



# Understanding productive investment decisions:

Investment patterns and decision-making processes

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May 2026



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## **Key words**

productivity, firms, investment, decision-making, uncertainty

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## **Suggested citation**

E. Golubova, S. Roper (2026) Understanding productive investment decisions: Investment patterns and decision-making processes, The Productivity Institute and Enterprise Research Centre.

## **Acknowledgements**

This work was supported by ESRC (grant ES/V002740/1) awarded to The Productivity Institute (TPI). We are grateful for comments on an earlier version of this report from attendees at a TPI workshop in Manchester in September 2025. Comments on related Welsh and Scottish analyses from Scottish Enterprise and members of Economic Intelligence Wales have also strengthened the report.

## **Publishers**

The Productivity Institute is an organisation that works across academia, business and policy to better understand, measure and enable productivity across the UK. It is funded by the Economic and Social Research Council (grant number ES/V002740/1).

The Productivity Institute is headquartered at Alliance Manchester Business School, The University of Manchester, Booth Street West, Manchester, M15 6PB. More information can be found on The Productivity Institute's website. Contact us at [theproductivityinstitute@manchester.ac.uk](mailto:theproductivityinstitute@manchester.ac.uk)

The Enterprise Research Centre (ERC) is an independent research centre which focuses on SME growth and productivity. ERC is a partnership between Warwick Business School, Aston Business School, Queen's University School of Management, Leeds University Business School and University College Cork.

The Centre is funded by the Economic and Social Research Council (ESRC); Department for Business and Trade (DBT); Department for Science, Innovation and Technology (DSIT), Innovate UK, the British Business Bank and the Intellectual Property Office. The support of the funders is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.

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## Executive summary

The UK's low level of business investment is often cited as a reason for slow productivity growth. The effects of the business environment – such as uncertainty and capital costs – on investment are well understood. However, less is known about what drives business investment and how companies make their investment decisions.

The 'Productive Investment Decisions' survey examined the decision-making process in 1,623 firms that made investments exceeding £5,000 between 2019 and 2024. The survey focused on two aspects of investment decisions:

- **Profiling firms' productive investment over the 2019-24 period** with a focus on the motivations for investment, timing of investment and the nature of firms' investment portfolios;
- **Understanding decision-making processes for firms' most strategic investment** – this section focuses on the criteria for investment decisions, the decision making process and the team of people making investment decisions.

Each theme was explored with half of the respondents to the survey (c.830 companies).

## Key insights

- **Investment motivations are complex** – motivations for investment are often multi-dimensional and closely linked to broader business objectives. Although interpretation can be challenging, 'productivity' is frequently (80%) cited as an investment motivation, but is seldom (11%) a firm's primary reason for investment.
- **Many investment decision factors are shared** - The investment motivations, objectives, financing and other factors underlying firms' investment decisions were, perhaps, surprisingly consistent across regions, sectors and firm size bands.
- **Tangible and intangible investment decisions are similar** - comparing tangible with intangible investments shows that firms have similar reasoning for investments. A key difference is financing, as intangible investments are less likely to be funded by external sources.
- **Internal funds dominate investment decisions** - Internal company funds are most commonly used to finance investments, often alongside external funding.
- **Uncertainty remains a key factor shaping investment decisions.** Examining firms' investment profiles from 2019 to 2024 highlights the influence of uncertainty. Interestingly, this uncertainty mainly had a qualitative impact, affecting the timing and returns of investments rather than the number of significant investments, the type of investments, or the amount invested.

- **Investment planning often remains informal**, with about half of the surveyed firms lacking a business investment plan. This issue is especially prevalent among smaller firms. Although there is no evidence that this reduces investment, it may lead to misallocated investments, which could diminish the benefits of such investments.
- **Types of investment and related measurement issues** - Approximately ninety per cent of firms are investing in either solely tangible assets or a mix of tangible and intangible assets.
- **Investment decision teams are typically small** - On average four people were involved in making business investment decisions. However, firms that made both tangible and intangible investments and firms that had a business investment plan tended to have more investment decision-makers.

