



INNOVATE TO GROW 2026

Unlocking the UK's Power to Innovate

What high-growth businesses reveal
about the state of UK innovation

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Contents

Foreword	03
Executive summary	04
The top barriers to innovation	05
Where the money is and where businesses aren't looking	07
How well is the UK supporting innovative businesses?	11
Are you thinking like an Innovation Leader?	15
Skills, culture and the leadership gap holding innovation back	19
Innovation Maturity Assessment	22
Innovation in the UK: Advantages, obstacles, and the opportunity overseas	25
The mid-market holds the key to the UK's innovation future	30
Methodology & Demographics	31

FOREWORD

The UK innovates well. It could do so much more

The UK has world-class innovative businesses. Understanding what holds them back is the first step to helping them grow

The UK has always been a nation of innovators. From the steam engine to the World Wide Web, British ingenuity has repeatedly shaped the modern world. Yet for all this history of brilliant thinking, a disconnect remains: between the ideas the country generates and the commercial success that turns them into the jobs and economic growth the country needs.

This decades-old problem is more urgent than ever amid today's commercial and industrial upheaval. AI and digital transformation are upending many industries. Sustainability and the move to decarbonise are having the same deep-seated effect. Stumbles in innovation today will deprive the UK of winners for decades.

To understand the issue at this critical moment, we have commissioned unique research into growing, innovative companies. The aim: to see the UK's innovation ecosystem through the eyes of these high-growth companies, most notably what is holding them back from accelerating their success.

All 500 respondents to our survey were senior decision-makers in growing businesses with revenues or investment of at least £10 million. Some 30% of respondents were CEOs/founders. All were innovating in five sectors that have been identified in the UK Industrial Strategy as possessing high growth potential over the next decade: Renewables, Fintech, Life Sciences, Advanced Manufacturing, and Creative Industries.

These businesses are already investing in innovation and seeing the results. They are, in many respects, the poster children for UK innovation, and their experiences highlight what is possible. But they also report real barriers to their continued progress: financial constraints, skills shortages and difficulties accessing government support. That 94% feel the UK Industrial Strategy could do more to support innovation is not a fringe view; it is a near-unanimous signal from the businesses best placed to judge.

This raises two important questions. How much more growth could our innovators unlock by overcoming these barriers? And what can other businesses still striving to scale learn from those already making it work? This report sets out to answer both.

94%

of high-growth businesses feel
that the UK Industrial Strategy
could better support innovation



Mark Sykes

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Executive summary

The 500 high-growth businesses at the heart of this report are already making innovation work, but there are still barriers to their continued growth. This report sets out to address what is getting in the way, and what the businesses navigating innovation most successfully are doing differently

THE BARRIERS ARE FAMILIAR

Funding constraints, skills shortages and regulatory burdens are the three most cited challenges, in that order. But the data behind each tells a more nuanced story than the headlines suggest.

On funding, the problem is less the availability of capital than a gap between what exists and what businesses are actually accessing.

On skills, the shortages in AI, data and cybersecurity that dominate the conversation are real, but they are obscuring a more fundamental set of issues in leadership capability.

And on regulation, a significant number of our innovators report that compliance requirements are actively driving their innovation plans rather than impeding them.

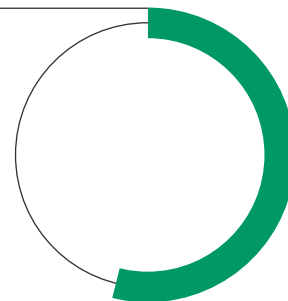
GOVERNMENT SUPPORT IS WORKING IN PLACES, BUT CONFIDENCE IS LOW

Some 54% of the high-growth businesses we surveyed say R&D tax credits have supported their innovation; and a meaningful amount point to capital allowances, the Apprenticeship Levy and the Patent Box scheme.

But recent changes to the R&D tax credit regime have reduced its value for SMEs, and awareness of other available mechanisms remains patchy. Meanwhile, just 30% of our innovators have successfully accessed government grant funding, with others finding applications too time-consuming or competitive.

54%

of high-growth businesses say R&D tax credits have supported their innovation



SKILLS INVESTMENT IS CONCENTRATED IN THE WRONG PLACES

Demand for AI, data and cybersecurity expertise is outpacing supply, and businesses are right to treat this seriously. But when given a list of skills to prioritise, just 16% of our innovators chose developing directors and board-level capability.

The businesses achieving the strongest innovation outcomes are those that have built the cultural and structural conditions for innovation alongside the technical ones. That starts with leadership, and it is where investment is most conspicuously absent.

THE UK'S POSITION IS STRONG BUT NOT SECURE

World-class universities, an accessible talent pool and a range of tax incentives give businesses genuine reasons to innovate here. Some 85% of those already active overseas still plan to grow their UK activity. But the tax environment is tightening, and innovators aren't wholly satisfied with the UK Industrial Strategy. Other regions are becoming more competitive, and the mid-market businesses in the UK, forecast by BDO to contribute £745 billion to UK gross value added by 2028, deserve a policy environment that keeps pace with their ambitions.

The chapters that follow examine each of these themes in depth, with data, expert perspectives and practical takeaways for businesses at every stage of their innovation journey.

85%

of those already active overseas still plan to grow their UK activity



The top barriers to innovation

Significant obstacles are impeding UK innovation, particularly when it comes to finance, skills and regulatory burden

Among the questions asked of our 500 innovators, this is the most important: what is holding you back?

And they were clear in their verdict: funding, skills gaps, and regulatory/compliance barriers, in that order.

This is a familiar list. We have been working with fast-growing companies for decades and we have seen them wrestling with these challenges throughout. Successive governments have tried to reduce these roadblocks; the impact has been mixed at best. However, a frank assessment of current problems is the best starting point for renewed efforts to solve them.

1. FUNDING: CHALLENGES AND UNTAPPED OPPORTUNITIES

Some 39% of our innovators cited funding issues – high cost of capital, unattractive terms, or limited eligibility – as one of their biggest challenges.

This is doubly disappointing given our respondents' solid track record. Yes, the UK's availability of finance for high-risk, high-potential companies is considered weak compared to that in the US. But our respondents are not high-risk; they are real businesses delivering growth in sectors with structural potential for long-term expansion.

In this context, government grant funding can play an outsized role. It is not just about the funds received; it is an endorsement that can unlock other funding.

The good news is that 30% of our innovators have successfully applied for grant funding, at least in some form. And there is high awareness: only 1% said they were not aware of what is on offer.

The bad news is that the experience of most of our innovators who have not received grants is negative. Some 25% thought the application process too time-consuming, and 23% thought the process too competitive or that there was a low chance of success. However, these are views based on their own experiences, indicating they are not fully exploring the funding landscape.

2. SKILLS GAPS ARE A STRATEGIC ISSUE

Some 35% of our respondents cited skills gaps as a challenge. More specifically, they listed skills gaps in critical areas such as AI, data analysis, automation and cybersecurity.

They are responding by combining upskilling with targeted recruitment. As these technical skills become more embedded in day-to-day operations, the adjacent capabilities that allow people to work effectively alongside AI, from critical thinking and curiosity to ethical judgment and strategic problem solving, are set to become equally critical.

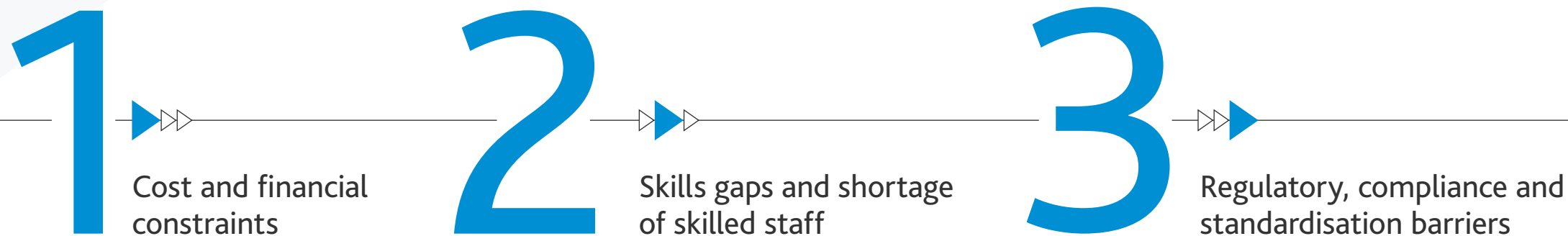
Additionally, our innovators believe more could be done at a national level: 46% say the UK Industrial Strategy should support more targeted skills and workforce development.

UK skills gaps may also partly explain why some of the value created by UK innovation 'leaks' elsewhere and why some businesses perceive that talent lies in other regions. Asked for the main factors influencing where innovation is carried out, 44% cited an access to a skilled workforce as one of their top three factors.

This indicates that skills gaps are no longer a tactical issue; they are a strategic issue for innovators.

► But even successful innovators are facing obstacles

What are the top challenges to innovation?



KEY TAKEAWAYS

3. REGULATION CAN TRIGGER INNOVATION

Every government promises to cut red tape. Yet 31% of our respondents cited regulatory, compliance and standardisation barriers as a top challenge.

Look closer, though, and the position is more nuanced. Some 21% say that complying with regulation or government policy is a major driver behind their business's innovation plans for the next two years, while 24% wish the UK Industrial Strategy offered improved regulations for their sector.

Better regulations will look different from business to business, but the message is clear: regulation is not necessarily a reason to pause innovation. Indeed, in areas such as sustainability it can create important growth opportunities.

01

Don't underestimate the value of government funding.

The majority of high-growth businesses have never applied for government grants, put off by complex processes or doubts about eligibility. This is partly a reflection of a grant landscape that has never fully settled since Brexit reshaped the funding environment, leaving many businesses uncertain about what is available and whether they qualify. With private investors also cautious about early-stage R&D, businesses should actively explore every available funding avenue rather than defaulting to self-investment. Equally, more must be done by the government to make grant funding clearer and more accessible.

02

Treat skills shortages as a strategic priority, not a recruitment problem.

Demand for AI, data, automation and cybersecurity expertise is outpacing supply, and high-growth businesses feel the Industrial Strategy is not keeping pace. Upskilling and recruitment must be paired with longer-term workforce planning to build genuine resilience.

03

Use regulation as a prompt to innovate, not a reason to pause.

