



Analysis

Lack of Innovation Threatens Economic Growth

Nick Hood



Nick Hood
Senior Business
Advisor
Opus Business
Advisory Group

Biography

Nick Hood is the Senior Business Adviser at the Opus Business Advisory Group (<https://www.opusllp.com>), the largest independent advisory, restructuring and insolvency firm in the UK.

Nick was a licensed Insolvency Practitioner, working in the business rescue market for 25 years. He is a committed internationalist, having created the largest global network of independent business rescue firms and having also worked overseas in Canada, Milan and Bahrain.

In his earlier career and after qualifying as a Chartered Accountant in 1970, Nick held senior executive positions in major companies in the construction, engineering and media sectors, as well as working for a boutique investment bank.

Nick's thought leadership and opinion blogs for Opus can be found at <https://opusllp.com/resources/>.

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Paper type Reference

Abstract

The UK is falling in global rankings for innovation, technology, and competitiveness due to persistently low business investment. The manufacturing sector is especially badly affected – without fresh ideas and advancements, productivity stagnates, competitiveness wanes, and opportunities for job creation diminish. But for every sector the barriers to innovation are many and varied, and urgent action is needed if these are to be broken down. With a decline in innovation continuing the author of this article assesses the impact we can expect these threats to have on economic growth.

Introduction

The UK economy has long been a laggard in the world of business investment, which is the essential ingredient if the government is to achieve its top economic priority of a significant level of growth.

The business investment statistics

Business investment, which accounts for about 13% of the UK's GDP, has lagged behind other developed economies for decades. It has been an average of 36%



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lower than other members of the G7 since 1990 according to a report¹ published in 2023 by The International Monetary Fund (IMF).

This grim statistic was expanded in 2024 by data² published by the thinktank, the Institute for Public Policy Research (IPPR) which revealed that the UK had the lowest level of investment in the G7 for 24 of the previous 30 years. The last time the UK was 'average' in the G7 for total investment was in 1990.

Looking at the latest disruptions caused by Brexit, the pandemic and the invasion of Ukraine, the IMF also confirmed that real-terms business investment in the UK had settled at a slightly lower level by the end of 2022 than in 2016 while other G7 economies experienced a 14% increase on average over this period.

The most recent data from the Office for National Statistics shows little progress in raising business investment, with quarterly figures since the start of 2023 yo-yoing constantly between rises and falls. This year is illustrative. Investment rose by 3.9% in Q1 2025 and then fell by 4% in Q2 2025. Possibly impacted by the uncertainty created by pronouncements emanating from the White House.



Innovation and competitiveness

As other countries and regions have powered ahead with business investment, there has been an inevitable impact on the UK's position on innovation and competitiveness. In the Global Innovation Index³, an annual ranking based on capacity for innovation produced by the World Intellectual Property Organization, the UK has slipped from 2nd place in 2015 to 5th in 2024. Equally, the Competitive



Industrial Performance Index produced by the United Nations Industrial Development Organization (UNIDO) has seen the UK fall from 10th in 1999 to 19th in 2024.



The UK's poor performance can be seen vividly in two specific areas in the UK's manufacturing sector:

1. **Robotics** – The Robot Density Index⁴ published by International Federation of Robotics and analyzed by the manufacturing sector trade body, Make UK puts the UK in 24th place worldwide with only 112 robots per 10,000 manufacturing workers. This is half the EU average of 208, well below the global average of 162 and around 10% of that achieved by the world leaders, South Korea who have 1,012 robots per 10,000 manufacturing workers.
2. **Digitalization** – Digitalization is now widely seen by manufacturers as essential, this recognition has not yet translated into widespread transformation. While 70% of firms surveyed by the trade body Make UK are investing in digital tools, only 10% operate fully digital factories, reflecting the scale of the implementation gap. Technologies like ERP systems, AI, robotics, and cloud platforms are gaining traction, but uptake is especially limited among SMEs. Persistent barriers such as skills shortages, legacy systems, and fragmented access to support continue to hold back progress.

