State of the Nations research series

SUPPORT FOR R&D AND INNOVATION

IN CREATIVE INDUSTRIES MICRO FIRMS

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The Creative Industries Policy and Evidence Centre (Creative PEC) works to support the growth of the UK's creative industries through the production of independent and authoritative evidence and policy advice. Led by Newcastle University, with the Royal Society of Arts and funded by the Arts and Humanities Research Council, Creative PEC comprises a core consortium of Newcastle University, Work Advance, the University of Sussex and the University of Sheffield.

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Creative PEC's State of the Nations research series analyses the latest data across four thematic areas to inform the development of policies relating to the creative industries. Its scope is the whole of the United Kingdom, and wherever possible data is presented for all the nations and regions. Regular reports on each area will be published annually over the five years of the Arts and Humanities Research Council (AHRC) funding. The themes and corresponding Research Partners are:

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Contents

Foreword

Micro firms – businessess employing fewer than ten employees – make up 90% of the UK business population. It is well known that in the creative industries, that proportion is even greater, at 93%. But despite accounting for the majority of businesses, relatively little is known about the research and development (R&D) and innovation activities of micro firms.

For example, the source of official estimates of UK business spending on R&D, the Office for National Statistics (ONS) Business Enterprise Research and Development (BERD) survey, only included large numbers of small and medium-sized enterprises (SMEs) within its sampling frame from 2022, and the UK Innovation Survey explicitly excludes firms with fewer than ten employees.

The evidence gap is particularly important to address for the creative industries, because theory suggests that creative micro businesses should make outsized contributions to R&D and innovation. Like creative production itself, R&D projects are more likely to be human- rather than physical-capital intensive, more iterative and more reliant on freelance R&D workers to fill knowledge and skills gaps. For these reasons and more, we might expect to see a lot of creative R&D organised in and undertaken by smaller, more agile enterprises.

And this is indeed what we find, drawing on the results of a new cross-sector survey conducted by the National Centre for Universities and Business (NCUB). As well as capturing insights into how creative micro businesses invest in R&D compared with micro firms in other sectors, the survey gathers valuable information on the barriers to, and enablers of, innovation. We complement the findings with an analysis of R&D and innovation support measures in recent years from the Arts and Humanities Research Council (AHRC), Innovate UK (IUK), and the Department for Culture, Media and Sport (DCMS).

All in all, the report contributes to the evidence base on a vital, yet often hidden, part of the UK's creative industries innovation system. We'd welcome your comments on our findings.

Professor Hasan Bakhshi,
Director, Creative PEC

Executive summary

Research and development (R&D) and innovation are vital for the UK's future economic growth. To this end, increasing R&D and innovation is a priority in the UK's Industrial Strategy, with the strategy's sectors – including the creative industries – being supported to boost growth through innovation (HM Government, 2025). R&D refers to the creation of new knowledge, and innovation refers to the successful exploitation of that knowledge.[1]

From cutting-edge visual effects in film to world-leading stage design for global arena tours, the creative industries in the UK are renowned for their innovation. With their economic contribution growing rapidly over the past ten years, the UK's ability to support and drive R&D and innovation in the creative sectors matters increasingly to the prospects of the UK economy as a whole.

In the creative industries, R&D and innovation differ from other sectors, making use of advanced technologies in several ways: they typically rely on workers who do not formally have R&D in their job descriptions and face costs driven more by staff time than technology infrastructure (Siepel et al., 2022); they are often organised around clusters and ecosystems of project-based organisations, in which agility is essential (Sapsed et al., 2013); and they are characterised by a large number of micro firms (those with fewer than ten employees).

According to the Nomis platform, micro firms make up 93% of all businesses in the creative industries. Despite their small size, these firms are very innovative. Previous survey evidence from the Creative PEC's Creative Radar survey (Siepel et al., 2020) suggests that as many as 63% of micro firms engage in some form of R&D. Understanding R&D in creative micro businesses is therefore significant for the prospects of the UK's creative industries overall, but because these businesses are not always covered in official R&D statistics, major gaps exist in our understanding about how these firms engage with R&D and innovation.

This State of the Nations report aims to fill this gap by exploring R&D in creative micro firms. Future State of the Nations research will build on this research by exploring the role of universities in supporting innovation for the UK's creative industries.

1. Formally, R&D is defined as "… creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture, and society – and to devise new applications of available knowledge" (OECD, 2015), while innovation is defined as a "new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process)" (OECD, 2018).

This report explores data from a selection of UK Research and Innovation (UKRI)-funded R&D programmes supporting the creative industries, including Innovate UK (IUK)'s Creative Catalyst programme and the Arts and Humanities Research Council (AHRC)'s Creative Industries Clusters Programme (CICP). It also considers the Department for Culture, Media and Sport (DCMS)'s Create Growth Programme (CGP) grants scheme, which has been found to generate innovation benefits (DCMS 2025). It considers these alongside analysis of the share and characteristics of firms in creative industries Standard Industrial Classification (SIC) codes that have received awards from IUK, regardless of whether the schemes giving the awards were targeted at creative industries innovation. It complements this with evidence on firms' perceptions of their R&D activities and related needs using data from a new survey undertaken in early 2025 by the National Centre for Universities and Business (NCUB). The representative survey of 2,018 businesses, of which 1,640 were micro firms and 281 were micro firms in the creative industries, provides valuable insights into the role of R&D and the challenges faced by R&D-active firms in the sector.

Summary of findings

The NCUB survey reveals that 64% of creative industries[2] micro firms report participating in some form of R&D (using the Organisation for Economic Co-operation and Development (OECD) definition) in the past three years, versus 46% of all micro firms and 55% of micro firms in the seven other priority growth sectors identified in the UK Industrial Strategy.

Creative industries micro firms are significantly more likely than the wider population of micro firms in the UK – and than those firms in other Industrial Strategy priority sectors – to consider the integration of new technology into their products and services as vital, indicating that R&D and innovation are critical to their business (see Figure E1). Of creative industries micro firms, 44% plan to engage in R&D over the next three years, compared with just 24% of micro firms more generally. In short, mirroring what we know about larger firms (Nana-Cheraa and Roper, 2025a), creative micro firms are significantly more likely to engage in R&D than other micro firms.

Although creative micro firms are significantly more likely to have plans for R&D, the NCUB data shows the anticipated cost of these plans is often modest, with 47% of creative micro firms' plans costing less than £50,000 and 34% costing less than £25,000. But creative micro firms are also significantly more likely to have plans for R&D they cannot cost – 37% of respondents with plans for R&D could not estimate how much their intended R&D project would cost. The NCUB data further shows that creative micro firms are more likely to cite competition and availability of funding as barriers to R&D, and are also more likely to desire a range of financial and non-financial support measures, such as support for product development (27%), early-stage growth (18%), development of R&D capabilities (18%) and networking (16%) (see Figure E2).

2. We define this as companies that identify as being in the creative industries, as well as some companies in 'Digital and Technology' and IT sectors. Full details are provided in Section 2.

But there also appear to be clear gaps in the provision of information: half of R&D-active creative micro firms do not access guidance or advice about R&D and innovation, significantly more than micro businesses in other, non-creative UK Industrial Strategy priority sectors. Overall, this points to gaps in both access to finance and business support for R&D and innovation in micro firms in the creative industries.

We look at how creative industries micro firms have benefitted from innovation and growth schemes targeted at supporting creative industries innovation activities. These schemes, including Creative Catalyst, the CICP and the CGP, have selected projects or firms that have some activities related to creative sectors, rather than specific SIC codes. Given our focus on creative industries, we specifically analyse support for businesses within the creative industries SIC codes. Our analysis suggests that all three schemes tend to support businesses receiving their public funding support for the first time (indeed, some Creative Catalyst funds explicitly targeted companies seeking their first public support). Furthermore, we also find that among the companies participating in the CICP from 2018 to 2023, 18% went on to receive other public innovation support from IUK, indicating the beginning of a pathway to help companies develop their innovative offerings. A smaller share of Creative Catalyst and CGP-supported firms went on to receive funding, but with those programmes running from 2022 to 2024, less time has elapsed since the initial awards. We also find that creative industries firms are significantly less likely to have received multiple public R&D awards than other sectors.

We next consider IUK funding in aggregate. Our analysis shows that from 2015 to 2024, the share of awards to micro firms in the creative industries (here identified as those firms with SIC codes in the DCMS creative industries definition) increased greatly from 6% of all awards to micro firms in 2015 to 26% in 2024, underscoring the increased attention IUK has been giving the sector (Fiddian, 2022). For much of the earlier period in particular, a majority of creative industries firms receiving awards were in the 'IT, Software and Computer Services' sector. The increase in overall IUK funding for creative industries firms has been disproportionately important for micro firms compared with other creative industries firms, in large part due to sector-specific investments – particularly Creative Catalyst, which targeted projects (including, in some cases, through calls with a maximum value of £50,000) focused on creative industries areas (apart from 'IT, Software and Computer Services', redressing the previous imbalance toward 'IT, Software and Computer Services') and benefitted micro firms.

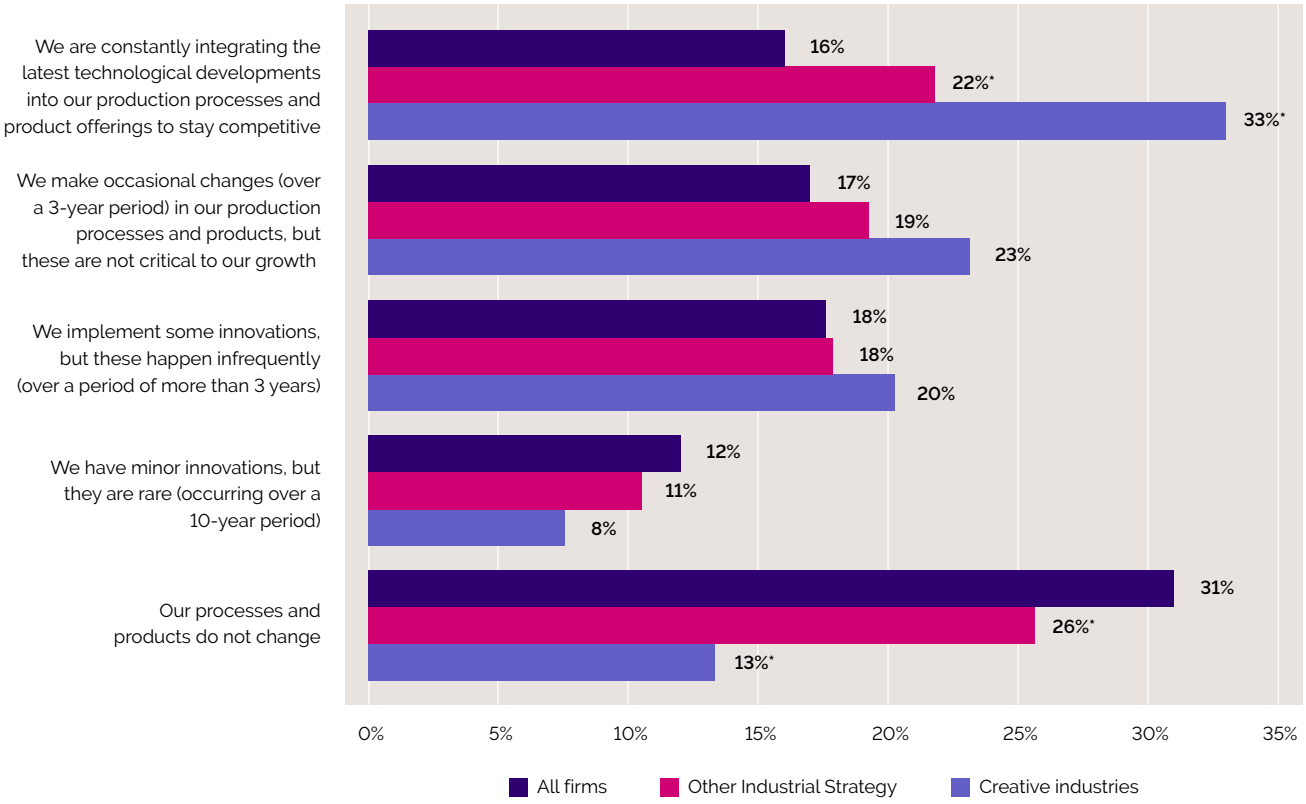
Within companies in the creative industries, a majority of projects relate to digital and software, but the share of businesses in SIC codes outside 'IT, Software and Computer Services' has increased substantially as new policy initiatives have targeted projects involving other areas in the creative industries. In terms of geography, London and the South East have historically received many awards, but recent policy efforts such as Creative Catalyst utilise a portfolio approach to ensure that firms across the UK benefit. Consequently, awards to creative industries firms are now roughly in line with the regional distribution of creative industries in the UK overall (reinforcing the trend set by the AHRC's CICP (Frontier Economics and BOP Consulting, 2024)). Awards predominantly go to firms in established clusters, with 83% of awards to creative micro firms located in the UK's fifty-five creative clusters identified by DCMS (Frontier Economics, 2022). Over half (51%) of awards were given to firms in the creative microclusters identified in Siepel et al. (2020), with 7% of awards going to businesses in microclusters outside the fifty-five established creative clusters.

In conclusion, the report provides important evidence about R&D and innovation in creative micro firms. It finds that, compared with other micro firms in other sectors (including the other seven priority sectors from the Industrial Strategy), creative micro firms are more likely to view R&D and innovation as vital. Creative micro firms also are more likely to cite financial and non-financial barriers to R&D and innovation. Further, we find that creative micro firms are receiving increasing attention from public R&D and innovation funders. Our evidence shows that these firms benefit from a pathway of funding from different sources. We also emphasise the need for improved data and evidence on R&D in micro firms, including on the levels and uptake of innovation support, to better evaluate R&D support interventions and ensure that policies help the smallest creative industries firms achieve their growth and innovation potential. While this report has focused on creative micro firms, future research in this series will examine R&D and innovation support to creative industries businesses through universities more broadly, including from the rest of UKRI, which in the case of AHRC is very considerable.

Policy considerations

- Creative micro businesses are disproportionately likely to engage in R&D, but the obstacles they face are not only financial, but also managerial and organisational. The financial requirements for R&D spend are often modest – one-third of creative micro businesses' R&D anticipated plans cost less than £25,000. However, 37% of creative micro businesses plan to engage in R&D but cannot produce costs for new R&D projects at all. Creative micro businesses are also more likely than the general population and the other priority sectors in the Industrial Strategy to have untapped appetite for non-financial support. Strengthening R&D and innovation in creative micro businesses will therefore require both financial (including below typical minimum funding levels) and non-financial support.
- Policies to support R&D and innovation in creative sectors, particularly micro firms, need to be coordinated to minimise gaps and duplications. Our findings echo the recent recommendation of the House of Lords enquiry 'Scaling up – AI and creative tech' (House of Lords, 2025) for clear support pathways as companies scale up. The need for clear pathways is particularly relevant for the creative industries and micro businesses, where current and forthcoming interventions from UKRI, the British Business Bank and the National Wealth Fund, along with local support, all have the potential to access untapped demand for innovation and growth support. But these require alignment to ensure appropriate support is available for all innovative creative firms, regardless of size. Moreover, our analysis highlights the need for clear signposting for businesses about available support, which is one key recommendation of the government's recent Small Business Strategy.
- With place-based interventions coming in the form of two new waves of the CICP, support for six Strategic Authorities to boost their creative industries and the Local Innovation Partnerships Fund coming online, it is important to ensure that creative micro businesses are appropriately supported within these programmes. We find that non-financial interventions are crucial to boost the quantity and quality of interactions in the local community – just as important as pure financial support.
- Many evidence and data gaps remain, relating to R&D and innovation for creative industries and particularly for creative micro firms. Data on current R&D interventions, such as R&D tax credits, should be made available (with appropriate safeguards for data confidentiality). New policy interventions supported through the Creative Industries Sector Plan should also have robust frameworks to make data available for analysis and evaluation, especially regarding how different schemes interact.