High-growth businesses are not calling for deregulation; they want clearer, more enabling frameworks. Working with experts to understand the regulatory landscape deeply can help businesses reduce the administrative burden and uncertainty that diverts energy away from innovation.

Where the money is and where businesses aren't looking

Innovation can be costly. Companies must navigate a complex landscape of internal and external funding sources to fuel their development

The appetite for innovation investment among the high-growth businesses we surveyed is not in question: some 90% expect their innovation spend to increase over the next two years. And while 10% expect their spend to stay the same or slightly decrease – representing a pool of potential that better-targeted government support could yet activate – 91% report worthwhile to excellent returns on what they have already invested.

The case for funding innovation is, by their own account, already made. The question is how they fund the next stage of that growth.

Some 59% of our innovators are considering raising cash via equity such as VCs or private equity in the next three years. But – in a sign of the rapid structural changes to SME finance – 47% are looking at revenue-based finance, an innovative funding model that in effect collateralises future sales. The respondents could choose multiple answers and indeed most are weighing up three or four options.

Look more closely, though, and the problems of scale-up funding come into focus. For our innovators with revenues of £10 million to £50 million, just 34% are looking at equity (comparatively, this rises to 63% among those with revenues above £50 million). For businesses with revenues less than £50 million, the most common funding option is taking on a strategic investor, which is being considered by 49% of our innovators. While this will bring funds, it is also more likely to reduce or even terminate founder control, depriving the business of its initial vision.

While the funding landscape has shifted, the barriers are not purely structural. A lack of confidence and time, particularly among smaller businesses, can be just as limiting. Stephen Phipson CBE, CEO of Make UK, recognises this as a tension for manufacturing businesses, one that resonates across sectors.

“A common misconception among UK manufacturers is that innovation funding is only properly accessible to nascent start-ups, academic spin-outs or those with dedicated R&D functions,” says Phipson.

91%

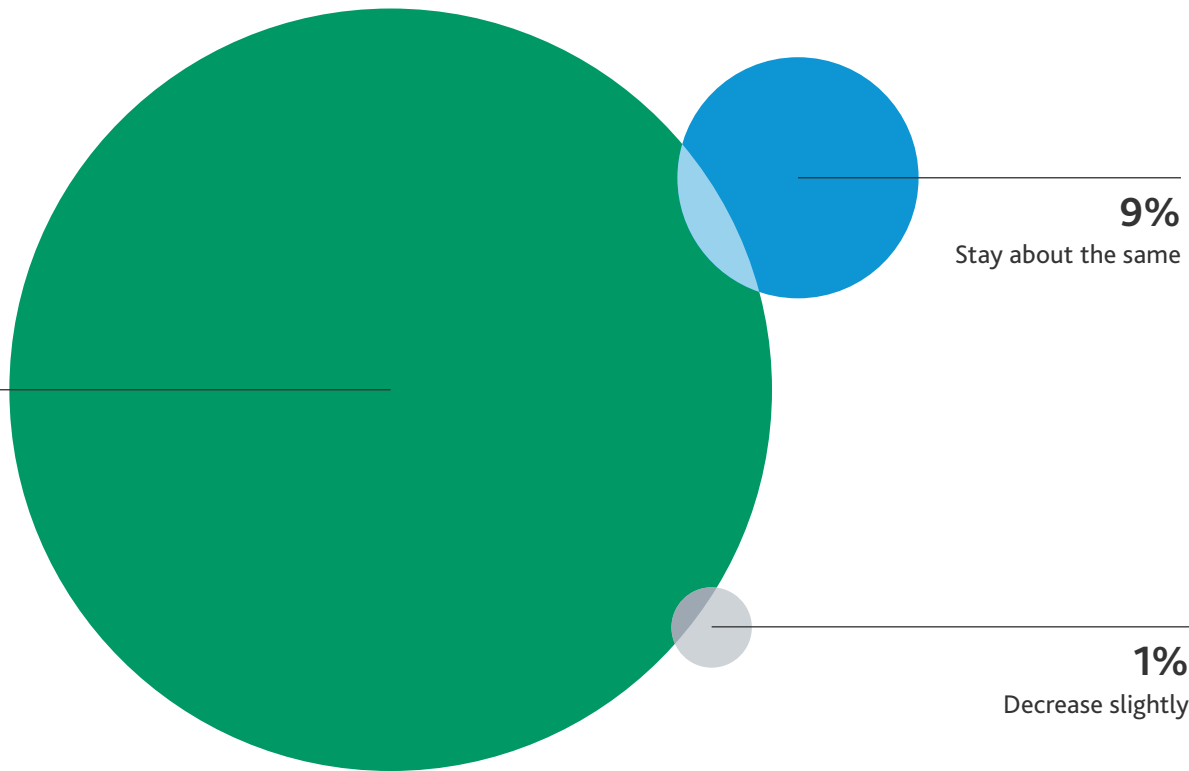
of high-growth businesses report worthwhile to excellent returns from their innovation spend

► **All sectors are pressured by the financial demands of innovation**
How many high-growth businesses say that cost of innovation is a top challenge?



► **But confidence in innovation spend remains high**
How do high-growth businesses expect their innovation spend to change in the next two years?

90%
Increase



“In practice, the picture is often one of limited time and perhaps a lack of confidence, particularly for those smaller businesses, even though they hold the capabilities to drive innovation. Navigating the options available to them and matching the correct funding mechanism to that business’s innovation needs is no trivial task. When its leaders have day-to-day operations to focus on, these innovation funding ambitions can fall by the wayside.”

For some, that lack of confidence extends to equity funding itself, with many assuming it simply will not be available to them. But Gordon Carstairs, BDO Deal Advisory Partner, says the environment has improved markedly since the funding drought of 2023, which was partly caused by post-pandemic

uncertainty. Carstairs is adamant there are now opportunities out there for businesses if they are properly prepared and appropriate for investment.

“The money is there; companies just have to understand the playing field, the rules of the game and whether investment is the right option for their business,” he says.

“You’ve got to show an investor the size of opportunity, show them how you’re going to win a sizeable slice of that market and that you’ve got the people to do it. They’ll be investing in a variety of scale-ups and they know not all will make it, so the ones that do work have to make a big return.”

THE PIPELINE PROBLEM

While Carstairs sees opportunity at the scale-up stage, a more fundamental problem may be limiting the pipeline of companies that ever reach it. Catherine Fletcher, Partner at SCVC, which funds early-stage deep tech businesses, argues that many strong ideas never make it to the scale-up stage at all. Too often, she says, promising businesses fail to secure the early funding needed to prove their market readiness.

For Fletcher, more emphasis needs to be placed at the earliest stages of development to build a stronger pipeline of companies able to exploit the IP emerging from the UK's universities. The comparison with the US is stark.

"Look at the amount of research that's being done in the US, look at the number of patents that are being published, and then look at the number of start-ups that they're generating that are successful right now," Fletcher says.

"When you look at the UK as a comparison, we've got an equivalent amount of research per capita. So we're doing as much research as they are, but we are patenting half as much. When you look at the number of patents we're filing, and then you measure the number that are commercialised Europe-wide, the UK is at just 5%. Logically, that says there must be tons of great research for VC to invest in and that could grow the economy."

Strengthening that early pipeline will be critical if more British ideas are to translate into protected IP, funded start-ups and ultimately successful scale-ups.

IT STARTS WITH LEADERSHIP

A key reason Carstairs finds companies struggling to raise the necessary funds is the element of focus. A business will not be taken seriously unless it has a clear plan which lays out the problem it solves and how much market share this will win. Crucially, businesses that want to secure funding need to show they have the right leadership team in place.

"It can't be stressed enough how important a really good CTO is. An investor will want to know who the person is that understands the direction of the technology, what it can do, how long this will take, how much it will cost, and the commercial value it will add to the business," Carstairs says.

"Just as importantly, they'll want to see a road map of where the technology is going and how much developing now is going to cost, and how much again in the future. We see a lot of people struggling if they don't have a focused plan to gain an investor's attention and a very good CTO in place to earn their trust."

It may be a longer journey than invoice finance, but equity funding has inherent flexibility. In contrast, bank debt, which is considered by 37% of our innovators, comes with rigorous repayment and interest schedules which can be a problem if new products and services are slightly delayed. Whatever the funding route chosen, the underlying challenge remains the same.

KEY TAKEAWAYS

“Businesses that clearly articulate the value of what they are developing will find themselves navigating the funding environment with greater ease.”

The pressures do not disappear as businesses grow, Phipson adds. “For manufacturers in particular, innovation is rarely a narrowly defined ‘one-off’ event. It’s ongoing, inconsistent in pace at times, and requires funding partners that understand the nature of production innovation.”

It is a lesson all sectors should keep front-of-mind. Businesses that can clearly articulate the value of what they are developing, commercial or otherwise, are the ones that find themselves navigating the funding environment with greater ease.

01

Don't assume equity funding is out of reach.

The funding environment has improved significantly in recent years and capital is available for businesses that are properly prepared. Defaulting to a strategic investor or bank debt without exploring equity first may cost more in the long run than it saves.

02

Get the foundations right before approaching investors.

A clear plan articulating the problem your business solves, the market opportunity and how you will win a share of it is the baseline expectation of any serious investor. Businesses that cannot demonstrate focus will struggle to be taken seriously, regardless of the quality of their underlying idea.

03

Match your funding to your stage of growth.

Equity offers flexibility but takes time. Bank debt demands predictable returns on a fixed schedule, which can cause problems if products or services are delayed. Understanding the trade-offs of each option, rather than gravitating towards the most familiar, gives businesses the best chance of funding their innovation without compromising it.

How well is the UK supporting innovative businesses?

Government support for UK innovators has genuine bright spots, yet cracks are appearing in the R&D tax credit system

Few companies expect the government to be their main funder. But as explained earlier, government funding can unlock funding from other sources. Tax concessions can also incentivise innovation and ease the stress between funding innovations and new revenue streams starting.

They also appear to be the fastest way for the government to quickly improve the environment for innovators; upskilling takes years, the tax system can be changed in weeks.

THE TOOLS THAT DO WORK

Some government support mechanisms have proved successful. SEIS and EIS remain among the most significant tools available for early-stage, angel-type funding, offering tax incentives that help businesses attract their first investors. Both schemes have a revenue and asset cut-off, meaning scaling businesses will eventually outgrow them. Yet 33% of companies in our survey with revenues above £200 million still credit them as having played a role in

supporting their innovation, suggesting their influence can extend further than the schemes were perhaps designed for.

