clean Energy sector, but this was considered too low a response rate to draw meaningful conclusions and so these firms were omitted from the reporting. (Table A1). Responses were collected between 16th March 2026 and 24 June 2026. CATI interviews lasted an average of 20 minutes.

For the CATI survey, a sample of relevant UK private sector organisations was purchased, and a stratified sampling approach was adopted. Sectors were identified using the standard SIC code groupings. Targets were established within each sector and 4 size bands (5-9, 10--49, 50-249, 250+). Organisations with 50 or more employees were intentionally over-sampled to ensure sufficient representation and facilitate more robust sub-analyses of these groups.

Table A1: Achieved responses by employment sizeband

	Micro 5-9	Small 10-49	Medium 50-249	Large 250+	Total
Advanced Manufacturing.	60	45	29	4	138
Creative Industries	135	107	7	4	253
Digital & Technology	66	43	20	2	131
Financial Services	64	35	8	3	110
Life Sciences	31	29	4	2	66
Professional & Business Services	141	109	34	10	294
Total	497	368	102	25	992

A1.2 Weighting

As mentioned earlier, stratified sampling was employed to ensure generally balanced response counts by size band and sector. Consequently, weighting is essential to produce representative results. We use straightforward population weights based on the number of private-sector businesses in each sector and sizeband in 2026 (Table A1.2). The weights applied are listed in Table A1.3.

Table A1.2: Target population of private sector businesses, 2026

	Micro 5-9	Small 10-49	Medium 50-249	Large 250+	Total
Advanced Manufacturing.	2800	4800	1900	600	10100
Creative Industries	13400	15500	4000	1200	34100
Digital & Technology	3500	5200	2100	850	11650
Financial Services	4500	5300	1900	1000	12700
Life Sciences	1600	2800	1300	500	6200
Professional & Business Services	29200	39900	13100	4700	86900
Total	55000	73500	24300	8850	161650

Source: DataCity business counts for each Industrial Strategy sector. Accessed 7th July 2026.

Table A1.3: Response weights by sector and employment sizeband

	Micro 5-9	Small 10-49	Medium 50-249	Large 250+	Total
Advanced Manufacturing.	46.7	106.7	65.5	150.0	73.2
Creative Industries	99.3	144.9	571.4	300.0	134.8
Digital & Technology	53.0	120.9	105.0	425.0	88.9
Financial Services	70.3	151.4	237.5	333.3	115.5
Life Sciences	51.6	96.6	325.0	250.0	93.9
Professional & Business Services	207.1	366.1	385.3	470.0	295.6
Total	110.7	199.7	238.2	354.0	163.0