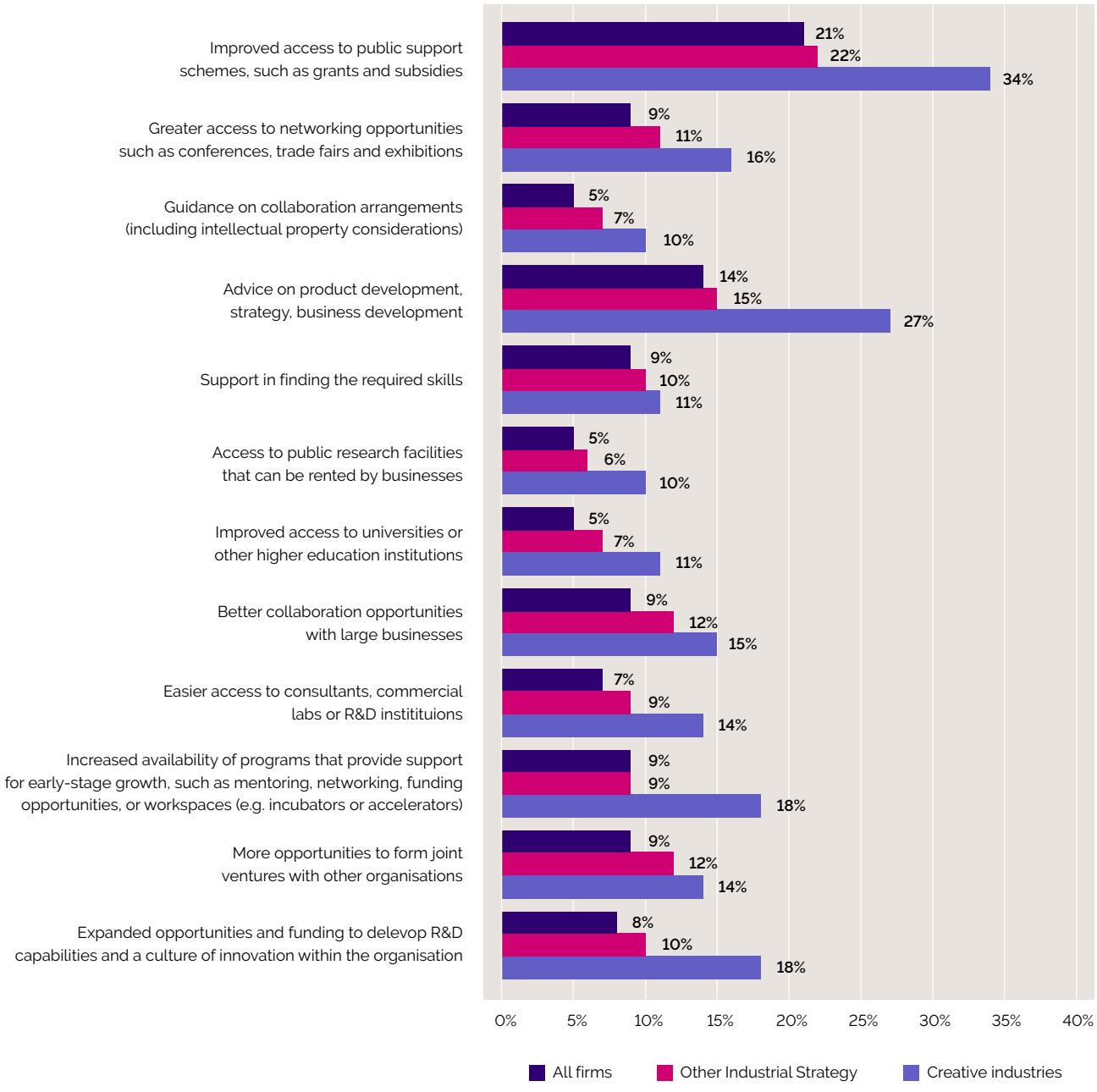
Figure E1: Micro firms' views on the importance of R&D



Source: Authors' elaboration based on NCUB (2025). Other Industrial Strategy includes: 'Advanced Manufacturing', 'Clean Energy', 'Digital and Technology', 'Financial Services', 'Life Sciences' and 'Professional and Business Services'. Unweighted sample sizes are n=281 for creative industries micro; n=580 for Industrial Strategy micro; n=1640 for all micro firms.

* Significance to t-test at 0.05 level, comparing the sample with the overall population.

Figure E2: Appetite for public support for R&D among micro firms



Source: Authors' elaboration based on NCUB (2025). Other Industrial Strategy includes: 'Advanced Manufacturing', 'Clean Energy', 'Digital and Technology', 'Financial Services', 'Life Sciences' and 'Professional and Business Services'. Unweighted sample sizes are n=281 for creative industries micro; n=580 for Industrial Strategy micro; n=1640 for all micro firms.

* Significance to t-test at 0.05 level, comparing the sample with the overall population.

1 Introduction

Against the many challenges facing the UK economy, which include growth, productivity and regional inequality, R&D and innovation are widely regarded as key solutions, as indicated by the government's commitment to spend £22.6 billion annually on R&D by 2029–2030 in support of the new Industrial Strategy.

Investments in R&D have the potential to develop new products and services that drive growth, while the diffusion of innovative technologies throughout the economy can help improve productivity. The creative industries, as one of the priority sectors in the Industrial Strategy, have an important role to play in driving R&D and innovation in the UK economy, and the Creative Industries Sector Plan (HM Government, 2025) has announced a series of new interventions to boost innovation and growth in the sector.

This report considers R&D and innovation from the perspective of micro businesses – that is, businesses with fewer than ten employees. It examines creative micro firms' activities, barriers and motivations for R&D and innovation, and also explores the implications for micro firms of recent public investments to support R&D in the creative industries (IUK's Creative Catalyst programme, the AHRC CICP and the DCMS CGP grant scheme) along with other IUK funding to support R&D and innovation.

Micro businesses play a major role in the economy, with 90% of the UK firm population having fewer than ten employees (Bakhshi et al, 2025; Nana-Cheraa and Roper, 2025b). Across the economy more generally, micro businesses tend to have lower productivity and innovation, and it has been argued that a predominance of micro businesses has a dampening effect on economic dynamism (Nightingale and Coad, 2014) that outweighs their flexibility and innovation potential. However, this is not the case for all sectors dominated by micro businesses. The share of micro firms in a sector is closely related to industrial structure; for instance, the life sciences are a highly innovative sector characterised by strong demand for investment to drive scale economies (Hopkins et al., 2013), and only 74% of firms in the sector are micro firms. But the creative industries have a high concentration of micro firms, with 93% of creative businesses having fewer than ten employees, while also being a sector characterised by high growth and innovation in large and small firms.

Clear reasons exist for the preponderance of micro firms in creative sectors – many creative businesses across both services and content work on discrete projects and rely on freelancers to fill skills gaps and ensure flexibility (Siepel et al., 2020), making scale economies – as seen in other sectors – more difficult to achieve (Tether, 2021). On this basis, even though micro firms make up a proportionally smaller share of employment and gross value added (GVA), they remain crucial as parts of ecosystems and supply chains. These and other factors – for instance, the importance of clustering and agglomeration for the creative industries (Siepel et al., 2023) – mean that the context of creative industries policy interventions deserves closer attention to identify where and how demand for policy support matches existing and previous interventions.

Recent years have seen several novel interventions and approaches to support R&D within the creative industries. Examples include IUK's Creative Catalyst programme (from 2022 to 2024), a national programme providing R&D funding for innovative businesses in and adjacent to creative sectors across the UK, and AHRC's investments in the CICP from 2018 to 2023 (see Frontier Economics and BOP Consulting, 2024) and CoSTAR, which have focused on geographical and sectoral clusters as the basis for research. Other investments, such as the DCMS CGP (DCMS, 2025), only focus on regions that have historically faced barriers to investment.

As the creative industries anticipate the implementation of the Industrial Strategy, it is useful to better understand the economic impact of micro firms and the nature of these firms' R&D and innovation activities, as well as to capture how policy interventions can better support innovation and growth in the sector. This report (and its follow-up) will explore these areas. Micro firms do not appear in innovation statistics like the UK Innovation Survey or, until recently, the Business Expenditure on R&D (BERD) survey. And limited questions on innovation in the Longitudinal Small Business Survey mean that a substantial part of the UK innovation ecosystem overall (and particularly for the creative industries) is not always well understood. Therefore, the report aims firstly to better understand R&D and innovation in these firms, and secondly to explore the funding ecosystem for R&D, especially for micro firms, and how this system relates to other policy interventions. In doing so, it will help ensure that future funding interventions are best placed to take account of lessons learnt.

1.1 Innovating in the creative industries

R&D and innovation are vital drivers of growth for the creative industries. A stream of previous research (Siepel et al., 2016; Gkypali and Roper, 2018; Bird et al., 2020; Siepel et al., 2020; Tether, 2021; Siepel et al., 2022; Bakhshi, 2022; Nana-Cheraa and Roper, 2025a) has discussed the nature of innovation and R&D in creative sectors, concluding that while there are high levels of innovation, the creative industries differ from other sectors in certain aspects such as in the organisation of projects and the types of knowledge used.

Innovation and R&D are often discussed interchangeably, but it is important to distinguish between them and understand their respective roles in the economy. According to the OECD Oslo Manual, innovation refers to a "new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process)" (OECD, 2018). Innovations can be new and improved products, processes, market positions or paradigms (Tidd and Bessant, 2020). Therefore, one key economic impact of innovation is not just the development of innovations themselves, but their adoption.

R&D, by contrast, is a narrower phenomenon. According to the OECD's Frascati Manual, "Research and experimental development (R&D) comprise creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture, and society – and to devise new applications of available knowledge" (OECD, 2015). R&D is one way in which firms may invest in innovation, but it is not necessarily the only way. For firms, the outcomes of the R&D process are inherently uncertain, and there is no guarantee that they will be able to capture all of the social or economic value produced by the new knowledge created. R&D's uncertain and uneven returns have the potential to lead to market failures, and therefore private R&D is a common target of policy interventions (Martin and Scott, 2000; Klette et al., 2000; Choi and Lee, 2017).

The creative industries are a sector that produces, and relies upon, intangible outputs such as services, intellectual property or software (Siepel et al., 2022). The nature of investment in sectors with heavy intangible assets is likely to rely on intangible investments, and R&D is one major way in which companies can invest in intangibles (Corrado et al., 2005; Scheffel and Thomas, 2011). Because outputs in creative industries are highly differentiated and their success is either uncertain or customised to meet client needs (Caves, 2000), R&D can be a vital activity to maintain competitiveness. But the organisation of R&D and nature of the knowledge used for R&D in the creative industries may differ, with these firms more likely to spread R&D work across the entire workforce, use freelancers and draw on knowledge from arts, humanities and social sciences disciplines in their work (Bakhshi, 2022; Siepel et al., 2022).

1.2 R&D and innovation in creative micro firms

The industrial structure of the creative industries is characterised by a disproportionate number of micro firms – those with fewer than ten employees (Bakhshi et al., 2025). Much of what we know about innovation and R&D in creative industries micro firms comes from one-off studies specifically targeting the sector (Siepel et al., 2020; Bird et al., 2020; Tether, 2021; Siepel et al., 2022; Bakhshi et al., 2025). It is therefore difficult to benchmark creative micro firms against the rest of the economy. The UK Innovation Survey, the UK's largest survey of innovation activities across the economy, excludes firms with fewer than ten employees. While the UK Innovation Survey can be helpful for understanding the differences in innovation between creative industries and other firms (see Nana-Cheraa and Roper, 2025a; Gkypali and Roper, 2018), the vast majority of innovative creative firms are not considered. Likewise, other surveys such as BERD have only captured micro businesses since 2022 (DCMS, 2022) and, in its shortened form, only asked micro firms a few questions, largely about concrete spending on R&D. Given that R&D in creative firms may be project based and embedded in staff and freelancer time (Siepel et al 2022), measures of spending from BERD may not provide enough detail about how creative industries engage with innovation and R&D compared with other sectors. The largest survey that includes micro firms, the Longitudinal Small Business Survey (see Nana-Cheraa and Roper, 2025b), does ask some questions about innovation and R&D but these are relatively limited,[3] particularly with regard to understanding the motivations behind and barriers to innovation.

This report addresses this gap by drawing on a new survey of R&D in micro, small and medium-sized firms and funding data from UKRI (specifically IUK and AHRC). We aim to answer the following research questions: what are the characteristics of innovation and R&D in creative micro firms, what barriers do they face and how are these similar or different to other sectors in the UK Industrial Strategy? Also, how are creative micro firms currently supported by direct R&D grant provision from IUK? Micro firms across all sectors face common challenges, such as lack of scale, staff or financial resources. The existence of these barriers can provide strong rationale for public sector intervention, either through financial or non-financial support measures. Conceivably, some disadvantages faced by creative micro firms may be common across all micro firms, while others may be sector specific and thus require specific policy attention.

The report answers these questions by analysing a new survey conducted in January 2025 for NCUB (see Velez Ospina and Breslin, 2025 for an overview). This survey of R&D and innovation in 2,018 SMEs across the economy is the largest to include micro businesses, with 82% of the final weighted sample capturing micro firms, and creative industries making up 13% of the micro firms in that sample. It captures granular questions about companies' engagement with innovation and R&D in the past and future, and the barriers these companies face.

3. The 2023 Longitudinal Small Business Survey asks whether firms had introduced any new or significantly improved goods and/or services; whether those goods or services were new to the market or new to the business; whether they had engaged in R&D; and whether the company had received innovation support. The survey data is useful for exploring antecedents of innovation and may be used in future research, but the NCUB data used in this report provides a richer set of responses.

We complement the evidence on firms' perceptions about R&D with evidence on the public funding of R&D for creative micro firms. To do this, we use data on specific R&D programmes funded by UKRI IUK from 2015 to 2025, including the IUK Creative Catalyst programme and the DCMS CGP grants scheme, which was administered by IUK. We use AHRC data about businesses participating in the CICP to explore the landscape for these programmes and their interactions. These do not represent all innovation funding but capture several major initiatives, allowing the report to present some insights about the funding environment for micro firms.

The data used in this report has several limitations. Firstly, in some of the datasets (including the NCUB dataset), no sub-sectoral breakdown is available for the creative industries, so it is difficult to identify specific issues or trends below the level of creative industries. In addition, while regional data is available in the NCUB dataset, the number of observations for creative industries in each region is too low to make statements about regional trends. It should therefore be assumed that the analysis in this report serves as a starting point for building an evidence base about R&D and innovation in micro firms.

In our analysis in Section 3, we focus on firms with SIC codes in the creative industries. Some of the programmes targeted towards the creative industries, however, do not define eligibility by SIC code. This creates a methodological problem, which we discuss in that section. In addition, our analysis focus on micro firms, which is to say those firms with fewer than ten employees. There is also a risk that in some data used in Section 3, we may be identifying freelancers – self-employed workers who are technically employees of their own company. Limited literature exists on innovation among freelancers (see, for example, Sapsed et al., 2015), but our aim here is, admittedly, to discuss firms and not freelancers.