The Apprenticeship Levy, which has a mixed reputation among businesses generally, also performs better among innovators than might be expected. Some 34% of our innovators report that it has positively supported their business, pointing to a meaningful if underappreciated contribution to building the skilled workforce that innovation depends on.

A TOUGHER ENVIRONMENT FOR GROWING BUSINESSES

R&D tax credits tell a more complicated story. To claim them, businesses must finish their tax year, then file returns before seeing benefits, a process that can take many months or even years.

Our findings on government support tell an interesting story. Some 54% said R&D tax credits had supported innovation, far ahead of other government actions

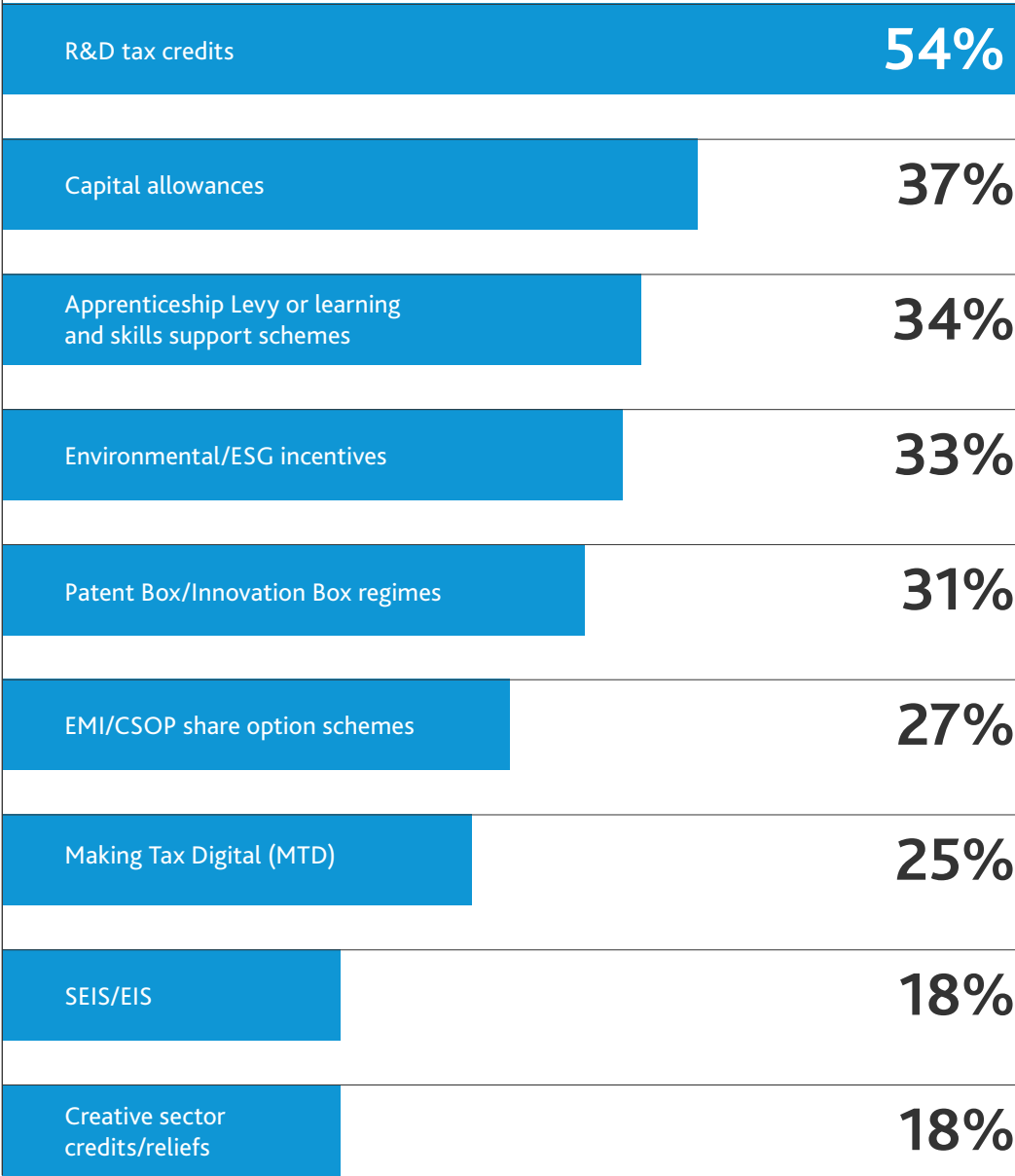
such as capital allowance and apprenticeship levy, cited by 37% and 34% respectively.

However, when looking at funding options our innovators are considering in the next three years, tax credits are down the list at fourth, possibly reflecting recent changes to the regime that have made them a less attractive proposition for SMEs.

Companies may have become accustomed to the delay between investing and a tax reduction but now must wrestle with amendments to the scheme's relief rates and revision of how it operates. Both could be disadvantageous to SMEs.

Primarily, this is because the tax credit rate has been reduced for SMEs, in contrast to larger companies which have seen a modest increase. The government has also tightened rules to ensure tax relief is only applied to R&D carried out in the UK.

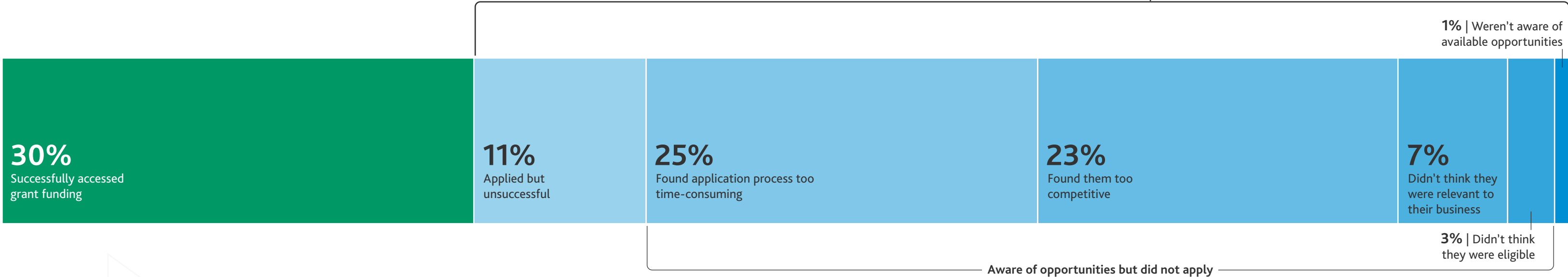
Innovative businesses are finding funding support in multiple places
Which regulatory/tax policies have supported innovation?



► **Government funding for innovation has been less than stellar for high-growth companies**

How have high-growth businesses experienced UK government grants and subsidies?

70% of UK businesses were either unsuccessful or faced challenges in accessing government grants and subsidies



“While there are grants available, SMEs often lack the expertise to conduct the necessary research.”

Additionally, it has brought in complex new rules around subcontracted R&D which will often favour a large company over the SME in the R&D supply chain.

These are sensible steps to boost the UK economy and prevent duplicate claims on the same qualifying costs, according to BDO Tax Partner [Ross Northall](#). However, the outcome is that SMEs now face a tougher challenge, he warns.

“If you’re a smaller company, you’re less likely to have a recurring budget allocated to R&D,” Northall says.

“That leaves SMEs relying more heavily on tax credits that are now a little less attractive,” he explains. “The issue for them is that if you’re building the case for innovation you need to show ROI. That can be difficult if you’re working against tight margins.”

For many SMEs, it has therefore been attractive to turn to overseas contractors, he notes, “because it is more affordable to use workers on lower wages now rather than waiting on a rebate in 18 months to two years’ time for using more expensive UK-based people.”

While there are grants available, SMEs often don’t have the expertise to conduct the necessary research, Northall notes.

“Even if they do, they don’t have the time or know-how to fill in the lengthy application process with no guarantee of success.”

The numbers bear this out. Only 30% of our innovators have successfully accessed grant funding, while 25% found the application process too time-consuming and 23% too competitive.

A further 11% applied but were unsuccessful. Taken together, this suggests that for the majority of innovative businesses, grants remain more theoretical than practical.

The changes to R&D tax credits represent a new hidden cost to innovation. The difficulty accessing grants compounds a problem that, for many businesses, begins with the tax credit system itself. While the CFO of one UK-based medical testing business believes the government is supportive of innovation, her experience is that steps taken to refocus tax credits have placed an additional financial strain on businesses.

"There was fraud the government had to try to address, but they've done it in such a way as to hit genuinely innovative SME companies," she says. "The step change downwards has immediate financial implications. The scheme is still generous, but they've taken away a chunk of cash from us each year."

KEY TAKEAWAYS



01

Do not write off R&D tax credits despite the changes.

The scheme is less generous than it once was, but it remains the most widely cited source of government support. Understanding exactly what qualifies and ensuring claims are filed correctly is worth the time investment.



02

Explore the full range of government support before assuming it is not available.

Capital allowances, the apprenticeship levy and environmental/ESG incentives are all being used effectively by a meaningful proportion of our innovators. The businesses getting the most from government support tend to be those actively mapping what is available rather than relying on what they already know.



03

If your innovation is patentable, Patent Box deserves serious attention.

A 10% corporation tax rate on profits from patented products is a significant benefit, yet awareness and take-up for the average business remains low.



04

Consider whether SEIS or EIS still have a role to play.

These schemes are most commonly associated with early-stage funding, but a notable proportion of larger businesses in our survey still credit them. Acting before you outgrow the eligibility thresholds could make a meaningful difference to your funding options.



If you want to make the most of R&D tax credits for your business, [we can help.](#)

UNLOCKING EXISTING FUNDING VALUE

Patent Box: An underused advantage

The Patent Box scheme, which reduces corporation tax on profits from patented products to 10%, suffers from being misunderstood.

The number of companies across the UK that have elected into the scheme has been relatively flat for the last several years, according to [HMRC's own findings](#). Moreover, a whopping 95% of the relief provided went to large businesses in the 2023 to 2024 financial year.

But our innovators have been treating the Patent Box differently. Thirty-one percent said that it has positively supported their innovation. So why is the rest of the business landscape not properly leveraging this scheme?

One clear problem is that, as the name suggests, it only applies to patented innovation. However, some innovations cannot be patented or there is a presumption they cannot be patented; others may not go through the process because a company would prefer to keep its innovation confidential.