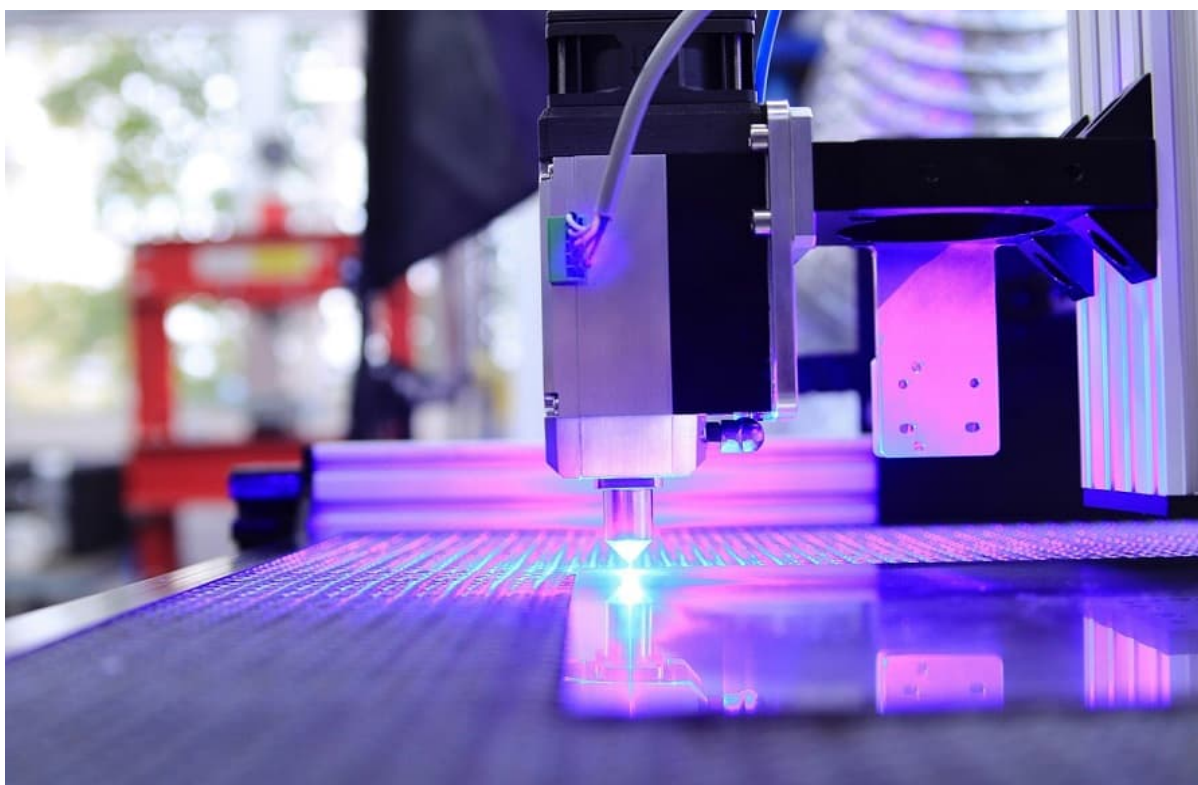
Make UK member surveys⁴ show that manufacturers predominantly prioritize technologies that improve efficiency and coordination, with 58% highlighting Enterprise Resource Planning (ERP) systems as especially impactful. Alongside ERP systems, other widely adopted technologies include Advanced Planning &



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Scheduling (51%), cloud computing (50%), artificial intelligence and machine learning (46%), robotics (43%), and the Internet of Things (IoT) (40%).

Although manufacturing represents just 9% of the UK's nominal GDP, it punches well above its weight in innovation – accounting for 47% of total national Research & Development (R&D) spending in 2024/25. Yet the UK's overall R&D intensity still lags behind key global competitors, limiting the scale and impact of industrial digital transformation. Public investment continues to skew toward research rather than practical adoption, weakening the flow of innovation from academia into industry.



Impact on UK share of global manufacturing

From the early stages of automation to today's frontier technologies, innovation has become a key driver of industrial competitiveness but, while the UK produces world-class research, high-growth tech firms and globally respected innovation centres, it does not embed digital capabilities across its manufacturing base. Despite having the sixth largest economy in the world, the UK is failing to translate that economic strength into a digitally advanced and future facing manufacturing sector. In particular, UK SMEs, who comprise the vast majority of the sector, lag behind G7 counterparts on innovation.

The result is that there has been a significant decline in the UK's share of global manufacturing value-added from 3.1% in 2000 to 1.9% in 2022, while its share of global manufacturing exports has more than halved, dropping from 3.7% to 1.5%.



More concerning is the UK's loss of competitiveness in high value-added industries such as pharmaceuticals, aerospace, shipbuilding and railway equipment. Many associate the decline of UK manufacturing primarily with the Thatcher era, but the more recent downturn is every bit as concerning.



Barriers to innovation

Make UK members highlight a range of practical issues with pursuing innovation to the full extent the modern era demands⁵. Nearly half of manufacturers (46%) identify a lack of technical skills as their biggest hurdle, closely followed by integration difficulties caused by outdated IT infrastructure (41%). Change management and leadership issues further impede adoption: workforce transitions and cultural resistance affect 36%, while 17% cite a lack of clear vision and 13% point to insufficient management and leadership capabilities. For SMEs, uncertainty around understanding and measuring the business benefits of automation (27%) often stalls progress beyond initial pilot projects. These survey results date from late 2023, but there has been little tangible improvement on these issues since then.

Limited access to external advice is another constraint, with 17% of firms reporting difficulties obtaining the support needed for effective technology integration. Current support schemes, whilst helpful in initiating digital adoption often lack the continuity and depth essential to drive full-scale transformation. As a result, many firms find the journey toward digital maturity costly, complex and fragmented. Such schemes are a key area, which needs addressing as a matter of top priority as part of the government's recently announced Industrial Strategy.



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The future of UK innovation

Can the UK start to match the innovation achievements of its major competitors, such as South Korea, Singapore, Germany and the USA? Can it turn its wealth of ideas into meaningful implementation? The rate at which technology and in particular AI, machine learning and robotics is now changing every aspect of how business is done all around the world threatens to make the current gap between the UK achievements and others unbridgeable at alarming speed.

Businesses have to overcome their natural caution in these times of such uncertainty, or it really will be too late to stay competitive and relevant, but they need the government to turn ambition and words into effective policy and genuine support for innovation.

Reference

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