Finally, when it comes to the analysis of funding, the report does not focus on either the commercialisation of research in creative industries or R&D activities awarded by funders outside of IUK and AHRC and does not include more recent programmes such as CoSTAR. As mentioned above, these topics will be addressed in detail in future reports. Therefore, the findings here should not be interpreted as absolute statements about all R&D funding to creative micro firms.

The report begins by considering, in Section 2, the incidence of micro firms, their characteristics, and how these relate to innovation and R&D, as well as the nature of R&D funding and barriers and opportunities for business support. It then discusses the supply of R&D funding to micro firms in Section 3, focusing on data from IUK, the largest provider of public support for R&D. It then discusses the policy implications of our findings in Section 4.

2 R&D and innovation in creative micro firms

As discussed above, most creative industries firms are micro firms with fewer than ten employees. The implications of this predominance of micro firms can be underappreciated from a policy context. Therefore, in this section, we discuss the number and underlying characteristics of micro firms and provide evidence about the extent to which they engage in innovation and R&D activities.

2.1 Micro firms in the creative industries

According to the ONS Nomis platform, there were 248,460 creative micro businesses in the UK in 2024, compared with 14,235 small firms (those with 10–49 employees), 2,755 medium-sized firms (with 49–250 employees) and 515 large firms (with more than 250 employees). This means that, when compared with figures for the overall economy,[4] creative industries firms make up 10% of all micro firms, 6% of all small firms, 6% of all medium-sized firms and 4.5% of all large firms. Table 2.1 and Figure 2.1 below show the magnitude of micro firms in the creative industries.

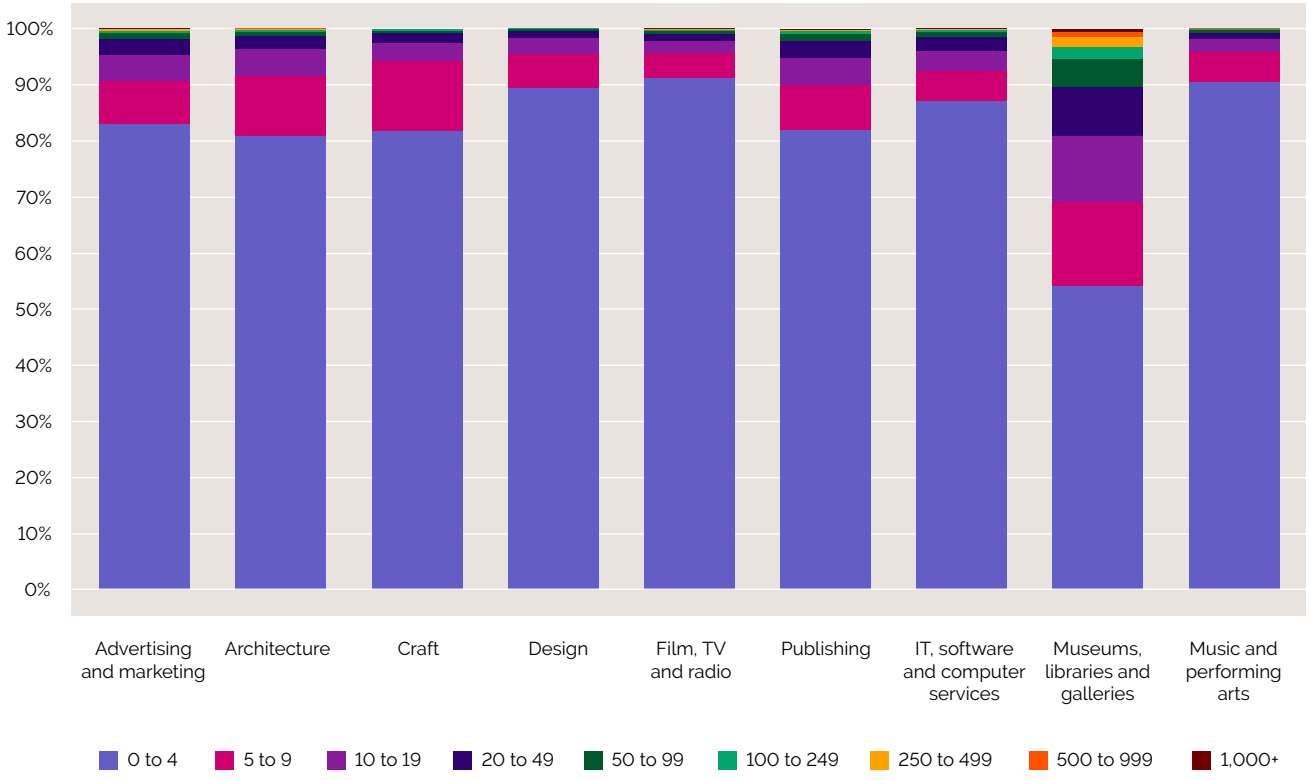
Table 2.1: Count of firms in the creative industries, by size band

Sector	Advertising and marketing	Architecture	Craft	Design	Film, TV and radio	Publishing	IT, software and computer services	Museums, libraries and galleries	Music and performing arts	Total
0–9	24,290	13,190	1,410	22,825	37,070	9,360	102,090	740	37,485	248,460
10–19	1,205	695	50	680	885	490	3,835	125	945	8,910
20–49	780	350	25	310	440	325	2,620	95	395	5,340
50–99	275	100	5	60	190	120	935	55	140	1,880
100–249	115	50	5	10	90	55	430	20	85	860
250–499	55	15	0	0	20	15	145	20	20	290
500–999	25	5	0	0	15	5	55	10	5	120
1,000+	5	0	0	0	15	15	45	5	0	85

Source: Authors' elaboration from ONS NOMIS UK Business Count Data.

4. 2024 business count data from Nomis shows 2,428,740 micro firms in the UK economy, with 241,165 small firms, 43,580 medium firms and 11,285 large firms.

Figure 2.1: Share of firms in size bands, by DCMS sub-sector



Source: Authors' elaboration from ONS Nomis UK Business Counts data.

Figure 2.1 shows that, excepting 'Museums, libraries and galleries', in every creative industry sub-sector more than 90% of businesses have fewer than ten employees. While creative micro firms make up the vast majority of businesses in the creative industries, they also have a considerable economic impact. Simple estimates of GVA[5] indicate that creative micro firms contribute approximately one-fifth of the entire creative industries GVA (which, according to DCMS estimates, was £125 billion in 2023). This suggests an annual contribution of approximately £22–24 billion to the UK economy but also represents an opportunity for growth: a 10% increase in turnover for creative micro firms would result in as much as £2.5 billion in additional economic growth.

5. Calculating GVA can be complicated and challenging, particularly for smaller firms. We can use two approaches to arrive at these figures. Both rely on the assumption that turnover is closely correlated to GVA; in services sectors, one method of estimating GVA is to multiply a firm's annual turnover by 0.6 as a proxy for its GVA. (The factor is lower for sectors such as retail.) One way to estimate GVA is to take the total turnover for creative industries in the UK, estimated by the ONS as £204 billion in 2021 (ONS, 2023). According to the House of Commons Library (Hutton, 2024), micro firms make up 20% of UK turnover. Extrapolating this to creative industries would mean a micro firm turnover of £40.8 billion, and multiplying by the 0.6 factor would yield an estimated GVA of £24 billion. An alternate approach would be to use turnover from businesses and gross up by the number of all businesses in the UK. If we use the mean turnover of micro businesses from the survey in Bakhshi et al (2025) – £145,289 – multiply that by 0.6 and then multiply that by the number of micro businesses in Table 2.1, we arrive at a figure of £22 billion. Between these two approaches, it seems likely that the actual figure is within this vicinity..

The high number of micro firms in the creative industries could have knock-on effects that have implications for innovation. First, micro firms have relatively lower levels of use of external finance. In the recent Creative PEC/ Creative UK survey of access to finance (see Bakhshi et al., 2025), the median firm with fewer than ten employees had used only £15,000 of external capital. Where micro companies had sought new capital, they did so mostly to boost cash flow (57%), develop new projects or invest in R&D (49%), or fund a specific project (33%). This is telling: it highlights that for the smallest creative firms, investment is closely tied to developing new products and services.

Another factor that impacts creative micro businesses is location and access to information. Access to information about areas such as finance is an issue in the creative industries, particularly for the smallest firms (Bakhshi et al., 2025). However, access to information and knowledge in general can also be problematic. This is one reason why creative clustering and microclustering are important. Creative clusters and microclusters refer to areas with a concentration of creative firms across a neighbourhood, city or region. Research by DCMS looking at the concentration of creative industries identifies fifty-five creative clusters in the UK, located at the city or commuting zone level (DCMS, 2022). Creative PEC research also identifies 709 creative microclusters, located at the street, neighbourhood or town level (Siepel et al., 2020). Being in a cluster or microcluster brings substantial advantages, particularly in terms of knowledge flows due to the proximity of similar businesses (Bloom et al., 2020).

2.2 Innovation and R&D in micro firms

In this sub-section, and the remainder of the section, we present insights from the NCUB survey of R&D and innovation in micro and small firms (see the summary in Velez Ospina and Breslin, 2025). The survey asked respondents if they are part of any of seven UK Industrial Strategy sectors ('Creative Industries', 'Advanced Manufacturing', 'Clean Energy', 'Digital and Technology', 'Financial Services', 'Life Sciences' and 'Professional and Business Services'). 'Defence', the eighth Industrial Strategy sector, was not included in the list of options. Our definition of creative industries included all firms that said they were in 'Creative Industries' or that identified as being in some 'Professional and Business Services' sectors, to include firms in 'IT, Software and Computer Services'[6] (details of the process are available in the appendix). We then compared creative industries firms – using our definition as mentioned above – against firms in other Industrial Strategy sectors not included in our creative industries definition. For more details about the survey, its structure and analysis, please see NCUB (2025) and the appendix. Please note that due to limitations in sample size, we are unable to explore creative SMEs (that is, those firms with 10-249 employees), either in comparison to micro firms or to the general population. Values for the full sample are also in the appendix.

6. To identify creative industries firms in the NCUB data, there was a methodological challenge. Respondents were asked to identify a broad sector group, such as manufacturing or information technology. They were also asked to tick as many Industrial Strategy sectors as they felt their activities were part of. 'Creative Industries' is one, but the definition used in the survey did not include IT, which was listed in under 'Professional Services'. Other IT businesses could potentially be located in the Digital and Technology Industrial Strategy sector as well. To address this, we coded as creative industries any business that:
   1. Identified 'Creative Industries' as its Industrial Strategy sector
   2. Identified as in the 'Digital and Technology' AND the 'Professional Services' Industrial Strategy sectors, thus capturing services firms in 'Digital and Technology'
   3. Identified as in the 'Information Technology' overall sector AND the 'Professional Services' Industrial Strategy sector
   4. Identified as being in the 'Professional, Technical and Scientific Services' overall sector AND the 'Digital and Technology' Industrial Strategy sector

To capture innovative activity, NCUB asks a standard question, as used in the UK Innovation Survey, to understand whether a company engages in innovation: whether the company has introduced product innovations, process innovations, new organisational structures or new marketing innovations, typically over the previous one to three years, depending on the study. In the NCUB survey, 58% of creative micro firms said they engaged in some form of innovation, compared with 44% of the general population of micro firms.

Capturing R&D in creative businesses can be more challenging. Even though the OECD provides a clear definition, the nature of R&D in creative sectors is such that, to businesses themselves, their activities may not appear to actually be R&D. One reason for this is that R&D in the sector may rely on creating new knowledge that draws from disciplines such as the arts, humanities and social sciences (Bakhshi, 2022; Siepel et al., 2022). In any case, the survey data provides evidence that micro businesses are active in R&D. In the NCUB data, 64% of creative micro firms said they were engaged in R&D when prompted with the OECD definition,[7] a statistically significant difference compared with 55% of micro firm respondents from other, non-creative Industrial Strategy sectors[8] and 46% of the general population of micro firms. By comparison, analysis of micro firms in the Longitudinal Small Business Survey (Nana-Cheraa and Roper, 2025b) found that 13% of micro firms reported having engaged in R&D in 2023.[9]

7. Companies engaging in R&D were identified using two questions.

   [C3a] Does your organisation have a dedicated budget for *research and development (R&D) ** R&D involves three main activities: basic research, applied research, and experimental development. R&D is the creative and systematic work that helps increase knowledge and find new ways to apply that knowledge to solve problems or improve your business?
   <1> Yes
   <2> No
   <3 xor> Don't know/can't recall

   [C3b] How has your organisation conducted activities in the past three years (i.e. since January 2022)?
   <1> In-house
   <2> Outsourced to external parties (e.g. other businesses, universities, public or private research institutions)
   <3> In collaboration with other organisations (e.g. businesses, public or private research institutions)
   <4 xor> Not applicable – My organisation has not done any R&D in the last 3 years
   <5 xor> Don't know/can't recall

   Respondents who answered 'Yes' to C3a or code <1>, <2> or <3> to C3b were coded as being R&D active. Respondents who answered 'No' or 'Don't know/can't remember' to C3a and 'Don't know/can't remember' to C3b were coded as missing values.

8. The other Industrial Strategy sectors included in the NCUB survey in addition to 'Creative Industries' are 'Advanced Manufacturing', 'Clean Energy', 'Digital and Technology', 'Financial Services', 'Life Sciences' and 'Professional and Business Services'. 'Defence', the eighth Industrial Strategy sector, was not included in the list of options. Note that there are some overlaps between these other sectors and the DCMS creative industries definition; how we handle these is discussed in the appendix. Respondents were coded as being in one of the other Industrial Strategy sectors if they said that their activities were in one of those sectors, and if they did not meet the definition of the creative industries discussed in the appendix.

9. This difference is likely due to sampling strategies between the studies, with the Longitudinal Small Business Survey having a larger sample frame but also a greater share of micro firms in other sectors with large numbers of micro firms.

The figure from NCUB data for creative firms is very close to the one from the Creative Radar study (Siepel et al., 2020), where 63% of micro businesses reported engaging in R&D when prompted with the OECD definition. Given the 64% figure using this survey is based on a representative sample, and there are 248,460 creative micro firms in the UK, we can estimate that 159,014 creative micro firms are engaging with R&D – much more than the population of all businesses in Birmingham, Manchester, Bristol and Leeds combined.[10] On balance, this would suggest that there are 164,260 R&D-active creative firms in the UK, and 97% of them are micro firms. The growth potential of creative micro firms is highlighted by companies such as ElevenLabs, the AI voiceover startup founded in London in 2022 which is now a 'unicorn' with a valuation over $1 billion; Gravity Sketch, a design and 3D visualisation platform for automotive, footwear and industrial designers founded in 2016; Marshmallow Laser Feast, an immersive tech company founded in 2015; and The Social Shepherd, a digital agency founded in Bath in 2018.

Beyond the sheer number of R&D-active firms, the survey evidence suggests that creative industries businesses are more likely to view R&D as critical to the competitiveness of their business. This is shown in Table 2.2, which reflects a question that asked companies how important it was to continue updating new processes and product offerings. Companies that do not regularly need to update their products and processes are unlikely to feel the need for innovation and R&D activity, while those facing constant technological developments and market pressure are more likely to need to continually innovate. The analysis in Table 2.2 shows that creative industries businesses – both micro businesses and the creative industries overall – are significantly more likely than both the general population and firms in other sectors identified in the Industrial Strategy to be constantly engaging in innovation and R&D to maintain competitiveness. Notably, although firms in non-creative industries Industrial Strategy sectors are more likely than the general population to view R&D as essential, creative industries firms are more likely yet again to view integrating the latest technological developments as essential for competitiveness, with one-third of creative businesses and creative micro businesses holding these views. This clearly indicates that for many creative businesses, innovation and R&D are vital – aligning with the findings of the UK Technology Adoption Review (HM Government, 2025), which highlights the need for access to facilities to access the latest technologies, particularly for small creative firms.