A strategic approach to the patent process to balance confidentiality and tax benefit is possible. Businesses also commonly believe they must wait for a patent to be granted before a benefit can be claimed, when in fact once a patent grants, claims can be made for revenues incurred since the date of application, looking back over a period of up to six years.

For businesses with patentable innovation, the relief is there and the window to claim it is longer than most realise. For those without, the more pressing question is whether there are innovations they have not yet considered protecting.



Are you making the most of the [Patent Box scheme](#)?



Are you thinking like an Innovation Leader?

The UK's most innovative businesses don't think like everyone else. Are you measuring up?

Through our research into the realities of innovation for high-growth businesses, one particular truth emerged: not all innovation is created equal.

A clear divide emerged between businesses that are achieving a wide range of innovation outcomes – and those that aren't so much. The former are what we call Innovation Leaders, and this section puts their strategies under the microscope. How does your business compare?

Are you exploring all avenues for funding innovation?

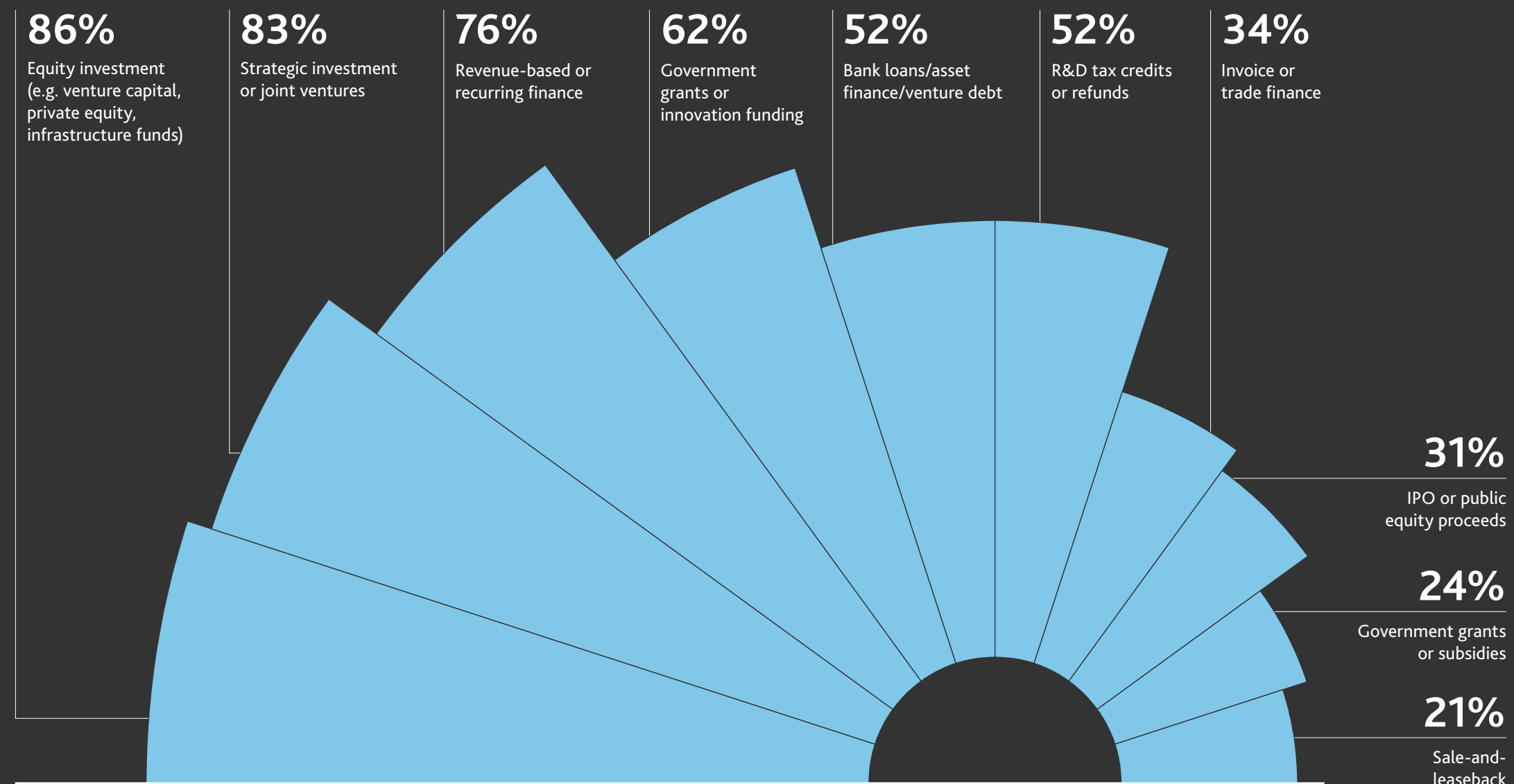
- ▶ How are you leveraging government grants or innovation funding to support your growth plans, and if you are not, what is stopping you?
- ▶ Where are your biggest barriers to accessing funding, and are they genuinely insurmountable or assumptions you have not yet tested?
- ▶ Are you pursuing equity funding, and if not, is that a considered decision or a default one?



Dive deeper into the funding landscape in 'Chapter 4: Where the money is and where businesses aren't looking' on [page 7](#) and 'Chapter 5: How well is the UK supporting innovative businesses?' on [page 11](#)

▶ Innovation Leaders are actively pursuing a wide range of funding opportunities

How are Innovation Leaders funding their innovation pipelines?



Are you focusing your people strategy in the right areas?

- ▶ Which people-based skills are you currently under-investing in relative to where Innovation Leaders are focusing, and what would closing those gaps realistically mean for your business?
- ▶ Are your leadership and people management capabilities keeping pace with your technical skills investment, or is there a growing imbalance?
- ▶ Are your leaders actively creating conditions that encourage your people to experiment, learn from failure and challenge existing ways of working and serving your customers?



Explore how leading businesses are building innovation capability in 'Chapter 7: Skills, culture and the leadership gap holding innovation back' on [page 19](#)

- ▶ **The best innovators know their competitive advantage is in their people**
What people skills are Innovation Leaders investing in?



3 in 4



Innovation Leaders are prioritising talent attraction to drive innovation



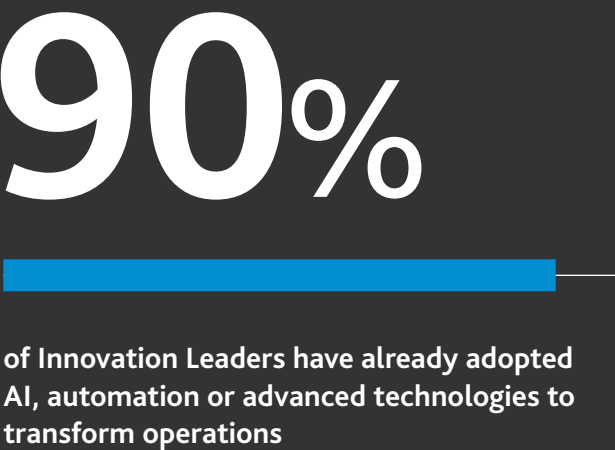
Where does your business stand on AI, technology and new ways of working?

- ▶ Where is technology genuinely transforming how your business operates, and where is it still playing a peripheral role?
- ▶ In which areas of your business is AI already delivering tangible value, and where is it still at the exploratory stage? What would it take to go further?
- ▶ Are new technologies being embedded into how your people actually work day to day, or are they sitting alongside existing processes without meaningfully changing them?
- ▶ How is your business preparing for the growing threat of cyberattacks, and is that preparation proportionate to your exposure?

Find out how businesses are building the AI skills and culture to match their ambition in our chapter 'Businesses need to foster AI champions' on [page 21](#)

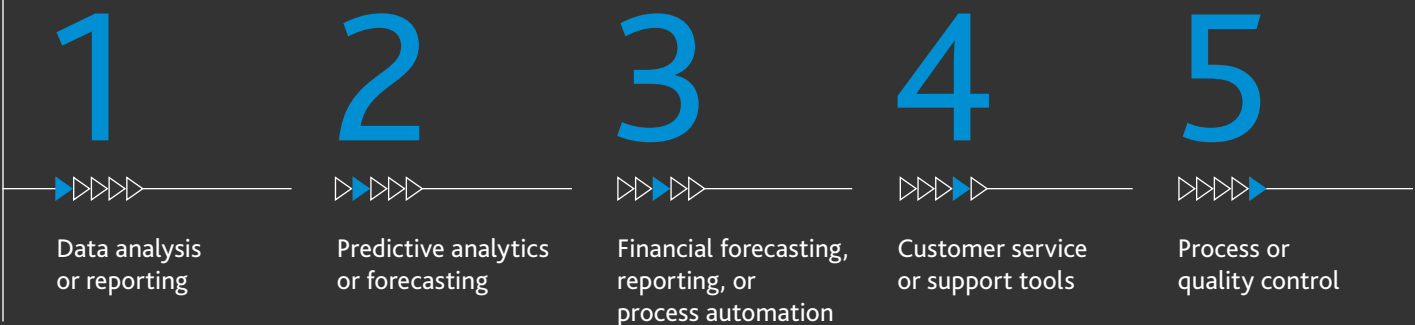
▶ Innovation Leaders are rebuilding their operations on AI, cybersecurity and cloud

Which top 3 technologies are Innovation Leaders planning to deploy?



▶ AI isn't a tool for one or two teams in the most innovative businesses – it runs across their functions

What are the top 5 areas where Innovation Leaders are putting AI to work?



Skills, culture and the leadership gap holding innovation back

Innovation ambitions are only as effective as the leaders empowering their people to embrace change

Innovation is, ultimately, a people-powered ambition. Our innovators know this: skill gaps and shortages rank among their biggest barriers. While that may be cause for concern, recognising this as a problem is itself meaningful. It signals that high-growth businesses understand that their people are one of, if not the, most powerful drivers of innovation available to them.

The data backs this up. When asked which accelerators they are prioritising over the next two years, 46% pointed to developing internal skills and 41% to attracting talented employees.

So far, so encouraging. But look at where businesses are directing their skills investment and a more troubling picture emerges.

THE MOST OVERLOOKED CAPABILITIES ARE AT THE TOP

The capabilities innovators most want to build are concentrated in tech and digital: AI, cybersecurity and automation top the list. These are legitimate priorities, but they come at a cost. In focusing almost exclusively on technical skills, businesses are neglecting something more foundational: leadership and the skills that surround it are not being given the same level of attention.

