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Record entrepreneurial ambition fails to translate into growth as small business innovation hits four-year low

Small business innovation has fallen for the fourth consecutive year, and urgent action is needed to prevent the UK squandering record levels of entrepreneurial ambition, a major new report by the [Enterprise Research Centre](#) (ERC) reveals.

The ERC's latest *State of Small Business Britain 2025* report, which brings together findings from several key business surveys, highlights research findings showing that more than one-third (36%) of working-age adults are now starting, running, or planning to launch a business – the highest level recorded since the [Global Entrepreneurship Monitor \(GEM\) survey](#) began in 1999. Total 'early-stage' entrepreneurial activity has doubled since the early 2000s, stabilising at around 12%.

However, this surge in ambition is not translating into sustained growth. The report also highlights other evidence that shows that the proportion of SMEs reporting product or service innovation dropped from 30.4% in 2021 to just 24.1% in 2024 – the fourth consecutive annual decline. Export activity has also decreased steadily, falling from 19.4% of firms in 2021 to 17.2% in 2024.

The report also warns that the UK's entrepreneurial ecosystem is deteriorating, with expert ratings gathered as part of the GEM survey slipping from 'sufficient' to 'less than sufficient' since 2020. Persistent weaknesses in access to finance, entrepreneurial education, and government policy support continue to hold businesses back, while support for female entrepreneurs remains inadequate compared to France, Germany, and the US.

Stephen Roper, Director of the ERC, and Professor of Enterprise at Warwick Business School, said: "The UK has a remarkably resilient and creative entrepreneurial culture. More people than ever before want to start and grow businesses, and we are seeing welcome shifts with more women entrepreneurs and a new generation of younger founders emerging.

"But ambition alone is not enough. We are seeing a worrying decline in innovation and exporting – the very behaviours that drive productivity and growth, and there is considerable uncertainty around the future of small business support. Without urgent action to address the barriers small firms face, we risk wasting the UK's entrepreneurial potential."

Other key findings highlighted in the report include:

- Economic uncertainty is now the most frequently cited barrier to turnover for SMEs, followed by competition and labour costs.
- Late payments cost the UK economy an estimated £11 billion annually, with micro-businesses (businesses with less than 10 employees) most exposed.
- 45% of businesses have adopted AI, but there are differences depending on firm size with much lower rates among smaller businesses.
- Workplace mental health is a significant issue for businesses. Presenteeism is at its highest level since before the pandemic, affecting 37% of firms in 2025, yet only half of businesses have adopted mental health initiatives.
- Micro-businesses represent 81% of all employer firms and employ 4.2 million people, but remain both underserved and under-researched, even though analysis following a cohort of 239,000 firms over time has shown that they grow faster than larger firms

The report also warns that the business support system is facing a "severe funding threat" as the UK Shared Prosperity Fund concludes in March 2026, putting local enterprise support infrastructure at risk.

Mark Hart, Deputy Director of the ERC and Professor of Entrepreneurship at Warwick Business School, said: "The Government's small business strategy, published last summer, drew heavily on the ERC's evidence and insights, and set out some welcome commitments. But delivery is now at risk due to funding uncertainty.

"We need a stable, coherent business support system that reflects the realities of the UK's diverse business population. That means bringing the needs of micro-enterprises to the fore, tackling the late payment crisis, and ensuring every business owner – regardless of background and size – can access the support they need to grow."

Jane Galsworthy, Chair of the ERC Steering Group, added: "2025 was a year of mixed fortunes. While we see record-breaking entrepreneurial aspiration and a more diverse founder base emerging, many firms are struggling with rising costs, tax burdens, and a lack of clarity about future support. Urgent action is required in 2026 to ensure the Government's ambitious plans for growth are not undermined at the point of delivery."

NOTES TO EDITORS

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The [Enterprise Research Centre](#) (ERC) is the UK's leading independent research institute on productivity and innovation in small and medium-sized enterprises (SMEs).

It is funded by the Economic and Social Research Council (ESRC), the Department for Business and Trade, the Department for Science, Innovation and Technology, Innovate UK, The Intellectual Property Office (IPO), and the British Business Bank (BBB). Its research helps to shape better policies and practices that enable SMEs to thrive.

The Centre is based at [Warwick Business School](#) and is led by Professor Stephen Roper, Professor Mark Hart, and Dr Vicki Belt.

The State of Small Business Britain 2025: Navigating Uncertainty is the ERC's annual review of trends and issues affecting small businesses in the UK. It draws together key evidence from business surveys and the Centre's own research to give a picture of the current landscape for the UK's 5.7 million private sector businesses. The full report is available at: www.enterpriseresearch.ac.uk

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