10. Using Nomis Business Counts data for towns and cities, Birmingham has 36,005 businesses, Bristol 21,760, Leeds 17,285 and Manchester 24,900. Between them, this is only 99,950. One could also add all firms in the local authorities for Glasgow City, Edinburgh City and Aberdeen City and still not reach 159,014 (the estimated total number of creative micro firms).

Table 2.2: Micro firms' views on the importance of R&D as a driver of competitiveness

Views	Micro firms			All firms		
	Creative industries	Non-creative industries Industrial Strategy[11]	All firms	Creative industries	Non-creative industries Industrial Strategy[12]	All firms
We are constantly integrating the latest technological developments into our production processes and product offerings to stay competitive	**33%***	**22%***	16%	**34%***	**25%***	17%
We make occasional changes (over a 3-year period) to our production processes and products, but these are not critical to our growth	23%	19%	17%	26%	21%	19%
We implement some innovations, but these happen infrequently (over a period of more than 3 years)	20%	18%	18%	18%	19%	18%
We have minor innovations, but they are rare (occurring over a 10-year period)	8%	11%	12%	8%	9%	12%
Our processes and products do not change	**13%***	**26%***	31%	**12%***	**23%***	28%

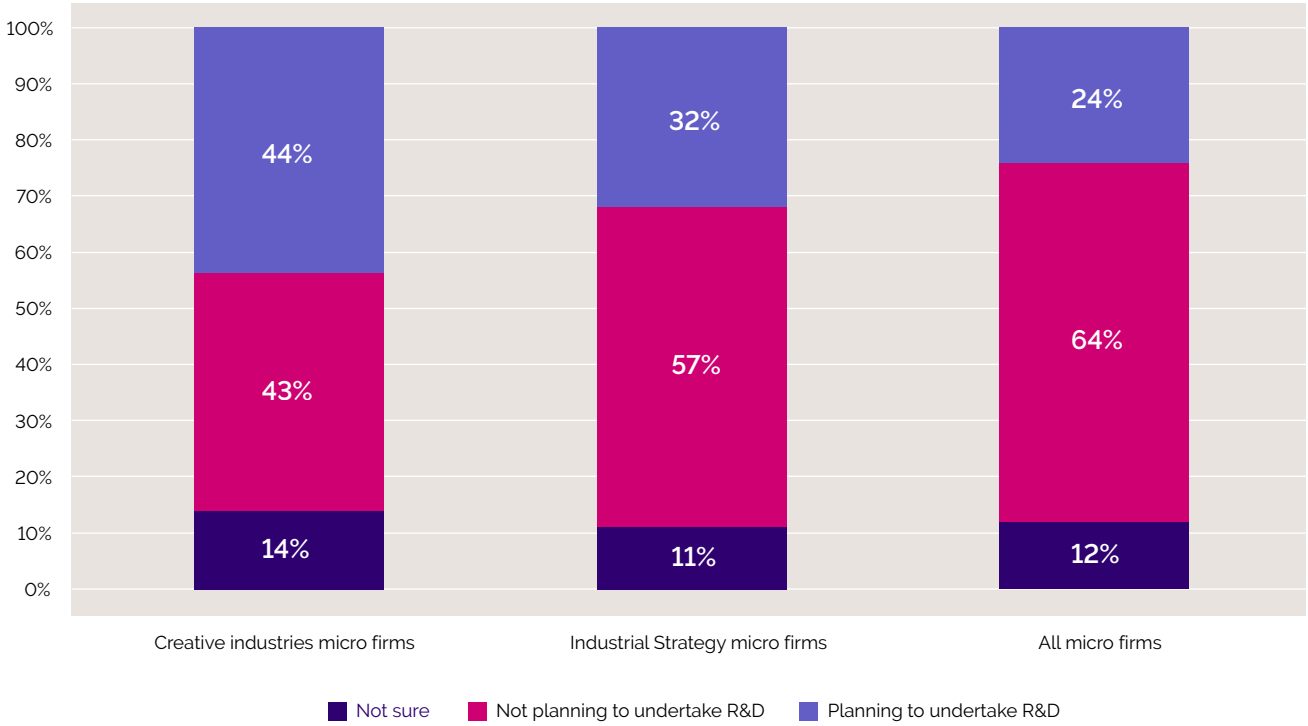
Source: Authors' elaboration based on NCUB (2025). Unweighted sample sizes are n=281 for creative industries micro; n=580 for Industrial Strategy micro; n=1640 for all micro firms; n=318 for creative industries all firms; n=720 for Industrial Strategy all firms; and n=2018 for all firms.

* Significance to t-test at 0.05 level, comparing the sample with the overall population.

The importance of R&D for creative micro businesses is also reflected in these firms' future plans for R&D. Because of the costs involved, businesses are unlikely to plan to carry out R&D unless critical for their long-term prospects. Figure 2.2 shows the share of firms anticipating engaging in R&D in the next three years from the time of the survey (that is, by January 2028).

11. See Footnote 2.
12. See Footnote 2.

Figure 2.2: Share of micro firms planning to undertake R&D in next three years



Source: Authors' elaboration from NCUB survey data. Unweighted sample sizes are n=281 for creative industries micro; n=580 for Industrial Strategy micro; n=1640 for all micro firms.

* Significance to t-test at 0.05 level, comparing the sample with the overall population.

The figure indicates that micro firms in the creative industries are nearly twice as likely to plan to engage in R&D compared with the general population of micro firms, a statistically significant difference at the 5% level. They are also nearly one-third more likely to plan on engaging in R&D than companies in other sectors within the Industrial Strategy – also statistically significant. The results in Figure 2.2 are qualitatively similar to the distribution for the rest of the sample, which is reported in the appendix. On balance this suggests that, in line with the findings discussed above, creative firms – including micro firms – face an imperative to engage in R&D to retain competitiveness.

Among firms planning to carry out R&D, the nature of these activities may vary substantially from basic research (research without a clear scientific objective) to applied research (which focuses on applications or solutions for a specific problem) or experimental development (applying research findings to develop new products, processes or services). The motivations for doing these types of research may also vary (Rosenberg, 1990). Table 2.3 outlines the types of activities that the firms in the survey intend to undertake. Notably, creative firms are more inclined to engage in applied research and experimental development than basic research, although only the difference in experimental development is statistically significant.

These findings are consistent with the findings in Tether (2021). This suggests that although all three aspects of R&D are carried out by firms in the sample, experimentation is particularly important. Given that much work in the creative industries relates to bespoke production of new products or processes as part of project-based work, it holds that the development of these products and processes may rely on experimental application of knowledge. These results are similar to those for the overall sample of the survey, which is reported in the appendix, suggesting that this focus on experimentation is characteristic of creative industries R&D rather than specifically micro firms.

Table 2.3: Nature of R&D anticipated by companies planning future R&D

R&D type	All creative micro firms	All non-creative Industrial Strategy micro firms	All micro firms
Basic research (investigative work to increase fundamental knowledge without a specific commercial objective)	40%	37%	40%
Applied research (focused on practical applications and potential use of knowledge for specific business or societal problems)	56%	51%	48%
Experimental development (the application of research findings to develop new products, processes, or services)	**50%***	39%	41%
Provision of scientific and technical services (scientific work that does not qualify as R&D but provides technical expertise)	22%	21%	16%

Source: Authors' elaboration from NCUB survey data. Unweighted sample sizes are n=116 for creative industries; n=188 for Industrial Strategy; and n=414 for all firms.

* Significance to t-test at 0.05 level, comparing the sample with the overall population.

2.3 Funding for R&D

For companies considering undertaking R&D in the future, finance is a major concern (Cowling et al., 2025). According to data from the NCUB survey, 38% of creative industries micro firms anticipate increasing their R&D spending in the next three years, with 45% expecting to maintain the same level of R&D investment. Only 5% anticipate reducing their R&D expenditure. These figures (full results are available in the appendix) closely align with those for the entire population of micro firms planning to undertake R&D, as well as with other Industrial Strategy sectors.

Respondents were asked to estimate how much they would need to invest over the next three years to make their plans happen. Their estimates are presented in Table 2.4.

While sample sizes are not large due to the survey routing (n=116), it is notable that creative industries firms are significantly more likely to not know how much capital they would need for their plans. This indicates an informational gap between companies' needs to invest and their ability to conceptualise the project. However, this is notably in contrast to non-creative companies elsewhere in the Industrial Strategy. Non-creative firms are more likely to have a clear understanding of the capital requirements for the R&D investments they wish to make and are more likely to anticipate a high R&D spend, with 29% of non-creative Industrial Strategy respondents expecting R&D costs over £50,000, compared with 18% of creative respondents.

Table 2.4: Amount of capital required for future R&D plans for companies anticipating R&D in the next three years

Capital	Creative industries micro firms	Non-creative Industrial Strategy micro firms	All micro firms
Up to £25,000	34%	37%	42%
£25,000–50,000	13%	13%	10%
£50,000–250,000	8%	10%	9%
£250,000–500,000	1%	11%	6%
£500,000–1 million	6%	7%	4%
£1 million–2 million	1%	1%	1%
Over £2 million	2%	0%	1%
Don't know	36%*	20%	27%

Source: Authors' elaboration from NCUB survey data. Unweighted sample sizes are n=116 for creative industries; n=188 for Industrial Strategy; and n=414 for all firms.

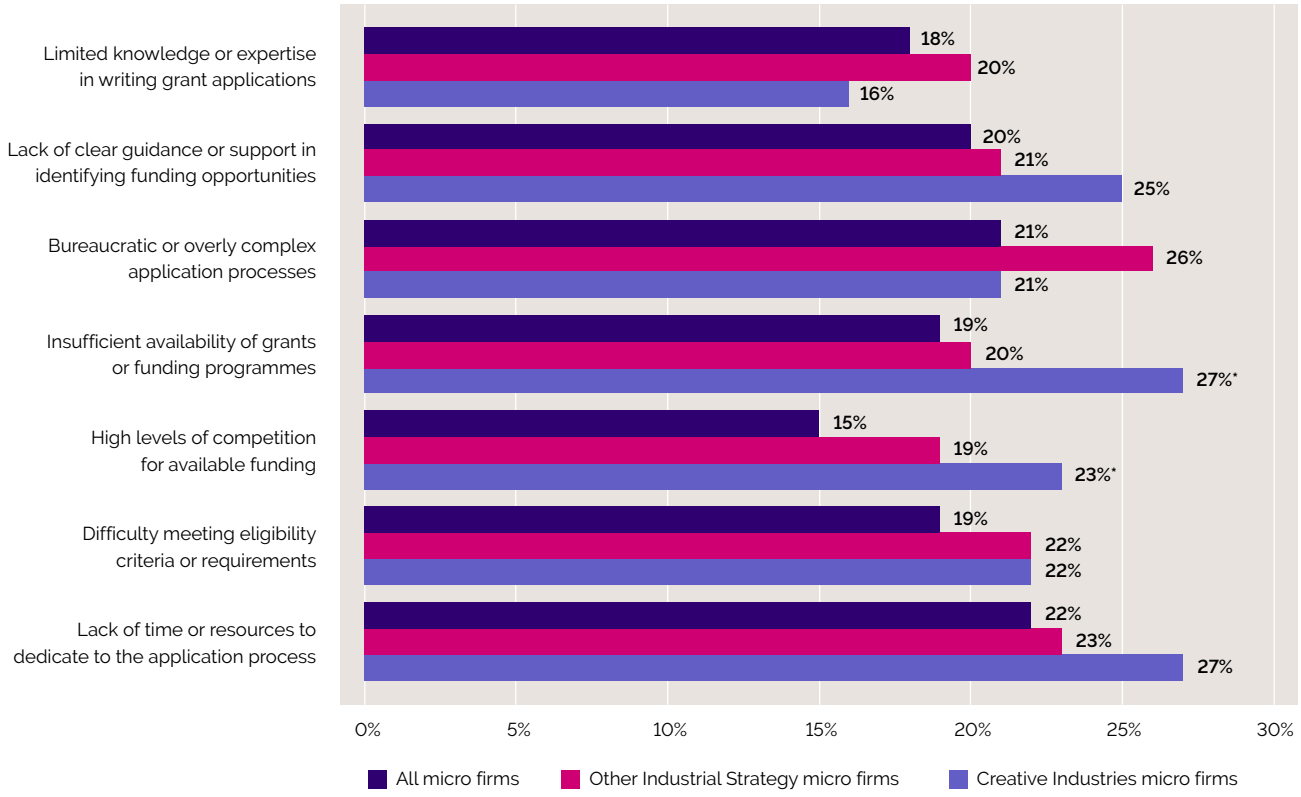
* Significance to t-test at 0.05 level, comparing the sample with the overall population.

The potential sources of funding identified by creative industries firms were also generally in line with the overall micro firm population, with 71% of firms planning to use internal capital to fund future R&D and 15% planning to use R&D tax credits. Approximately half (47%) of creative firms already had the capital they required for this investment, similar to the rest of the population (49%), and 56% of creative micro firms were either very or somewhat confident that they could obtain the necessary capital, a percentage which was virtually identical to that of the population of micro and other firms.

Overall, this analysis finds that, from a funding perspective, the needs and expectations of creative micro firms regarding R&D and innovation funding are similar to those of other non-creative Industrial Strategy sector firms. Plans to invest, availability of capital and confidence in accessing external capital are all broadly consistent across Industrial Strategy sectors, including creative industries. However, our analysis also finds that creative micro firms are more likely to not know the costs associated with their anticipated projects, which suggests an information gap around conceptualising R&D projects. Here, business support could potentially add value.

Regarding challenges respondents to the NCUB survey face in engaging with R&D funding, many of the expected responses – such as bureaucracy in the application process, lack of resources and eligibility requirements – are found in approximately equal measure. Among all groups, lack of time for seeking funding is most frequently cited. For most of the possible barriers presented in Figure 2.3 around 15–20% of micro firms identify each barrier. Notably, however, two areas are statistically significantly different for the creative industries. Creative micro firms are more likely to perceive an insufficient availability of grants or funding programmes for R&D, and they are also more likely to identify high levels of competition for available funding. Interpreting this finding is challenging – in light of recent grant policy interventions coming online in the past few years (see Section 3), it is possible that this is a residual perception of a lack of dedicated support. Equally, it is also conceivable that because of a vast number of creative micro businesses and an imperative to engage with innovation driven by market forces, there is indeed high competition – but, on the available evidence, it is unclear whether these perceptions are indicative of an overall lack of grant funding. With commitments to support R&D and innovation activities in both the Creative Industries Sector Plan and other interventions coming online through the Technology Adoption Review and Small Business Strategy, an opportunity arises to create a better landscape for innovation support. This can be done through providing a mix of support to allow companies to access innovation support, with the recognition that, for some companies, non-financial support may be a valuable prerequisite to help them make plans before actually seeking external financial support.