Mark McAleer, BDO's People Advisory Services Director, is clear about how critical this is for businesses to understand. "The really important skills gap companies need to address is developing leaders who can create the right conditions for innovation to flourish," he says.

This is a clear blind spot. We gave innovators a list of 14 skills to prioritise; they put developing directors/ the board last, chosen by just 16%.

Essential people skills are receiving less attention compared to technical skills

Which skills are innovators prioritising?

AI skills

58%

Cybersecurity awareness

51%

Automation skills

47%

Data analysis and reporting

46%

Digital or technical literacy

44%

Creative thinking or innovation

42%

Project management

35%

Product development or design

31%

Leadership or people management

27%

Regulatory or compliance awareness

25%

Sales and commercial strategy

25%

Process design

23%

Cross-functional collaboration

18%

Board governance or director capability development

16%

McAleen identifies three areas where leaders must be better equipped: creating psychological safety and trust; enabling diversity of thought by building collaborative networks; and shaping culture by reinforcing values through decisions, systems, processes, and reward & recognition practices. Get these right, and the conditions for innovation follow naturally.

“All leaders need to instil curiosity in their teams, to find better ways to do things, to create new products and services,” he says. “And yet far too often there is a leadership failure where employees are not engaged around the business’s innovation strategy, its priorities and the ways people can contribute.”

The solution is not complicated, but it does require intent. Leaders need to actively involve employees in innovation: asking questions, listening to ideas, and treating people as genuine contributors rather than passengers. Innovation cannot be a strategy that lives only in the boardroom.

“Leaders providing clarity on the innovation strategy and how it links to future performance creates a culture where people feel responsible, aligned and empowered,” McAleen adds. “Without that, you get stasis and fear rather than progress.”

Closing technical skills gaps matters, but businesses that neglect leadership development are building on unstable ground. The most powerful innovation accelerator available to UK companies may well be the one they are currently ranking last.

KEY TAKEAWAYS



01

Prioritise leadership development before it becomes urgent.

With developing directors and the board ranking last among skills priorities, most businesses are leaving their most important capability gap unaddressed. Leaders who lack clarity on their own innovation strategy cannot reasonably expect their teams to deliver one.



02

Ask how well innovation is socialised across your business.

A strategy that exists only in the boardroom is not a strategy. The businesses seeing the strongest results from innovation are those where leaders actively communicate priorities, invite ideas from across the business and create the conditions for collaboration rather than leaving innovation to a dedicated few.



03

Balance your technical skills investment with the human skills that surround it.

AI, cybersecurity and automation are legitimate priorities, but they depend on the people managing, directing and applying them. Creative thinking, cross-functional collaboration and leadership capability all ranked well below technical skills in our survey, despite being equally critical to turning investment into results.



04

Do not underestimate the cultural dimension of AI adoption.

Most businesses are still in the early stages, using off-the-shelf tools for back-office functions. Moving beyond this requires leaders who can articulate why AI matters, individuals who feel secure enough to engage with it and internal champions who can drive adoption from the ground up.

THE HUMAN SIDE OF AI ADOPTION

Businesses need to foster AI champions

There is huge excitement in business circles about the power of AI to boost productivity and cost efficiencies. Fifty-six percent are investing in AI (and machine learning), putting it top of the list of technologies that our high-growth organisations are investing in to improve innovation.

But Catherine Wilks, BDO Partner and lead on Data, Analytics and AI, says we are currently in the early days of adoption, with rollouts remaining cautious and largely confined to the back office.

"Most of what we see is people wanting to be fast followers rather than pioneering leaders," she says. "Most adoption has been off-the-shelf packages to help businesses streamline their back-office operations. Other than chatbots, it's not had a massive impact on customer-facing operations."

Our research reinforces this. Among our innovators, AI is already embedded in data analysis and reporting (65%), predictive forecasting (59%) and workflow optimisation (51%). The next stage – deeper integrations that shape how staff work in customer-facing scenarios – is still some way off. Wilks identifies two hurdles standing in the way.

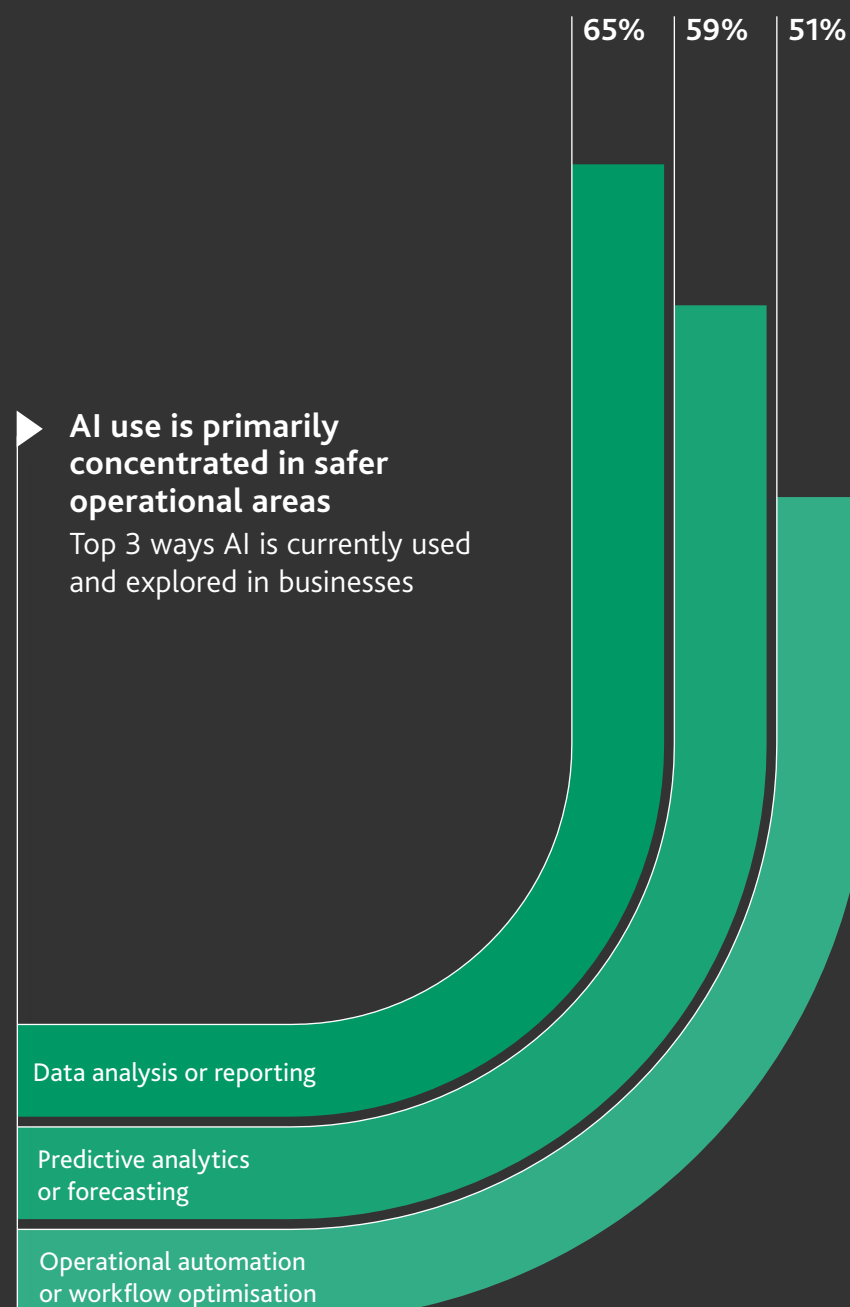
"Some businesses lack the innovation culture to embrace AI more fully," she says. "Many are cautious because of governance questions and risks. There's also the question of how to embrace AI more fully when you don't know what you don't know."

AI also challenges existing leadership paradigms: as intelligent systems take on more decision-making functions, businesses may find that traditional frameworks for allocating responsibility and authority no longer reflect how operational decisions are actually taken.

This is where both business leadership and government support have a role to play. The case for investing in AI upskilling is clear and sits alongside the broader ambition to make the UK a world leader in AI development. But Wilks is equally focused on the cultural dimension.

"Businesses need to reassure their people that technology isn't going to take their jobs but make them easier. Companies need to encourage champions to promote AI, and that's most likely to come from their junior talent and the most tech-savvy executives."

▶ **AI use is primarily concentrated in safer operational areas**
Top 3 ways AI is currently used and explored in businesses



Catherine Wilks
Partner and Data, Analytics and AI lead
Catherine.Wilks@bdo.co.uk

Innovation Maturity Assessment

Behind every innovative business is an organisation that has built the right environment for ideas to flourish. We've looked at how Innovation Leaders create the structures, capabilities and culture to make it happen consistently.

Use this tool to score your Innovation Maturity against the UK's most innovative businesses and discover where to focus your energy.

HOW TO USE

Read each statement and score your organisation from 0 to 2, based on how consistently it is in place in your organisation:

0

Not in place

1

Partially in place

2

Consistently embedded across the organisation

Work through each section and add up your scores as you go.

PILLAR 1: Structure

Are formal mechanisms in place to help innovation scale?

Statement	0 Not in place	1 In place in some areas	2 Consistently embedded across the organisation
New ideas are encouraged and formally recognised or rewarded	☐	☐	☐
Cross-functional collaboration is enabled through formal programmes or initiatives	☐	☐	☐
Dedicated roles or teams are responsible for driving innovation	☐	☐	☐

Section Score: /6

93%

of Innovation Leaders reward new ideas versus 56% of other high-growth firms

80%

of Innovation Leaders prioritise cross-functional collaboration versus 49% of other high-growth firms

PILLAR 2: Capability

Is capability investment broad and sustained?

Statement	0 Not in place	1 In place in some areas	2 Consistently embedded across the organisation
Leadership capability is developed to support innovation and experimentation	☐	☐	☐
Creative and innovative thinking are high priorities for skills development	☐	☐	☐
Skills investment includes capabilities that support experimentation, such as problem-solving, commercial awareness or change management	☐	☐	☐

Section Score: /6

2x

more Innovation Leaders prioritise leadership and people management as an upskilling focus than other high-growth firms

“All leaders need to instil curiosity in their teams to find better ways to do things, to create new products and services.”

Mark McAleer
People Advisory Services Director,
BDO

PILLAR 3: Talent

Is your workforce strategy designed to attract, grow and keep innovation-minded people?