Figure 2.3: Previous barriers to R&D funding applications for R&D-active companies



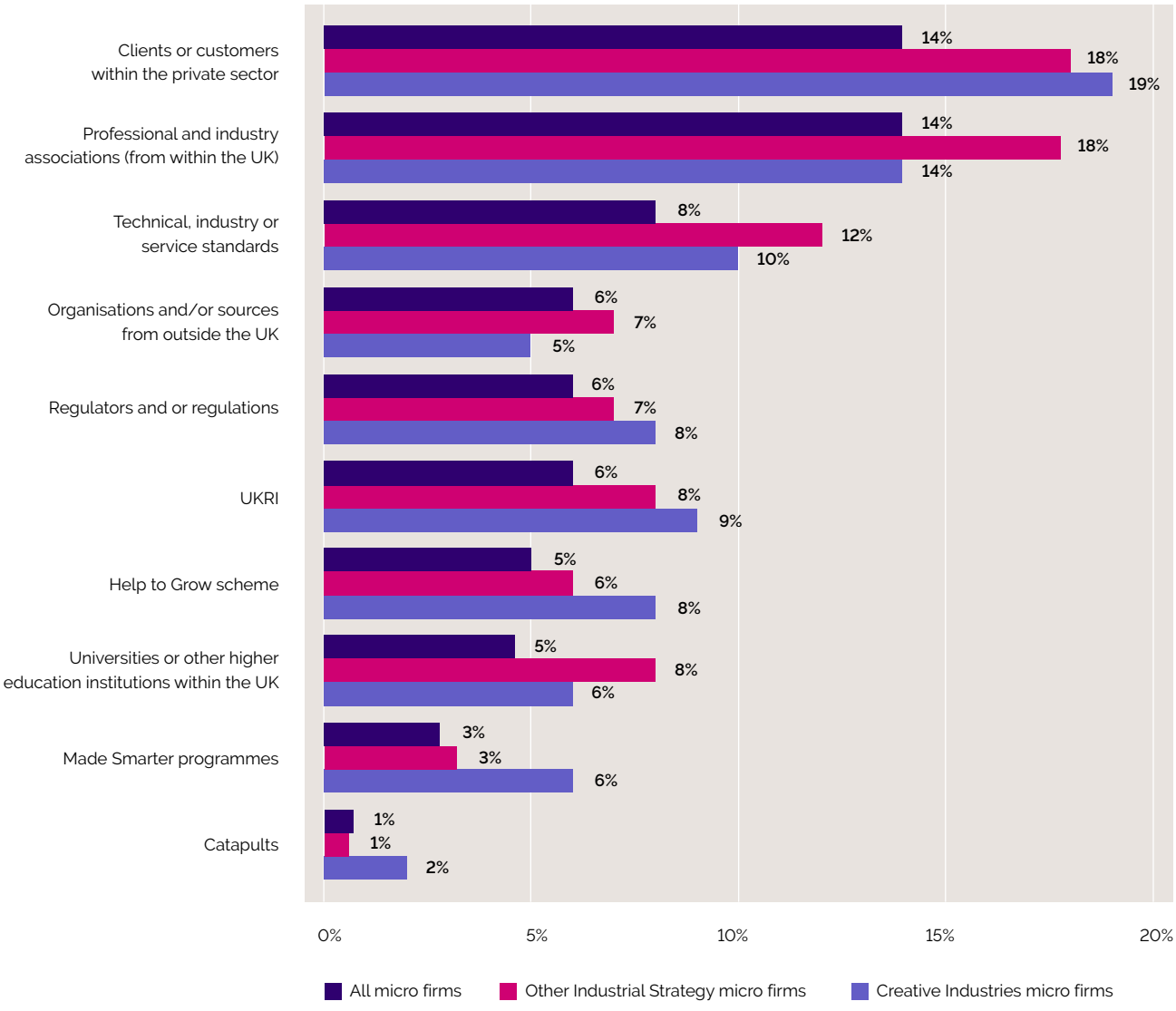
Source: Authors' elaboration based on NCUB survey data. Unweighted sample sizes are n=168 for creative industries; n=311 for Industrial Strategy; and n=737 for all firms.

* Significance to t-test at 0.05 level, comparing the sample with the overall population.

2.4 Business support and information to support R&D

As highlighted above, support for R&D does not necessarily need to be financial, and the provision of information, advice and support can be valuable for businesses looking to engage in R&D or to innovate. A support ecosystem can be valuable in helping companies address their R&D challenges. In the NCUB survey, respondents were asked who they use for support and information about R&D. Their responses are summarised in Figure 2.4, which shows the population of R&D-active micro firms in the creative industries, in other non-creative Industrial Strategy sectors and in the overall sample.

Figure 2.4: Percentage of R&D-active micro firms using sources of support and information about R&D



Source: Authors' elaboration based on NCUB dataset. Unweighted sample sizes are n=168 for creative industries; n=311 for Industrial Strategy; and n=737 for all firms. Respondents could choose multiple answers.

* Statistical significance at 0.05 level with t-test comparing sample with overall population of micro firms.

The data in Figure 2.4 presents some interesting insights. Notably, although clients or customers are the most frequent source of information for R&D, this is only indicated by 19% of creative industries firms and 14% of micro businesses overall. Looking at other sources of information, 14% of creative firms and micro businesses overall use professional and industry bodies, and UKRI – the highest-rated public sector source of information – is only cited by 9% of creative micro firms and 6% of all micro firms. Overall, 50% of creative micro firms said they do not receive any support for their innovation and R&D activities. This figure is similar to the national figure of 51% but is significantly higher than the 41% of firms in non-creative Industrial Strategy sectors who reported not receiving support. This indicates a lack of a centralised resource for information on R&D and innovation, mirroring the finding identified by the government in its Small Business Strategy (Department for Business and Trade, 2025) that a common 'front door' for business support is needed. Our evidence points to a fragmented advice landscape, supporting the government's interpretation that a gap exists in this area. Moreover, creative industries firms are not statistically more likely to use any of these types of information. Of course, other sector-specific business support schemes (such as the business support element of programmes like the CGP) are available and not included in the survey list but, again, this signals the importance of clearly signposted places for businesses to get information and support.

If measures are to be made to support creative businesses, what should they be? Respondents to the NCUB survey were asked what types of support or other improvements would encourage their organisations to begin undertaking R&D (for those not currently engaging in R&D) or to increase R&D investment in the future. The results are presented in Table 2.7. It is notable that for nearly every potential intervention asked of respondents, creative industries firms are statistically more likely than the general population – as well as than other priority non-creative Industrial Strategy sectors – to say they would welcome the intervention. What can we infer from this? One obvious interpretation is that there is unmet demand for additional R&D support among creative industries firms. With this said, the question asks about interventions that companies would like. But given the insight from Figure 2.4 that businesses have no common information channels, it is also possible that these support mechanisms may exist but the companies are unaware of them, and potentially are not even aware that these mechanisms would help. This would point, again, to a need for signposting and a clear, simple business support infrastructure.

Among the individual potential interventions, it is unsurprising that improved access to public support is the most frequently cited need for both the overall firm population (21%) and creative industries firms (34%). It is common for additional funding to top lists of most-requested forms of R&D support (see, for instance, Siepel et al., 2022). More interestingly, there is demand among creative industries micro firms for a suite of business support mechanisms, consistent with the findings of Tether (2021). This suggests that a range of sector-appropriate, strategic interventions to support businesses could be a way to spur innovation. This is consistent with a finding from the evaluation of the DCMS CGP's business support programme (DCMS, 2025) that participation in the business support scheme helps companies to better understand innovation and develop new innovations and products. It is also consistent with many of the interactions provided by the clusters in the AHRC CICP, in which clusters designed support mechanisms most appropriate to their particular geographical and sectoral needs (Frontier Economics and BOP Consulting, 2024).

Table 2.5: Percentage of NCUB survey respondents identifying potential policy interventions to encourage R&D

Potential policy interventions	All creative micro firms	Creative micro firms planning R&D	Creative micro firms not planning R&D	All Industrial Strategy micro firms	Industrial Strategy micro firms planning R&D	All micro firms
Improved access to public support schemes, such as grants and subsidies	**34%***	60%*	37%	22%	35%*	21%
Greater access to networking opportunities such as conferences, trade fairs and exhibitions	**16%***	24%*	7%	11%	16%*	9%
Guidance on collaboration arrangements (including intellectual property considerations)	**10%***	19%*	2%	7%	14%*	5%
Advice on product development, strategy, business development	**27%***	32%*	12%	15%	24%*	14%
Support in finding the required skills	11%	16%	3%	10%	13%	9%
Access to public research facilities that can be rented by businesses	**10%***	18%*	2%	6%	13%*	5%
Improved access to universities or other higher education institutions	**11%***	21%*	4%	7%	16%*	5%
Better collaboration opportunities with large businesses	**15%***	22%*	8%	12%	20%*	9%
Easier access to consultants, commercial labs or private R&D institutes	**14%***	27%*	5%	9%	17%*	7%
Increased availability of programmes that provide support for early-stage growth, such as mentoring, networking, funding opportunities or workspaces (e.g. incubators or accelerators)	**18%***	29%*	6%	9%	17%*	9%
More opportunities to form joint ventures with other organisations	**14%***	20%*	8%	12%	22%*	9%
Expanded opportunities and funding to develop R&D capabilities and a culture of innovation within the organisation	**18%***	28%*	2%	10%	20%*	8%
No support/improvements would encourage my organisation to undertake R&D	**31%***	12%*	55%	39%	12%*	45%

Note: Unweighted sample sizes are n=281 for creative industries; n=116 for creative industries planning R&D; n=165 for creative industries not planning R&D; n=580 for Industrial Strategy; n=178 for Industrial Strategy planning R&D; and n=1640 for all firms.

* Statistical significance at 0.05 level with t-test.

The two columns shaded in grey in Table 2.5 break down the figures for creative industries between companies that are already planning to do R&D in the next three years and companies not planning to. This differentiation allows us to identify the distinct needs of these two groups. Among the companies not currently doing R&D, a majority report that policy could do little to incentivise them to engage in R&D. Apart from funding (where we must interpret requests for money with caution) the level of demand for further business support among creative non–R&D-active firms is similar to the general population of micro firms. But companies already planning to do R&D have higher levels of enthusiasm for a range of support initiatives, ranging from support for innovation and R&D and early-stage growth, to collaboration with larger businesses and access to consultants, commercial labs or private R&D institutes. It is notable that creative industries firms planning R&D are more amenable to these measures than other Industrial Strategy firms planning R&D. Given the general absence of widespread commercial labs, as might be seen in sectors like life sciences, this could be interpreted as a desire for access to complementary services that might, in fact, be provided by universities or commercial providers to enhance R&D. Ensuring that there is sufficient R&D infrastructure in place – whether in universities or commercially – and that this infrastructure is funded to support micro businesses, is a key part of the intervention.

This section has presented some novel insights into the nature of R&D in creative industries micro firms. Using survey data, it has identified that creative micro firms are more likely to view R&D as essential to their business than the general population of micro firms, and that they are more likely to plan to engage in R&D in the future. But creative micro firms are also more likely to not be able to anticipate the costs of potential R&D projects, indicating a non-financial gap that would need to be filled before other, financial interventions could help. While these firms are likely to desire financial support, the extent to which the average firm is aware of existing support on offer is unclear. This points to a need for strengthened non-financial support alongside financial support, as well as clear mechanisms to signpost firms towards appropriate support. This section has considered demand for capital; the next section will consider the flow of capital into creative firms from several public funding sources.

3 Supporting R&D in creative industries micro firms: Evidence from IUK, AHRC and DCMS funding

As the previous section has discussed, creative micro businesses are particularly likely to engage in innovation and R&D. Creative micro businesses are also likely to seek public support – both financial and non-financial – for their R&D activities. Support for creative micro businesses is funded from many sources, including across the UKRI portfolio.

This section uses data from several business-focused UKRI R&D funding programmes including IUK's programmes targeting companies with activities in the creative industries, such as the Creative Catalyst programme and the grants component of the DCMS CGP (which is run by IUK), as well as IUK awards in programmes not targeted towards creative sectors. The data from these – and from the AHRC CICP – contextualises these interventions and shows how R&D interventions have begun to address the needs of creative firms, regardless of size. Our aim is not to evaluate these programmes, as they have been wholly or partially evaluated in the past, but to explore how the dynamics of funding have shifted and the extent to which the programmes have linked together. These are also not the only UKRI business support interventions from which creative industries have benefitted – interventions from the AHRC and other research councils have also supported innovation activities. However, the schemes we analyse are among the largest and most prominent of direct business support interventions by UKRI. This allows us to capture some elements of a policy 'mix' supporting businesses to innovate and grow across the firm life cycle.

It is important to preface this discussion by explaining the definition of 'creative industries' we use. As part of their company registration, businesses are required to report their main activities using a SIC code. The UK currently uses the SIC code classification updated in 2007 (a new classification is due in 2026 or 2027). The standard definition of the creative industries is published by DCMS[13] to define the creative industries for statistical purposes.

13. We use the official DCMS definition for the creative industries, as seen in DCMS official statistics such as the 2024 Business Demographics.

This definition is used widely, including in Creative PEC research (see Siepel et al., 2024 and Nana-Cheraa and Roper, 2025 for examples). But SIC codes are self-reported and often may not be truly reflective of a company's primary activities. This means that SIC codes as registered may not capture the full extent of activities in a sector, particularly for the creative industries. For example, the Brighton Fuse study (Sapsed et al., 2013) found that nearly half (48%) of the creative and digital firms in their survey sample frame were not registered with a SIC code in the DCMS list of creative industries SIC codes. This issue has been partially addressed in other Creative PEC publications (for instance Siepel et al., 2020 and Siepel et al., 2022) but remains a major concern for studies about the creative industries.

From the perspective of public support for innovation, the limitations of SIC codes mean that screening companies on SIC code alone could exclude companies with creative activities. For this reason, most programmes, including those explicitly targeted at creative industries, screen proposals based on the content of the proposed project or by the activities of the company, rather than by its formal SIC classification.[14] But because our remit is to capture firms that are explicitly within the DCMS SIC code definition, we focus on awards made to firms within these SIC codes. This represents a limitation of our analysis across all of these areas. Consequently, these findings should be interpreted with care, keeping in mind that the scope of intervention for creative firms may be broader than those more narrowly captured within the DCMS SIC code definition.

The interventions discussed in this section are:

- **IUK awards**: IUK provides thousands of direct innovation grants to businesses each year under a range of programmes and schemes. Some are sector or technology specific (such as Creative Catalyst, below) while others are agnostic to sector but have a particular theme. We therefore consider all non-creative industries specialist funds collectively, and explore awards made to firms within creative industries SIC codes.
- **IUK Creative Catalyst**: This is a specialised IUK series of R&D grants for projects in areas relating to the creative industries, sitting alongside other Catalyst sector-specific interventions (e.g. the Biomedical Catalyst). To receive a grant, the business must be proposing a project that focuses on one of the following creative sub-sectors: advertising and marketing; animation; architecture; arts and culture; crafts; design; fashion; film, TV and video; games; publishing; music and radio; or visual art and photography.[15] The programme is open to micro and small businesses based in the UK, albeit with regional exclusions in some Catalyst programmes. Our data covers Creative Catalyst calls from 2023 and 2024, plus a specialised call on 'AI in the Music Industry' from 2024.

14. The share of companies awarded that have a SIC code within the creative industries varies. 38% of recipients of Creative Catalyst were in a SIC code outside the definition; for the CGP, the figure was 34% and for the CICP was 43%. Given that the CICP included, for instance, textile manufacturers because of their links to the fashion sector, this is not surprising or necessarily an issue. These programmes use robust review processes, so this should be viewed a reflection of the limitations of SIC codes in capturing the breadth of creative industries activity.
15. See eligibility details for the 2024 call here.

- **AHRC CICP**: These interventions ran from 2018 to 2023 (some to 2024) and were funded as part of the 2017 Creative Industries Sector Deal.[16] CICP was a set of nine investments in specific clusters, with each focusing on a particular geography and creative sector. For instance, the InGAME cluster focused specifically on the gaming cluster in Dundee, while Clwstwr focused on screen sectors in the Cardiff City region. The interventions used in each cluster varied based on local needs, with a mix of financial and non-financial supports used as appropriate to the sector and cluster. These interventions were targeted at local organisations, with activities related to each cluster's sectoral focus and, as above, not specific SIC codes.
- **DCMS CGP**: This programme began in 2022 and, following an extension, is still running, with the interventions due to conclude in 2026. It was designed to target areas where creative firms had historically struggled to access private investment, helping creative businesses (using a similar definition to Creative Catalyst, but including 'IT, Software and Computer Services') in twelve English 'regions'[17] eligible for support. The programme had a grant component, run by IUK, and a business support component. The data presented here only includes the grant component. It should be noted that while CGP had a focus on business support and access to finance, an evaluation of the programme (DCMS 2025), finds that companies (particularly the business support element, which our data does not include) benefitted from the programme with their understanding of innovation. Because of these innovation benefits we consider the programme alongside the others listed above.

Other major R&D investments in the creative industries are currently underway, notably the AHRC CoSTAR project, plus investments made by Research England, other devolved nations (for instance Go See Share in Scotland) and some combined authorities. However, data on these is not systematically published, while UKRI intervention data is widely available.

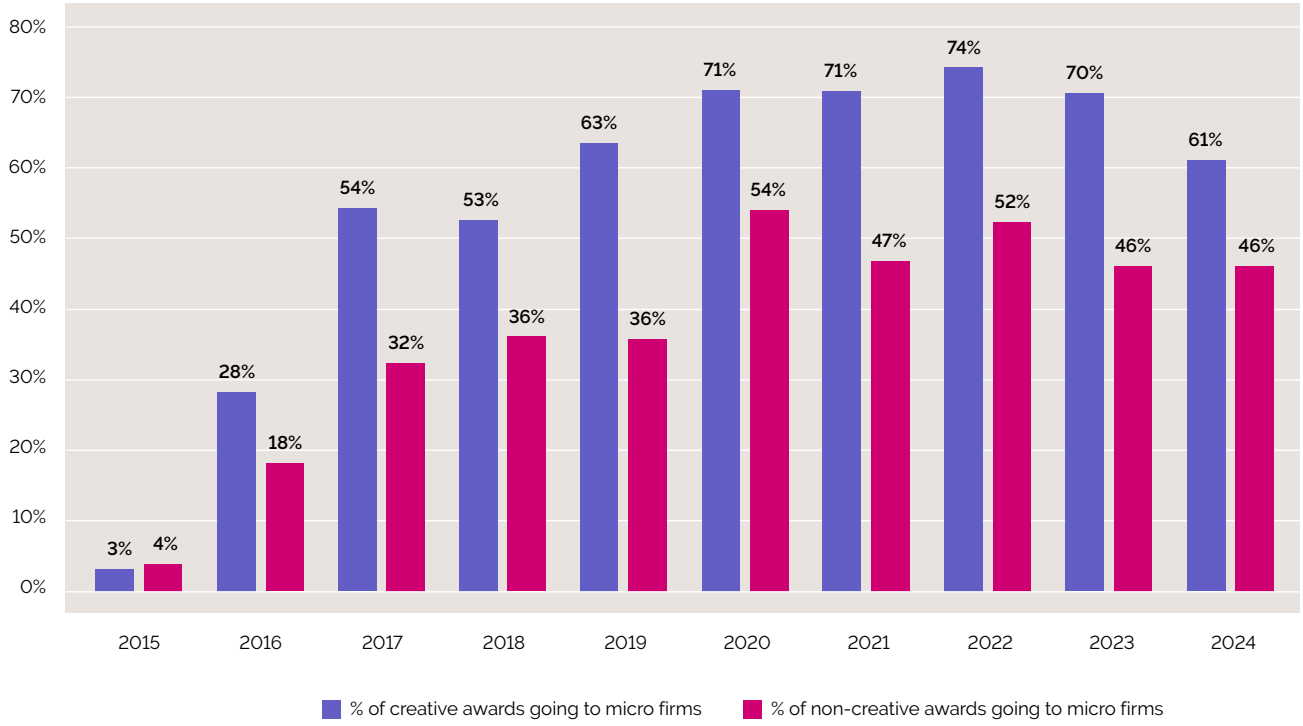
In this section, we use data from these programmes to demonstrate how they have changed and supported businesses, providing some evidence of links between the schemes and their economic impact.

16. The Creative PEC's first iteration was funded in parallel to these investments.
17. Details of eligibility are available here.

3.1 The rise of R&D support for creative industries

The importance of the creative industries for the UK economy has increased over past decade, with commitments implemented from the 2018 Creative Industries Sector Deal which, as highlighted above, is among several dedicated programmes supporting R&D for creative industries firms. But how have the general trends and levels of investment changed over time? Using IUK data on awards from its largest programmes[18] from the period 2015–2024, Figure 3.1 presents the share of all awards given to micro firms in creative and non-creative industries SIC codes over this period. Figure 3.2 presents the share of IUK awards made to businesses in the creative industries SIC codes as a share of all awards made to all companies, as well as the share of creative industries micro firms receiving awards as a share of all micro firms.

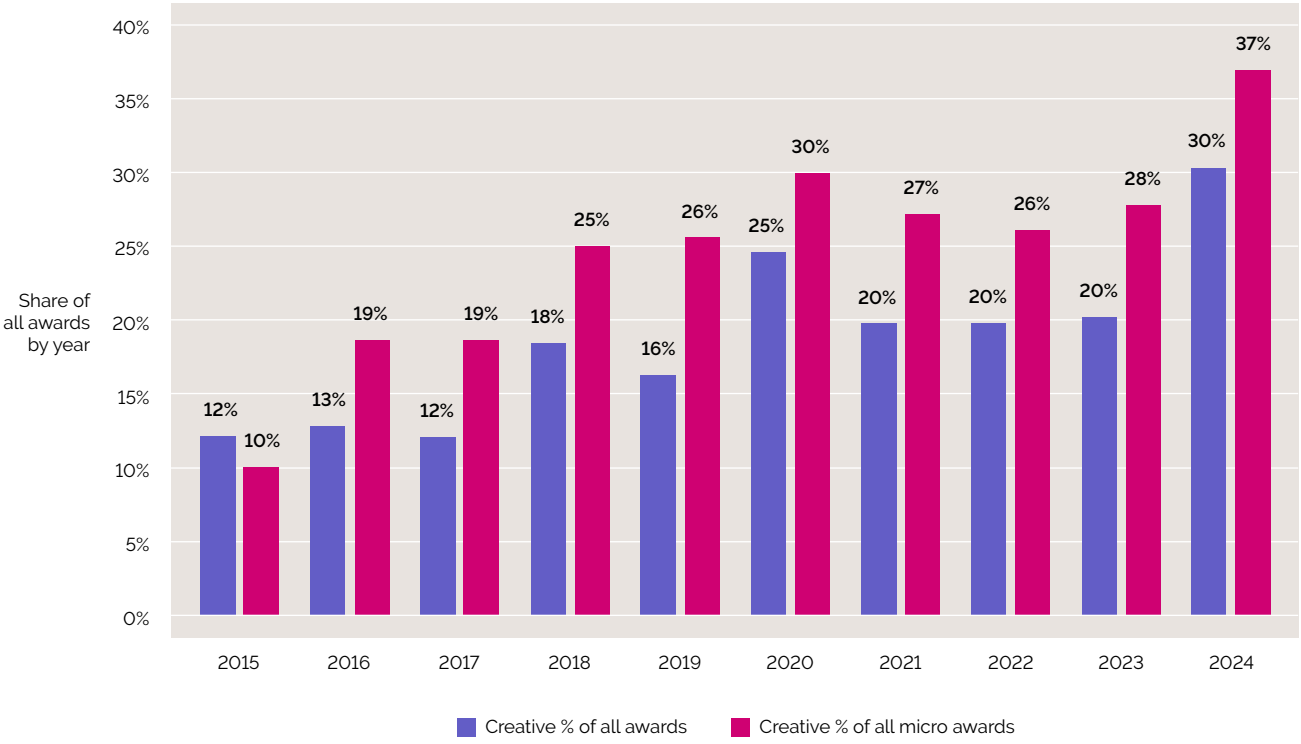
Figure 3.1: Percentage of all creative and non-creative IUK awards going to micro firms, 2015–2024



Source: Authors' elaboration based on IUK transparency data.

18. These include programmes classed under Collaborative R&D funding, Feasibility Studies, Grants for R&D and the Small Business Research Initiative, which collectively included 24,314 awards over the period of our analysis.

Figure 3.2: Percentage of creative industries firms as a share of all firms receiving IUK investment and of all micro firms receiving IUK awards



Source: Authors' elaboration based on IUK transparency data.

These figures show some interesting trends. First, because micro firms are so prevalent in the creative industries, one might assume that they would have historically received the majority of innovation awards. Figure 3.1 shows that this has not always been the case, but the share of awards going to micro firms has increased steadily until 2020, when it remained stable with approximately 70% of awards to creative industries firms going to micro firms. This is substantially more than the non-creative population, where approximately half of award recipients have been micro firms since 2020.

We also see from Figure 3.2 that, notwithstanding that IUK does not specifically target SIC codes, the share of all awards made to firms in creative industries SIC codes has steadily increased, with firms in DCMS creative SIC codes receiving 30% of all awards and 37% of all awards made to micro firms in 2024. Between these, we can see that while the creative industries' share of overall awards has increased, the support that has become available has been increasingly targeted to, or taken advantage of by, micro firms. Given that the share of micro firms in the creative industries has remained consistent, this represents a better alignment of the innovation support system with the nature of innovation in these sectors.

When creative micro firms receive awards, the awards tend to be smaller. Table 3.1 below shows the mean and median value of IUK awards made to all micro and creative micro businesses. Notably, if not surprisingly, the investment value received by creative micro businesses is statistically significantly lower than that of the general population of micro firms. Of all awards made to creative micro firms, 40% were for less than £50,000, compared to 33% for the general population. This shows that the amounts funded are, on average, smaller for creative industries micro firms than other projects awarded to micro firms. This may be partially explained by the statistically significant difference in the size of creative micro firms compared with other micro firms – creative firms are smaller (having on average 3.77 employees) than the general population (having on average 4.00 employees) at the time of the award. There may be other factors at play (for instance the costs of R&D being driven by staff time in creative firms, as in Siepel et al., 2022), but it is notable that creative micro firms' projects are typically smaller than other micro firms' projects.

Table 3.1: Mean and median value of IUK awards in micro and creative micro firms

Values	All micro firms	All creative micro firms
Median value award	£73,150	£66,500
Mean award value	£160,690	£126,708
% awards under £50,000	33%	40%

Source: Authors' elaboration from IUK transparency data.

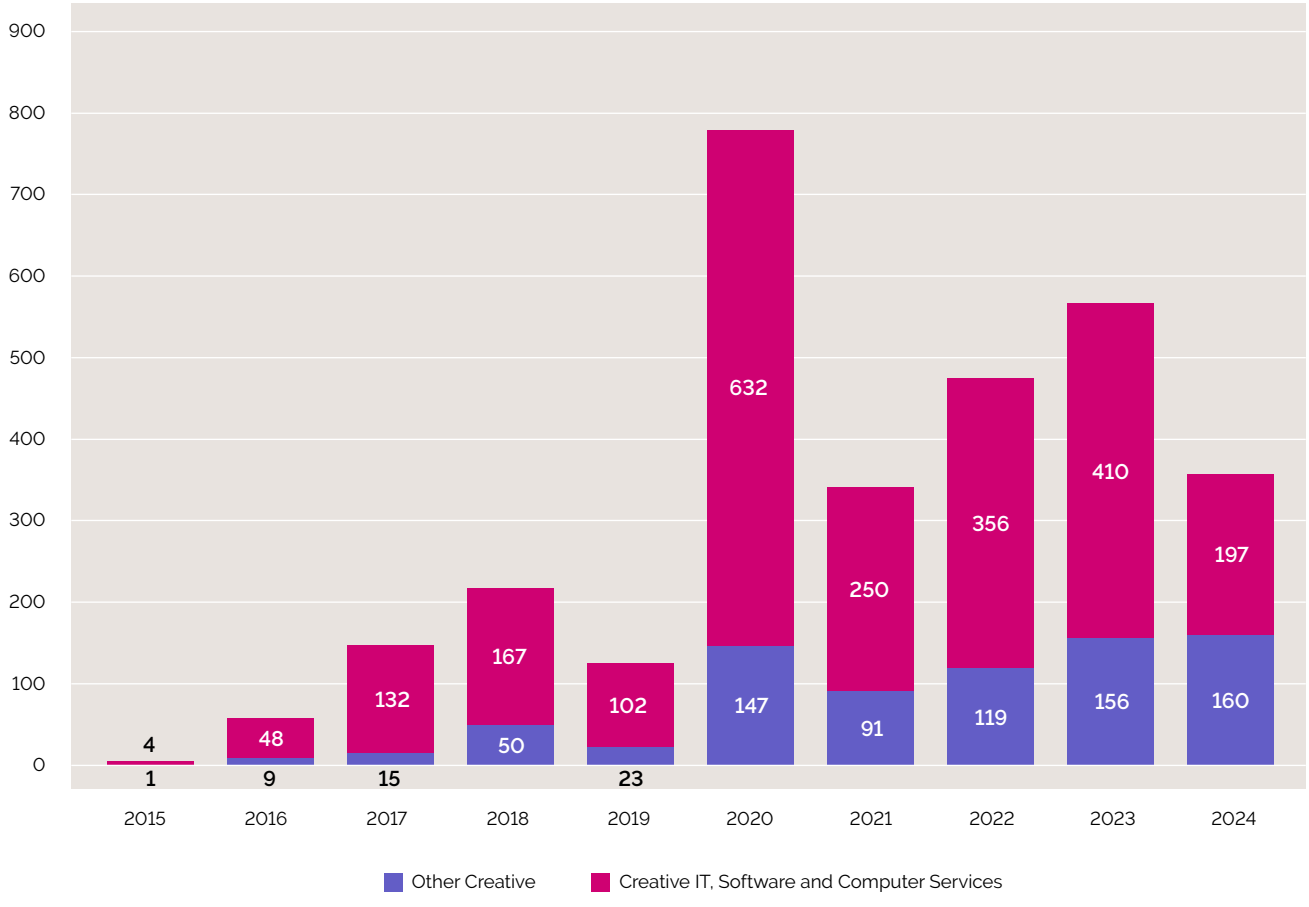
3.2 Awards in creative sub-sectors

Substantial variations exist between the nine sub-sectors that make up the creative industries when it comes to the share of awards received. These sectors are typically identified using SIC codes, which – as discussed above – have substantial limitations. Historically, businesses in the 'IT, Software and Computer Services' sector have tended to receive more investment, partly because they constitute the largest share of all firms in the creative industries.[19] Figure 3.3 illustrates the extent to which this is the case for IUK awards made to firms in DCMS creative industries SIC codes where, across the entire sample, 'IT, Software and Computer Services' made up 75% of all awards. These figures should be interpreted with some caution: the definition being used here is based on companies' SIC codes, but eligibility for sector-focused awards are based on the company and the specific project rather than the company's registration status. In any case, the share of awards going to the 'IT, Software and Computer Services' sub-sector far outstrips the 40% population of firms in the creative industries sector, according to Nomis business population statistics.

19. This trend is also evident when one looks at venture capital investment, where 85% of venture capital funding in the creative industries went to companies in the 'IT, Software and Computer Services' sector (Siepel et al., 2024).