Statement	0 Not in place	1 In place in some areas	2 Consistently embedded across the organisation
Attracting skilled employees is a clear priority for supporting innovation	☐	☐	☐
Internal skills development is structured, sustained and regularly assessed against wider strategic initiatives	☐	☐	☐
Performance frameworks and appraisal processes actively reinforce innovation behaviours	☐	☐	☐
People managers are equipped and held accountable for creating conditions that retain high-performing, innovation-focused employees	☐	☐	☐

Section Score: /8

“Far too often there's a culture failure where staff are not told what the business's innovation strategy is. Leaders need to get people involved, ask questions and listen.”

Mark McAleer
People Advisory Services Director, BDO

Your Innovation Maturity Profile

Use your score to identify your current position, then use the prompts below to reflect on what would help move your organisation to the next stage

PRO TIP

For greater clarity on your business's innovation maturity, consider sharing this assessment with your peers and comparing your results. You may find you both have surprisingly different (or similar) perspectives that are worth starting conversations about.



If you'd like to talk to someone about what the results mean for your business, [get in touch with one of our innovation specialists](#).

IF YOU'VE SCORED 0-5

You have an Early-Stage Innovation Maturity

Innovation exists, but it is not structurally supported. Activity tends to depend on individual initiative or isolated teams, limiting how far ideas progress.

To move to the next level, ask yourself:

- ▶ What formal innovation programme can you implement to encourage new ideas, fund pilots and scale them?
- ▶ Who holds executive accountability for innovation across different teams, and how is progress tracked?
- ▶ How well do you collaborate across functions in addressing complex problems facing your business?

IF YOU'VE SCORED 6-10

You have a Developing Innovation Maturity

There is clear intent and some formal support for innovation, but consistency varies. Innovation may be well supported in certain areas but remains uneven across the business.

To move to the next level, ask yourself:

- ▶ Where in the business is innovation working well and what would it take to replicate those conditions across the organisation?
- ▶ How consistently are leaders across all functions actively supporting and role-modelling innovation?
- ▶ How do your leaders respond to setbacks?

IF YOU'VE SCORED 11-15

You have an Established Innovation Maturity

Formal programmes, collaboration and skills investment are in place and beginning to deliver results. However, alignment between leadership behaviour, talent strategy and innovation ambition may still vary.

To move to the next level, ask yourself:

- ▶ Do your hiring, performance and reward frameworks actively reinforce innovation behaviours, or do they sit separately from your innovation ambition?
- ▶ How well does your talent strategy reflect where you want to take the business, not just where it is today?
- ▶ How effectively do you convert innovative ideas into changes that optimise business performance?

IF YOU'VE SCORED 16-20

You have an Advanced Level of Innovation Maturity

Innovation is structurally supported and reinforced through leadership behaviour, capability investment and talent strategy. Formal programmes, recognition systems and workforce planning align with stated innovation ambitions.

To continue advancing, ask yourself:

- ▶ How could your innovation ecosystem expand beyond your organisation e.g. through startups, academia or strategic partners?
- ▶ Is innovation managed as a deliberate portfolio, with clear targets for experimentation alongside growth?
- ▶ How do you measure the health of your innovation practices over time, and who is accountable for improvement?

Innovation in the UK: Advantages, obstacles, and the opportunity overseas

The UK remains a strong base for innovation, but local barriers and the pull of overseas markets mean businesses must make increasingly deliberate choices about where and how they grow

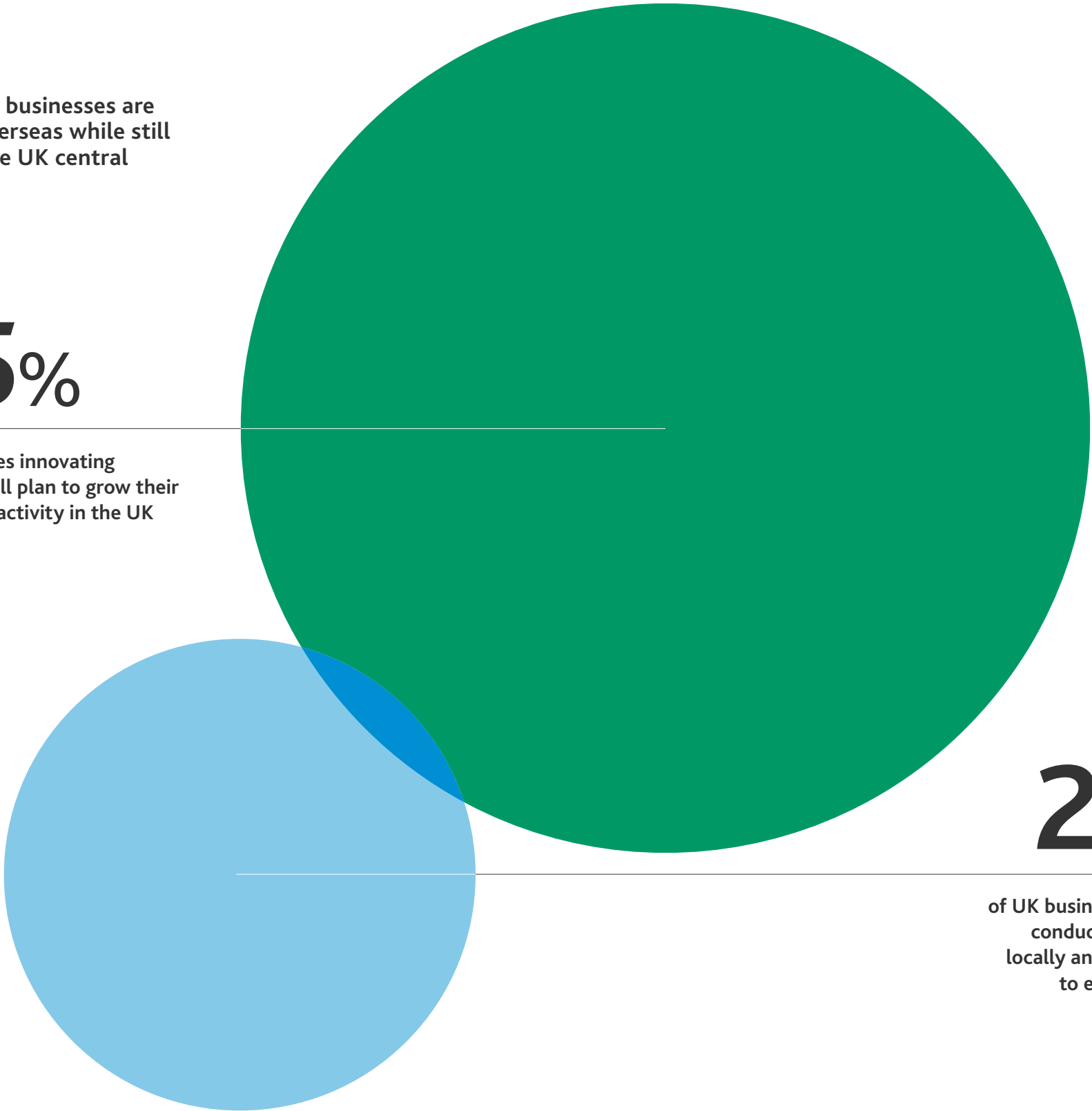
It can be easy, amid discussions of cost pressures and skills shortages, to lose sight of what the UK genuinely offers innovative businesses. Twenty-six percent of our innovators are carrying out innovation activities solely in the UK, with no intention of going overseas. Even among those already innovating abroad, 85% tell us they plan to grow their UK activity.

The appeal is tangible. Oxford and Cambridge rank consistently among the top three universities globally and 49 of the top 500 universities in the world are based in the UK, according to Times Higher Education. Unlike the US, the UK labour market has not overheated, keeping talent accessible and costs relatively manageable.

▶ Innovative businesses are looking overseas while still keeping the UK central

85%

of businesses innovating overseas still plan to grow their innovation activity in the UK



of UK businesses are solely conducting innovation locally and have no plans to expand overseas

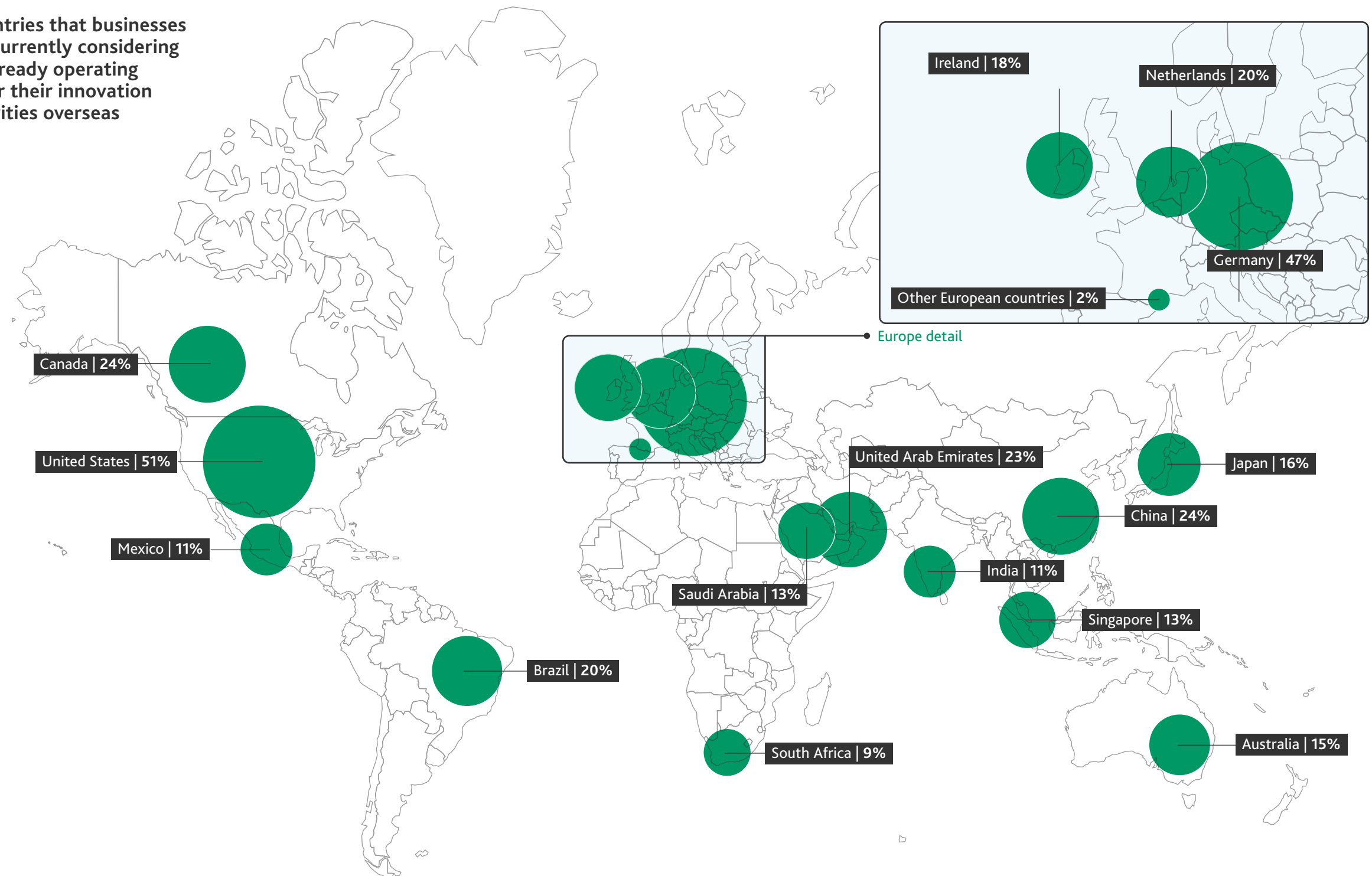
Digby Jackson, Corporate Development Director at media agency Brainlabs, has seen this firsthand. “Our CTO is at our London base with a strong team around him,” he says. “UK talent is highly sought after and salaries are lower than the US, particularly the West Coast, so there is a natural cost advantage of innovating in the UK.”

That advantage is real, though it is worth noting it is relative to the market. The UK compares favourably to the US; the picture against lower-cost markets is a different one. The tax incentives outlined earlier add further reason for businesses to base their innovation activities here.

The assumption that, for example, listing in New York will automatically yield a higher valuation than floating in London is also being challenged. Mark Sykes, BDO Partner and Head of Entrepreneurial Business, says there are reasons to believe the domestic funding landscape may be about to shift. He points to initiatives such as the PISCES framework, which aims to improve liquidity access for private companies, as well as growing government efforts to direct pension capital into UK businesses.

So why should the UK still be cautious about its position and reputation going forward?

► **Countries that businesses are currently considering or already operating in for their innovation activities overseas**



A LESS FAVOURABLE TAX PICTURE

One recent change has given innovators pause. Previously, Entrepreneurial Relief limited capital gains tax on company sales to 10%. Under the new Business Asset Disposal Relief, that figure has risen to 18% as of April 2026.

Ross Robertson, one of BDO's International Tax Partners, says that alongside increases in corporation tax and national insurance, the new rules are prompting entrepreneurs, particularly those forming technology-driven start-ups, to consider overseas locations which offer lower or no taxation when companies are sold. For founders who are already open to basing their business abroad, this shift in tax treatment could tip the decision.

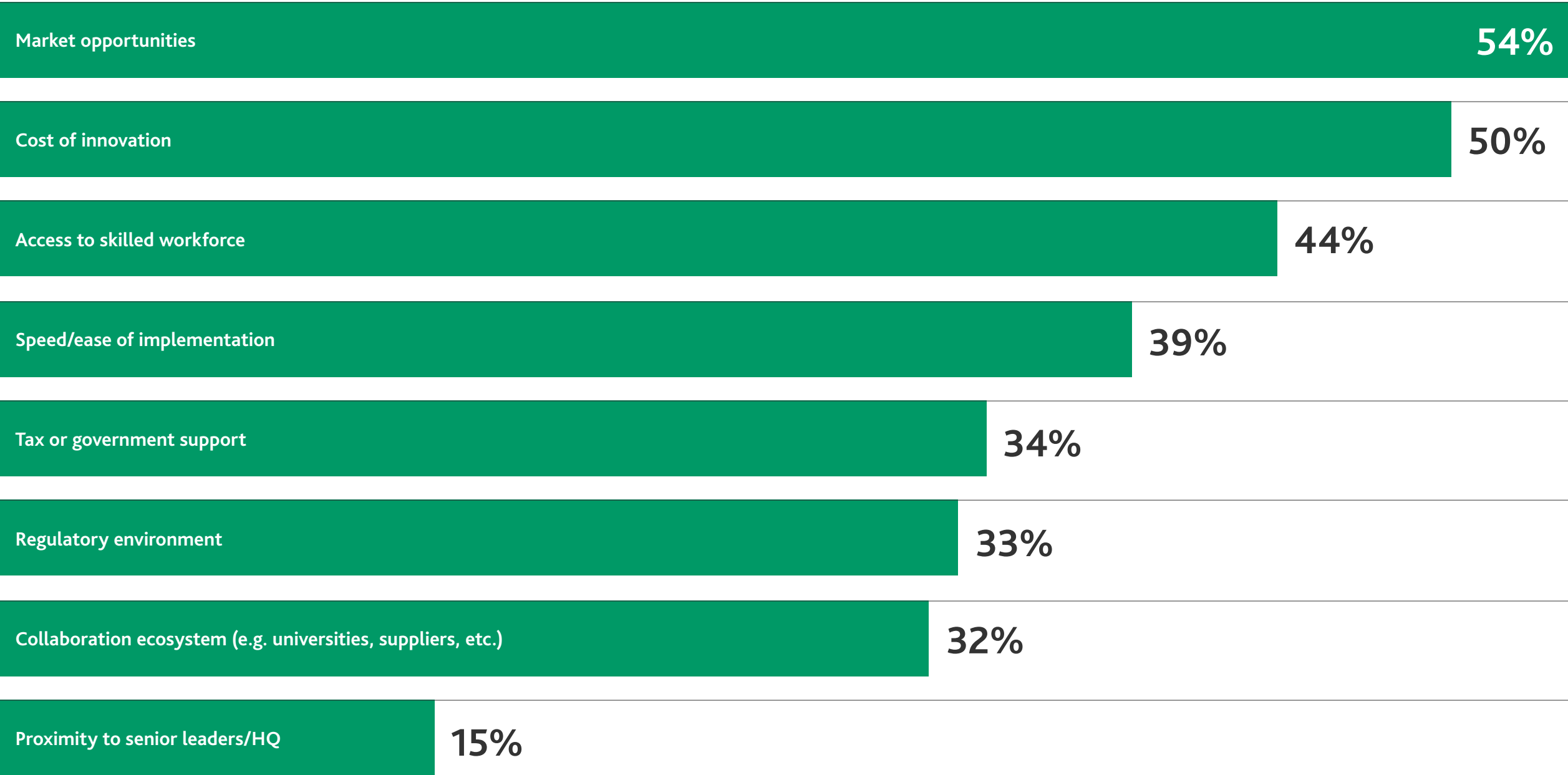
WHERE INNOVATION ACTUALLY HAPPENS

There's also the matter of what drives the decisions for businesses that do look beyond the UK. Market opportunities are the primary factor for 54% of our innovators, cost of innovation for 50%, and access to a skilled workforce for 44%. Low-cost markets are not the draw; they're following opportunity and talent. The question for many, then, is not whether to expand overseas, but how to do it well.

For Heena Agrawala, CFO at global creator company Whalar Group, the answer lies in equal parts ambition and operational discipline. "We often joke that we're building the plane as we're flying it, and that entrepreneurial mindset has been crucial. One key to overcoming the challenges of international expansion has been our commitment to operational excellence and scalability," she says.

Where innovation happens is dictated by much more than cost alone

The main factors driving where businesses choose to carry out innovation



Crucially, Agrawala points to the value of trusted local expertise in each market. “Our advisory began with guidance on everything from self-billing invoices to intellectual property and corporate structure, then evolved into sophisticated accounting, payroll and tax functions as we expanded into international markets. We wouldn’t have been able to scale as easily in these markets without support on the ground.”

This experience is a useful counterpoint to the assumption that overseas expansion is straightforwardly attractive. It requires infrastructure, local knowledge and sustained investment, factors that do not always feature prominently in the decision to go international.

Still, the UK cannot afford to be complacent. Other regions are becoming increasingly competitive in attracting innovative businesses and investment. The US continues to dominate venture funding and the EU is strengthening its innovation ecosystems. China has emerged as a global technology and innovation powerhouse, while countries in the Middle East are investing heavily to attract international companies as they diversify their economies away from fossil fuel production.

Against this backdrop, maintaining the UK’s position will require sustained focus on competitiveness, from taxation and regulation to access to capital.

KEY TAKEAWAYS



01

Do not let the pull of overseas markets obscure what the UK still offers.

A competitive talent base, world-leading universities and a range of tax incentives remain genuine advantages that are worth weighing carefully before moving innovation activities abroad.



02

Factor the changing tax landscape into your long-term planning.

The shift from Entrepreneurial Relief to Business Asset Disposal Relief, alongside other recent increases, represents a meaningful change for founders and entrepreneurs that is worth understanding sooner rather than later.



03

If overseas expansion is on your agenda, treat it as an operational challenge as much as a commercial one.

Businesses that scale successfully internationally invest in local expertise and on-the-ground support from the outset, not as an afterthought.



04

Engage with the Industrial Strategy as an active participant.

Just 6% of our innovators believe the Industrial Strategy currently supports innovation effectively. Mid-market businesses have both the standing and the evidence to shape policy in their favour; making their needs heard through consultation and industry engagement is a practical step, not a passive one.

WHAT INNOVATORS ACTUALLY WANT

How the UK Industrial Strategy can better deliver

The UK has a legitimate claim to being a nation of innovators. From the ingenuity of the Industrial Revolution to the technologies shaping business today, the ability to experiment and commercialise new ideas has long been a defining characteristic of the economy.

Nowhere is this more evident than in the mid-market. These businesses are agile enough to experiment yet substantial enough to scale, and their economic contribution reflects it. BDO research forecasts that

mid-sized businesses will contribute £745 billion to UK gross value added and create an additional 1.9 million jobs by 2028, accounting for more than a quarter of total UK GVA despite making up less than 1% of all businesses.