However, the figure shows that the gap has progressively narrowed, with the share of 'IT, Software and Computer Services' shifting from 90% in 2017 to 55% in 2024. This narrowing has coincided with the introduction of the Creative Catalyst programme, which requires projects to have links to creative sub-sectors other than 'IT, Software and Computer Services'. With this said, many of the funded projects are based on digital and AI technologies applied to other creative sub-sectors. For example, of all IUK awards to creative industries micro firms in 2024, 58% of Creative Catalyst projects funded in 2024 included the words "artificial intelligence", "AI", "digital" or "software" in their project descriptions. This is compared with 72% of all IUK awards to other creative industries business outside the Catalyst scheme. The rise in investments outside of the 'IT, Software and Computer Services' sub-sector largely coincides with that programme's launch, suggesting it has been effective in balancing out the sectoral distribution – but the data available does not make it possible to demonstrate this conclusively.

Figure 3.3: Count of IUK awards in micro firms by IT, software and creative services versus other creative sectors



Source: Authors' elaboration based on IUK transparency data.

3.3 Regional inequality and place-based policies

The creative industries in the UK have faced longstanding regional inequality (see Tether 2019), with more than 68% of creative industries' GVA located in London and the South East of England (Siepel et al., 2023). Several major initiatives, such as the CGP (which targeted regions outside London and parts of the South East) and the CICP (which targeted specific clusters across the UK), have targeted this inequality, seeking to encourage growth in creative industries across the UK and address barriers to growth facing creative firms. Several mechanisms have been used to address regional inequalities. One, for competitive grants, is to set particular thresholds for regions to ensure that funding to some regions is not disproportionate. For example, in the IUK Creative Catalyst programme, a 'portfolio approach' is used to ensure that spending across an entire scheme fits a particular profile – in this case to ensure that London and the South East are not over-represented. Another approach is to focus funding on areas that have historically had lower levels of investment, as seen with the CGP, which targeted twelve regions (six initially, and another six subsequently) that had faced historical barriers to finance. A third approach, which has informed the CICP, among others, is to focus on areas of existing strength: creative clusters. The UK has fifty-five creative clusters (DCMS, 2022) at the commuting region (known as Travel to Work Areas). Focusing on building capabilities and strengthening innovation in particular clusters with a geographical and sectoral focus is another way to address regional inequality – with strategic intervention in areas of strength to leverage growth in other sectors. With the Creative Industries Sector Plan promising further place-based interventions in the form of another round of CICP funding, plus dedicated funding for six mayoral combined authorities, the question of place for supporting innovation remains a live issue.

Given the desire to address regional inequalities through strategic investment, to what extent are regional inequalities reflected through IUK investments, and has this changed over time? We explore this in Table 3.2, which compares the regional trends in IUK awards to micro firms in all sectors with those in the creative industries. The table shows that from 2021 to 2024, 51% of IUK awards to creative micro firms went to firms in London (37%) and the South East (14%). However, further analysis suggests that this focus on London has narrowed over the past three years, with the share of IUK investments in London creative micro businesses decreasing slightly from 40% in 2017 to 37% since 2021. As Table 3.2 indicates, this is similar to the overall share of micro firms in the UK: London makes up 34% of all micro firms in the creative industries. The role in bridging the gap between other parts of the UK and London and the South East is highlighted by the distribution of the Creative Catalyst scheme, which was designed to ensure a broader regional distribution. Ultimately, in terms of making regional investments match the population of the UK, it should be noted that, on aggregate, the share of IUK awards from 2021 to 2024 is qualitatively similar to the regional distribution of creative micro firms across the UK.

Table 3.2: Share of all IUK awards to micro and creative micro firms, 2017–2019 and 2021–2024

Region	2017–2019		2021–2024		Creative Catalyst only	Population of creative industries micro firms 2024
	All IUK creative industries	All IUK creative industries micro firms	All IUK creative industries	All IUK creative industries micro firms		
East Midlands	3%	3%	3%	3%	6%	4%
East of England	8%	7%	8%	7%	6%	9%
London	38%	40%	34%	37%	25%	34%
North East	2%	3%	3%	3%	4%	2%
North West	6%	7%	7%	7%	9%	7%
Northern Ireland	1%	1%	4%	2%	5%	1%
Scotland	4%	5%	5%	5%	6%	4%
South East	17%	16%	14%	14%	9%	18%
South West	8%	6%	8%	8%	13%	7%
Wales	3%	3%	3%	3%	3%	2%
West Midlands	5%	3%	5%	5%	5%	5%
Yorkshire and the Humber	6%	7%	5%	6%	9%	5%

Source: Authors' elaboration from UKRI Gateway to Research Data; n.b. the population share of creative industries micro firms by region is virtually identical since 2017.

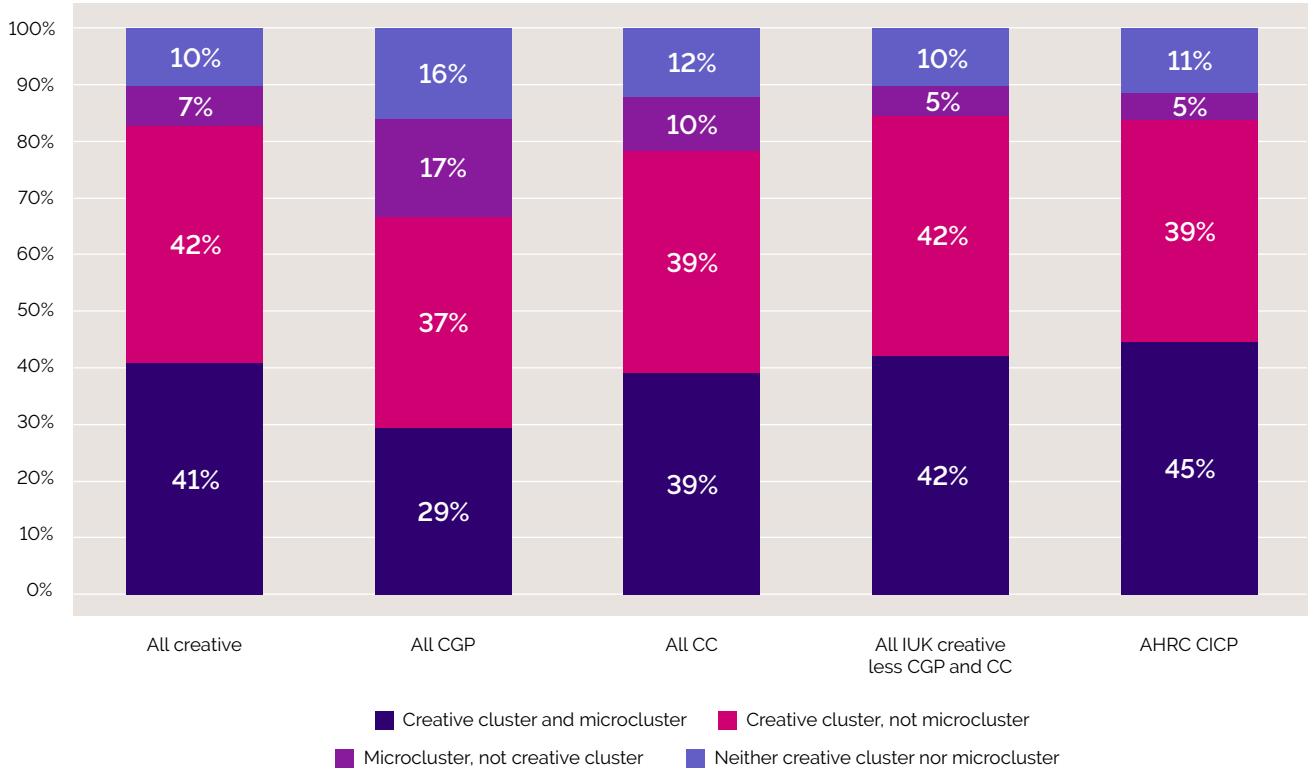
The analysis above indicates some tensions between the broader aim of ensuring a fair distribution of funding to businesses across the regions of the UK, and the need to ensure that funding is flowing to the UK's areas of strength, given London's role as a global 'supercluster' for creative industries. In this way, the three programmes we consider here reflect alternate approaches: Creative Catalyst awarded firms in all regions but capped awards to London at a certain level; the CGP targeted areas outside hotspots in London and the South East; and the CICP focused on centres of excellence across the UK, in London and elsewhere.

The role of innovation funding for supporting areas of strength can also be examined through the lens of the UK's creative clusters and microclusters. A large body of Creative PEC research (Siepel et al., 2020; Siepel et al., 2023; Bakhshi et al., 2025) has highlighted the relative importance of the UK's fifty-five creative clusters and 709 creative microclusters. Companies in creative clusters benefit from enhanced access to knowledge and resources, and previous PEC research has highlighted four groups of firms: creative firms in microclusters inside creative clusters, firms in creative clusters but not in microclusters, firms in microclusters but not in creative clusters, and firms in neither creative clusters nor microclusters.[20]

20. To illustrate this: a company located in Media City in Salford is in a microcluster (around Media City) and a creative cluster (Manchester). A company located on an industrial estate in the outskirts of Bristol might not be in a microcluster but would be in the Bristol creative cluster. A company in Aberystwyth would be part of the Aberystwyth creative microcluster, but not part of a creative cluster because Aberystwyth is not classed as one of the fifty-five DCMS creative clusters. And a company located in a rural part of the Scottish Highlands might be neither in a creative cluster nor a microcluster.

The presence of firms in one category or the other is neither good nor bad but can indicate the places to which funds are flowing and the extent to which investments are being directed towards places of strength. We therefore used postcode data to identify whether creative micro businesses receiving IUK funding are more likely to be in creative clusters and/or microclusters. Our findings, presented in Figure 3.6, show that a substantial majority (83%) of creative micro businesses receiving IUK investments have their registered headquarters in creative clusters, with half (48%) of IUK awards going to firms in microclusters. Comparing all IUK funding with CGP and Creative Catalyst grants shows similarities, although a lower share of CGP funding went to companies in creative clusters. This is unsurprising given that some of the regions participating in the CGP had few or no DCMS creative clusters within their boundaries. The figures are also similar for the CICP, representing the varying geographical scope of the clusters in the programme: for instance, the XR Stories cluster, although based in York, supported businesses across Yorkshire including some located in Bradford, which has a thriving creative scene but is not classed among the fifty-five DCMS clusters. Equally, many of the businesses supported by Future Skills Northern Ireland were outside the Belfast area, which is the only DCMS creative cluster in Northern Ireland. This indicates the importance of regional linkages and local understanding to successfully develop a cluster and its broader region.

Figure 3.4: Share of creative micro firms receiving IUK awards in creative clusters and microclusters



3.4 Contextualising the innovation support landscape

It is crucial to consider how these different innovation interventions may interact and be related. As the 2025 Creative Industries Sector Plan highlighted, opportunities to support businesses arise throughout the life cycle, but such interventions need to be coordinated to ensure a clear and consistent pathway for businesses, with support at every stage. This support may take many forms, as indicated in the discussion of recent creative industries interventions at the start of Section 3. Among those businesses that were eligible for more than one of the innovation support mechanisms (Creative Catalyst, CICP, CGP and other IUK awards not specifically targeted at creative sectors), understanding the interactions between these interventions is important. If the same companies are accessing multiple pots of money, this could suggest that too few firms are chasing too much money, or that there is rent-seeking behaviour between firms that are dependent on grants rather than commercial income. Alternatively, given the different models used between programmes (particularly the CICP, which involved a mix of different interventions strategically targeted at local needs), a finding that companies are using one source of funding as a 'springboard' to further support could indicate that such a support pathway has emerged around previous interventions. This could then point to the importance of further coordination of financial and non-financial support to innovative firms.

To assess this, we explored the extent to which the companies that received CICP, Creative Catalyst and CGP awards had also previously received interventions (from these or other IUK schemes). Further, we capture the share of companies that received IUK support after receiving their first intervention from these programmes.

Considering the IUK Creative Catalyst programme, of the 551 firms to receive these awards, 7% had received previous financial support from IUK, 84% had not received any other support and 8% had subsequently received other awards. For the CGP grants scheme, 13% had received support previously and 7% had received awards subsequently, while for 76% the intervention was their only award to date. It should be noted that because the Creative Catalyst and CGP awards ran from 2022 to 2025 (with grants running until March 2026), there has not been an extended period between the time of the initial awards (which indeed may still be underway in some cases) and the time the data was collected and analysed.

Data from AHRC about engagement with the CICP identified 438 registered businesses[21] that had engaged with the programme (in addition to freelancers and others), for a total of 710 interactions with the CICP (that is, participation in the programmes in some form). Of those businesses, 4% had received an IUK award prior to interacting with the CICP (mostly engagement with previous schemes such as Audience of the Future, which was a UKRI Challenge Fund investment run by IUK in partnership with AHRC,[22] or else Covid-19 business support). For 81% of CICP recipients, their engagement with the programme remains their only support, but fifty-two firms – 12% of the total – subsequently received IUK support after participating in the CICP.

21. The CICP evaluation (Frontier Economics and BOP Consulting, 2024) notes an average number of 482 businesses and academics participating in the scheme each year. This is higher than our figure because it includes freelancers, other organisations that are not registered as businesses (such as the BBC) and academics, as well as registered businesses. Our analysis is based solely on those companies who were on AHRC records as having provided a company registration number and which we were able to verify.

22. See the UKRI website.

The AHRC reporting data includes the type of support these companies received from the CICP. Of CICP participants that subsequently received grants from IUK, 58% (twenty-nine of the fifty for whom data was available) had participated in grants based on an open call for funding (as opposed to challenge funding, which may be targeted). Further, 18% (nine of the fifty) had received targeted challenge funding, and 24% (twelve of the 50) had received other support, including participation in knowledge transfer partnerships, vouchers and other interventions. This indicates that a reasonable share of firms participating in the CICP that received subsequent IUK funding benefitted from the targeted and business support elements, an indicator of the springboard effect discussed above. Of course, the companies receiving funding through open calls and subsequent IUK funding may also indicate this, but it is difficult to ascertain the extent to which subsequent funding built on the CICP-funded projects.

Specifically looking at the interaction between these programmes, fourteen companies had received CICP support and subsequently received Catalyst awards, while three had gone on to receive CGP support (keeping in mind limited geographical availability for CGP – the only regions where the CICP and CGP availability overlapped was the West of England/Bristol and Bath, though West Yorkshire was added in a later expansion, with another CICP cluster in Leeds). Eleven companies had received funding from both Catalyst and the CGP. Given the number of firms involved in these schemes (551 in Creative Catalyst and 438 in the CICP), these figures appear to be rather low, but with a small sample and multiple possible explanations, it is difficult to clearly identify why this is the case. This question bears further exploration in the future.

A separate concern that is often raised about innovation funding is that it will encourage grant dependence – that companies will become reliant on public handouts rather than commercialising their innovations. This is difficult to measure because part of a systemic springboard for growth involves availability, where needed, of funds at different parts of the life cycle. Our analysis shows little evidence that creative industries firms exhibit traits of grant dependence. In fact, creative firms are statistically significantly less likely than the general population of firms to have received multiple awards, with 70% only receiving one award, 17% receiving two, 11% receiving between three and five, and 3% receiving more than five. This is much lower than the general population of firms receiving IUK support. The result holds when we limit analysis to the major grant programmes used in the analysis elsewhere in the section. Companies receiving support from either the CICP and/or Creative Catalyst were significantly more likely to show employment growth following their awards than the general population of award winners.