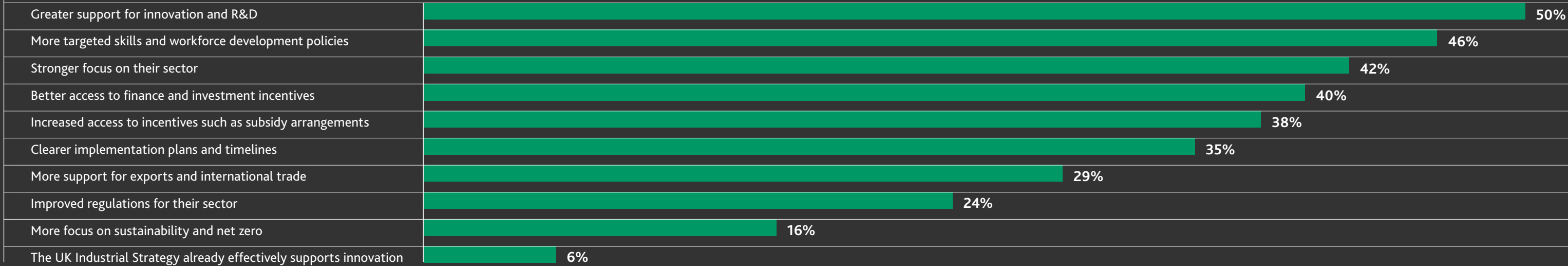
But the response we're picking up from our innovators towards the UK Industrial Strategy 2025 is not wholly supportive – just 6% believe it effectively supports innovation.

The concerns are practical rather than ideological. Fifty percent of our innovators are calling for greater support for innovation and R&D. Following closely are more efficient skills and workforce development policies (46%), a more targeted focus for their respective sector (42%) and better access to finance and investment incentives (40%).

The mid-market's track record makes the case for investing in the right conditions. Mid-sized businesses have reported an annual growth rate of 6.4% over the

last five years, more than three times the broader average. The appetite to innovate is there. What our innovators are asking for is a policy framework that keeps pace with their ambitions rather than adding to the friction they are already navigating.

► **Innovators are not asking for radical change. They want the basics done better**
How do innovators feel that the UK Industrial Strategy could better support innovation?



The mid-market holds the key to the UK's innovation future

UK businesses are proving that innovation pays. But unlocking their full potential will require better funding, sharper skills investment and a more enabling policy environment

What our research makes clear is that UK businesses are not waiting for permission to innovate. There are high-growth firms that are committing capital, building partnerships, accessing world-leading university research and hiring the talent they need to grow. The returns, by their own account, justify the investment.

But the picture is not without friction. Rising taxes, a refocused tax credit system and persistent skills gaps are creating headwinds that no amount of ambition can simply absorb. In return for their commitment, these businesses are asking for something straightforward: a policy environment that supports rather than complicates their efforts and greater clarity on when headline strategies will translate into practical reality.

We work with mid-market businesses every day and understand better than most what they need to scale their innovation ambitions. The data in this report reflects what we hear consistently: the commitment is there, the returns are real, and the opportunity is significant. What the mid-market needs now is for that commitment to be met in kind.

The UK has the businesses, the talent and the ideas. The next step is making sure nothing gets in the way of them realising their potential.



Carrie Rutland

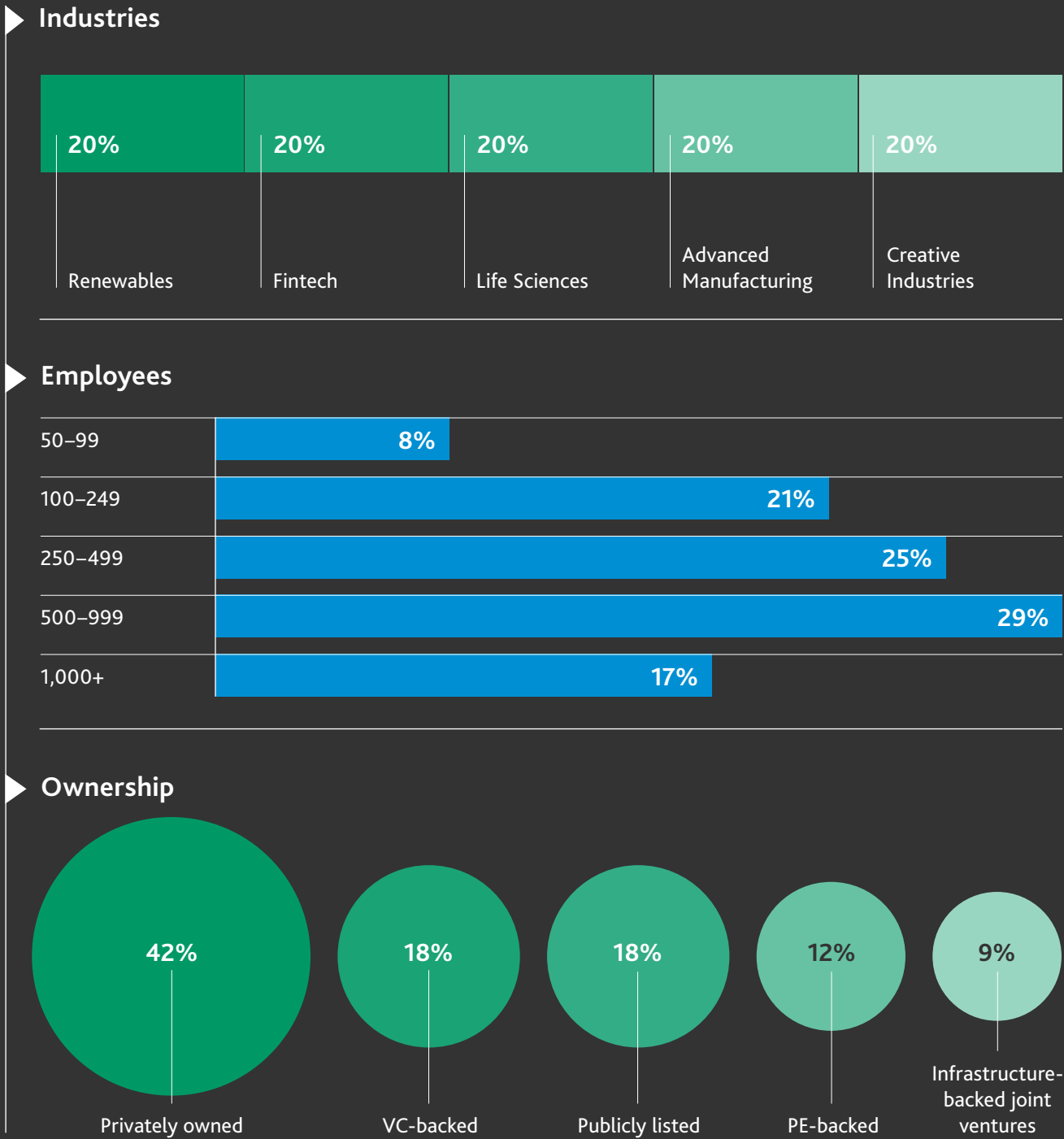
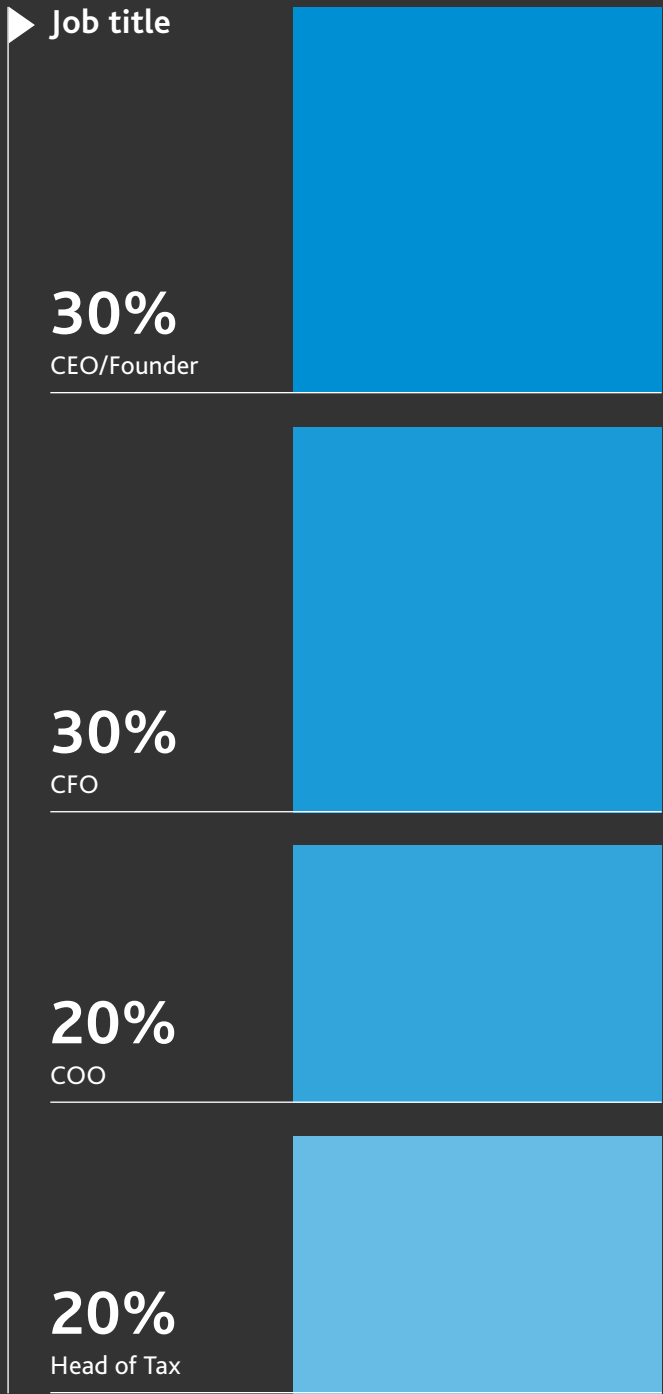
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Methodology & Demographics

BDO and alan. agency surveyed 500 senior executives (including CEOs, CFOs, COOs and Heads of Tax) at businesses across the UK in the Renewables, Fintech, Life Sciences, Advanced Manufacturing, and Creative Industries. All participating organisations either generated more than £10m in annual UK revenue or have raised over £10m in investment. For Life Sciences businesses, inclusion criteria reflect the sector's funding model: organisations have either raised capital of at least £10m to date, completed a Series A (or later) funding round, or generated annual UK revenues exceeding £10m.

The fieldwork by iResearch Consulting Group took place between September and October 2025.



Continue the innovation conversation

Whether you're scaling, funding innovation or navigating change, we're here to help.

Get in touch ▶

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