Overall, the analysis presented here indicates that funding levels for R&D awards from IUK have risen substantially alongside the increasing recognition of the creative industries. Investments in creative sectors outside 'IT, Software and Computer Services' have increased, with more investments being regionally distributed. A complementary effect can also be seen between the CICP and recent IUK efforts. When we consider the CICP, Creative Catalyst and the CGP together, the different models appear to have complementary elements, and evidence from the CICP suggests that some companies engaging in that programme have gone on to engage further with other parts of the innovation funding system.

4 Discussion and conclusion

Micro firms make up 93% of creative industries businesses but often do not appear on innovation and R&D statistics due to their size. This means that, to date, there has been limited evidence about these companies and how they engage in R&D. This report has explored the prevalence of innovation and R&D in creative micro firms and the levels of innovation funding available to them, focusing particularly on direct public support.

4.1 Micro firms as innovators

Innovation and R&D can occur in businesses of any size, and micro businesses are no exception. The report suggests that as many as 159,000 creative industries micro firms may be engaging in R&D. This number, in a sector that has been targeted for its growth potential by the UK Industrial Strategy and Creative Industries Sector Plan, represents huge potential to unlock growth and further innovation (Council for Science and Technology 2023). Given that innovation is a major part of the UK's long-term plans to increase productivity and drive growth, creative micro businesses clearly have an important role to play. This report aims to provide new insights into how these businesses engage in innovation and the changing nature of the support they have received. It focuses on firms' views about innovation and innovation funding support, including investments from IUK such as Creative Catalyst and other funding initiatives such as the AHRC CICP and DCMS CGP. It does not address firms' relationships with universities, which will be explored in more detail in a future report in this State of the Nations research series.

Our research indicates that creative micro businesses are more likely than the general population of micro firms, and those firms in all other sectors listed in the Industrial Strategy, to engage in both R&D (particularly involving experimental development) and innovation more broadly. These businesses are also more likely than firms in other Industrial Strategy sectors to have conducted R&D previously and to anticipate undertaking R&D in the future. They also are more likely to view R&D as essential to their competitiveness. Our analysis suggests that the level of demand for financial support for R&D is generally similar between creative micro firms and the population of micro firms overall, but that some firms seeking to engage in R&D are unable to cost projects that would allow them to bring their plans to fruition.

This, combined with a lack of evidence that creative firms are able to find consistent sources of information for innovation and the fact that creative firms are substantially more likely to indicate demand for a long list of business support mechanisms, points to the need for a suite of strategic non-financial support measures to help companies achieve their R&D aspirations. Targeted and clear support measures could help companies invest more and better understand the support mechanisms that are available to them.

The growing importance of the creative industries to the economy has seen creative firms receive an increasing share of public support for innovation. The report notes an upward trend in IUK funding going to creative industries firms from 2015 to 2024, with this increasing share partially driven by focused interventions such the IUK Creative Catalyst programme and the grants component of the DCMS CGP – both of which target companies with creative industries activities, not just companies based in creative industries SIC codes. Analysis of IUK funding data from 2017 to 2024 shows a rise in the overall share of IUK investment going into businesses in creative industries SIC codes as defined by DCMS. However, the value of IUK awards to creative micro firms is statistically significantly lower than to other micro firms. With micro firms most likely to cite demand for R&D funding below £25,000 (well below the median creative micro grant value of £66,500), how best to support these small innovators is a challenge. Creative micro firms are significantly more likely to not know the cost of potential research projects and have a strong appetite for other business support, so perhaps non-financial support mechanisms may be a more effective way of addressing some of these constraints. The report also finds that three major creative industries interventions – the AHRC CICP, IUK Creative Catalyst and DCMS CGP grants, have generally attracted new firms into the policy intervention space, with the vast majority of recipients of these awards being firms engaging with IUK for the first time. Moreover, we find that 18% of registered firms who participated in the CICP have gone on to successfully access other IUK support measures, indicating the beginnings of a policy pipeline growing from local interventions to participation in national schemes.

Given the increasing importance of place-based interventions, particularly in light of the Creative Industries Sector Plan, the report finds that support for micro firms is increasingly representative of the geography of the UK. With this said, the paper highlights the importance of local knowledge, identifying that – although the majority of public R&D support has gone to businesses in the fifty-five DCMS creative clusters – local knowledge is important. Even in the CICP, which has a geographical and sectoral focus, awards were made outside of the creative clusters as part of a coherent and strategic approach.

Overall, while funding remains a perennial issue, there is also substantial demand from creative micro firms for a wide range of policy support mechanisms for R&D, including business advice, assistance with networking and tools to initiate collaborations between micro firms and larger firms. This creates the possibility for a 'springboard' effect, where joined-up policies allow micro firms to innovate and then scale their operations. These more joined-up approaches, as used in the CICP programme, play a role in unlocking growth in a different way than conventional financial support. The fact that creative firms are much more likely to welcome these approaches indicates the potential value that such interventions can bring, serving as a complement to and driver of demand for national, competitive financial awards.

4.2 Supporting creative micro firms in innovation and R&D

From the analysis in this report, it is clear that micro firms play a key role in innovation and R&D within the creative industries, though their contributions are not always captured in official figures. The report provides clear insights that can support policymaking. These recommendations may be contextualised by the House of Lords review of AI and creative technology scaleups (House of Lords, 2025), which recommends streamlining public support for innovation and building a coherent, joined-up policy framework as part of the Industrial Strategy. It also aligns with the government's Small Business Strategy (Department of Business and Trade, 2025), which aims to streamline support and advice mechanisms, and the NCUB R&D Taskforce (NCUB, 2025), which also highlights the need to focus efforts on areas of strength, simplify the R&D system and ensure institutional reform to allow effective institutions for collaboration.

First, our report shows the importance of both financial and non-financial support for innovation. We find that creative micro businesses are more likely to view R&D as crucial to the success of their business, but they are also more likely to be open to non-financial forms of innovation support, such as networking and collaboration with larger businesses. This suggests that future iterations of business support need to consider the complementary effects of business support for innovation alongside explicit financial support. This aligns with the findings of previous research on R&D, innovation and design in the creative industries (Tether, 2021) and on access to finance in the creative industries (Bakhshi et al., 2025), which highlight the role that investment readiness can play in driving growth. Forthcoming investments from the next wave of the CICP and investments to support R&D in six mayoral authorities should consider how suites of support mechanisms can help drive growth. Our findings about firms' access to information about R&D and innovation points to the value of the unified 'front door' for small business advice in the Small Business Strategy, which should consider innovation support alongside other advice to creative businesses.

Second, our findings highlight the importance of ensuring a complementary, joined-up system for supporting innovation in micro firms. Demand clearly exists for national innovation support programmes such as Creative Catalyst, and our finding that the creative industries are comparatively less likely to have grant-reliant businesses suggests that recent new schemes have been successful in bringing businesses into the innovation support ecosystem. Equally, with a trend towards fewer and simpler policy interventions, there is a need to ensure that interventions are filling appropriate niches. Localised strategic support, based on suites of financial and non-financial support, seems to be a valid way to help companies develop and better understand how to engage with R&D and new technology. Given that the most commonly cited demand for R&D funding is below £25,000 and the costs of administering such small grants are substantial, it is vital to ensure that appropriate flexibility is in place to support companies in strengthening their capabilities, so that demands for R&D projects at £25,000 can eventually build to demands of £250,000 with commercial viability. Doing this will involve coordination between IUK, AHRC, mayoral authorities, the British Business Bank and the National Wealth Fund, among others. Coordination and streamlining to ensure a clear pathway of financial and, crucially, non-financial support can enable creative micro firms to increase their growth potential.

Finally, better evidence about R&D and innovation in general is needed – particularly for micro businesses and policy interventions. This report has provided insights into the challenges facing creative micro firms, but a need to better understand the economic impact of micro firms remains. Specifically, does the value they add throughout the economy, via participation in creative supply chains, outweigh their direct economic contribution in terms of conventional metrics? More evidence is also needed about the impact of policy interventions into micro businesses. This includes stronger insights into the relationships between different programmes, including previous investments such as the CICP, Creative Catalyst and the CGP, but also policy support mechanisms such as R&D tax credits. For the former, some evidence is available (see, for instance, Frontier Economics and BOP Consulting, 2024, for an evaluation of the CICP), but for others, particularly R&D tax credits, data at the level required to analyse the creative industries is simply unavailable – the Creative Industries Sector Plan's commitments to improving data access are highly welcome.

In conclusion, this report has filled a gap in evidence around the R&D and innovation activities of creative micro firms, showing that despite the large number of firms engaging in R&D and innovation, some ongoing challenges exist, and recent policies can be built upon to support these firms in unlocking their potential.

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Glossary

AHRC refers to the UKRI Arts and Humanities Research Council

Catalyst refers to the IUK Creative Catalyst programme

CGP refers to the DCMS Creative Growth Programme, which was was funded by DCMS and run by Innovate UK

CICP refers to the AHRC Creative Industries Clusters Programme

DCMS refers to the Department for Culture, Media and Sport, which is the ministry with responsibility for creative industries

IUK refers to Innovate UK

Innovation refers to a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process) (OECD 2018).

A **micro business** or **micro firm** is a company with fewer than ten employees..

R&D is the creative and systematic work undertaken to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge (OECD 2015).

SIC codes refer to Standard Industrial Classification codes. These are standardised codes that are used by firms to self-identify the sector(s) in which they operate.

UKRI refers to UK Research & Innovation, the umbrella body funding research and innovation activities in the UK, including Innovate UK and the research councils.

Data statement

IUK transparency data

Figures 3.1, 3.2, 3.3; Tables 3.1, 3.2

This data is publicly available from the Gateway to Research data portal. [Data accessed 23 June 2025.]

NCUB SME R&D Survey

Figures 2.2, 2.3, 2.4; Tables 2.2, 2.3, 2.4, 2.5, 2.6

The data behind the findings of this study is not publicly available but may be accessed subject to a data sharing license and project proposal. Queries about the data may be sent to Dr Jorge Velez Ospina (Jorge.Velez-Ospina@ncub.co.uk). Queries about the analysis may be sent to the corresponding author, Dr Josh Siepel (j.siepel@sussex.ac.uk).

Nomis

Figure 2.1; Table 2.1

This data is publicly available through the Nomis platform. [Data accessed 30 March 2025.]

AHRC CICP

Section 3.4

This data is not publicly accessible.

Appendix

Methodology: NCUB survey data

A methodological challenge arose in identifying creative industries firms in the NCUB data. Respondents were asked to identify a broad sector group, such as manufacturing or IT. They were also asked to tick as many Industrial Strategy sectors as they felt their activities were part of. One was 'Creative Industries', but the definition used in the survey did not include IT, which was listed in the 'Professional Services' Industrial Strategy sector. Other IT businesses could potentially be located in the 'Digital and Technology' Industrial Strategy sector as well.

To address this, we coded as creative industries any business that:

1. Identified as 'Creative Industries'
2. Identified as in the 'Digital and Technology' Industrial Strategy sector AND the 'Professional Services' Industrial Strategy sector, thus capturing services firms in 'Digital and Technology'
3. Identified as being in the 'Information Technology' overall sector AND the 'Professional Services' Industrial Strategy sector
4. Identifies as being in the 'Professional, Technical and Scientific Services' overall sector AND the 'Digital and Technology' Industrial Strategy sector

Methodology: UKRI data

The IUK transparency data provides company names and registration numbers to access details about the company and its location. To do this, the following matching procedure was used:

1. Raw transparency data was downloaded and matched to company data from Financial Analysis Made Easy (FAME). From FAME data, any company with a SIC code in the DCMS creative industries was tagged as being creative, and companies were also coded to sub-sectors. Data on schemes including collaborative R&D grants, feasibility grants, grants for R&D and Small Business Research Initiative (SBRI, now IUK) grants were included in the analysis. Other data will be analysed in future reports.
2. To identify whether firms were micro firms, the IUK transparency data already had size classification data but this sometimes conflated small and micro firms. To clarify this, employment data from FAME was used, capturing employment from the year the award was made.
3. For the geography analysis, postcodes from the transparency data were merged with a PEC dataset identifying creative clusters and microclusters.

The same procedure was followed for the AHRC data, which also provides company registration numbers. For comparisons of CICP and IUK programmes, the two datasets were merged based on registration numbers.

Methodology: UKRI data

Figure A1: Planning to undertake R&D – entire sample

Plans for R&D	All firms		
	Creative industries	Industrial Strategy	All firms
Not sure	14%	12%	13%
Not planning to undertake R&D	39%	52%	61%
Planning to undertake R&D	47%	36%	26%

Source: Authors' elaboration based on NCUB (2025). Weighted sample sizes are n=318 for creative industries all firms; n=720 for Industrial Strategy all firms; and n=2018 for all firms.

Figure A3: Anticipated spending on R&D over next three years

Anticipated spending	Creative industries micro firms	Industrial Strategy micro firms	All micro firms	Creative industries all firms	Industrial Strategy all firms	All firms
Increase	38%	36%	33%	41%	39%	36%
Decrease	5%	8%	6%	7%	6%	6%
Stay the same	45%	44%	46%	40%	42%	44%
Don't know	10%	10%	13%	10%	10%	12%

Source: Authors' elaboration based on NCUB (2025). Weighted sample sizes are n=116 for creative industries all firms; n=188 for Industrial Strategy all firms; n=414 for all micro firms; n=142 for all creative industries; n=256 for all Industrial Strategy; and n=551 for all firms in sample.

Figure A4: Anticipated cost of R&D projects over next three years

Cost	Creative industries micro firms	Industrial Strategy micro firms	All micro firms	Creative industries all firms	Industrial Strategy all firms	All firms
Up to £25,000	34%	37%	42%	29%	31%	36%
£25,000 to £50,000	13%	13%	10%	15%	16%	13%
£50,000 to £250,000	8%	10%	9%	9%	15%	11%
£250,000 to £500,000	1%	11%	6%	6%	10%	7%
£500,000 to £1 million	6%	7%	4%	6%	6%	4%
£1 million to £2 million	1%	1%	1%	1%	1%	1%
Over £2 million	2%	0%	1%	2%	1%	1%
Don't know	36%	20%	27%	33%	22%	27%

Source: Authors' elaboration based on NCUB (2025). Weighted sample sizes are n=168 for creative industries micro firms; n=311 for Industrial Strategy micro firms; n=737 for all micro firms; n=199 for all creative industries firms; n=414 for all Industrial Strategy firms; and n=962 for all firms in sample.

Figure A5: Barriers to R&D among R&D-active firms

Barriers	All creative micro firms	All Industrial Strategy micro firms	All micro firms	All creative firms	All Industrial Strategy firms	All firms
Lack of time or resources to dedicate to the application process	27%	23%	22%	29%	23%	23%
Difficulty meeting eligibility criteria or requirements	22%	22%	19%	20%	22%	18%
High levels of competition for available funding	23%	19%	15%	26%	19%	16%
Insufficient availability of grants or funding programmes	27%	20%	19%	28%	20%	19%
Bureaucratic or overly complex application processes	21%	26%	21%	22%	26%	21%
Lack of clear guidance or support in identifying funding opportunities	25%	21%	20%	24%	21%	20%
Limited knowledge or expertise in writing grant applications	16%	20%	18%	18%	20%	18%

Source: Authors' elaboration based on NCUB (2025). Weighted sample sizes are n=168 for creative industries micro firms; n=311 for Industrial Strategy micro firms; n=737 for all micro firms; n=199 for all creative industries firms; n=414 for all Industrial Strategy firms; and n=962 for all firms in sample.

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