### **Key findings relating to firms' investment profile (Section 2)**

- Firms' strategic objectives prioritised core business goals, especially sustaining cash flow and increasing efficiency (94%). Social objectives, such as generating social or community benefits, were less often considered important (62%). These strategic objectives were common across business size bands, sectors and locations.
- Investment motivations aligned closely with these strategic objectives. Increasing company profit and growth was often cited as the primary purpose (c. 28% of firms). Productivity improvement was often cited as one objective of investment (80% for tangible investment), but was rarely the main objective of the investment (11%).
- Investment planning is often informal, especially in smaller firms. 48% of firms lack an investment plan. Less than half of firms had a target rate of return on investment - 42% of firms making tangible investments and 31% making intangible investments. Among those firms looking to achieve a specific rate of return, about a third of firms expected an annual rate of return of up to 8%. A similar proportion expected it to be more than 14%.
- Most firms invested consistently making an average of four 'significant' investments between 2019 and 2024. Smaller firms and those with lower turnover made fewer investments. Most investments involved tangible assets, either solely (49%) or in combination with intangible assets (37%).
- Firms invested 13% of their turnover in tangible assets and 10% in intangible assets from 2019 to 2024. Internal company funds were the most common source of investment by far, although a significant proportion of firms used external funding for tangible (44%) and intangible investments (30%).
- External shocks adversely affected investment, especially between 2019 and 2021. 51% of firms reported impacts from COVID-19. Brexit and the crisis in the cost of doing business negatively affected 44% of firms.

- On average, four individuals participate in investment decisions. 35% are women, and 11% belong to ethnic minority groups.

### **Key results related to firms' most strategically important investment (Section 3)**

The key survey results, based on weighted survey data, are as follows:

- Firms tended to act swiftly when planning their most strategically important investments. 64% of firms completed their planning in less than a year, and 90% did so in under three years.
- Fewer than half of firms had a target rate of return on investment — only 39% needed to reach a specific rate when making their most critical investment. Among those targeting a specific rate, just under a third (29%) anticipated an annual return of more than 14%.
- Firms emphasised multiple purposes, expected multiple returns, evaluated several criteria, and considered numerous factors in approving their most significant investments.
- Investment planning is often informal, especially in smaller firms. 33% of these firms do not create a business case for their most strategically important investment; 25% do not evaluate the proposed investment; 23% do not measure any of the anticipated returns; and 21% do not track its performance after completion.
- In 80% of firms, the individuals involved in investment decisions usually remain the same throughout the process.
- One in three firms involve external partners in their investment decisions. Among these firms, the most common partners are private consultants (63%), other firms (43%), and business networks, trade organisations, or associations (21%).
- Investments have complementary business impacts, with 50% of firms considering potential interactions when approving their investments. Reinforcing business impacts were reported by 27% of firms.
- Formal investment planning is associated with increased satisfaction with the investment process, the returns on investment, and the positive impact on other investments.

### **Implications for policy and practice**

It is important to recognise that the Productive Investment Decisions survey concentrates on the internal process of investment decision-making rather than external influences such as interest rates. Therefore, the main implications are more directly related to management practices and how these could be positively adjusted, rather than the wider business environment for investment.

- ***Support investment planning and evaluation, especially in small firms***— about a third of these firms did not develop a business case for their investment, and roughly a quarter undertook little monitoring before or after investing. One

possible way forward is to create additional guidance for formal investment planning and evaluation through the British Business Bank Business Essentials online resource.

- ***Recognise the complexity of investment decision criteria*** - less than half of the firms in our survey had a target rate of return on investment, with most firms having a combination of motivations for making an investment, often linked to the strategic priorities of the business and reflecting costs and related investments. In this context, factors such as environmental uncertainty are likely to be influential determinants of investment decisions alongside more internal factors.
- ***Strengthen ecosystem signposting and/or services*** - ecosystem influences are also evident in our survey through the engagement of external stakeholders in about one in three investment decisions. High-quality partners may be readily available in larger urban centres but might be less accessible in more remote or rural areas. Here, there may be a role for policy support organisations to either signpost companies to relevant support or directly provide investment advice.

## Section 1: Background to the project and respondents

### 1.1 Introduction

Since the 2008 global financial crisis, the UK has experienced a sharp slowdown in productivity growth, with a gradual recovery compared with other advanced economies. This phenomenon is often called the ‘productivity puzzle’. Although the exact causes of this puzzle are not fully understood, one commonly cited explanation is the low level of business investment. There is a link between firm-level business investment and productivity, and the UK has some of the lowest business investment rates among OECD countries.

Therefore, understanding why and how firms make investment decisions is crucial. To examine this, we conducted a large-scale, nationally representative ‘Productive Investment Decisions’ survey of 1,623 UK firms that made substantial investments between 2019 and 2024. The survey was carried out using Computer Aided Telephone Interviewing, with respondents drawn from the firms’ senior leadership teams. The survey focused on two aspects of investment decisions:

- ***Profiling firms’ productive investment over the 2019-24 period*** with a focus on the motivations for investment, timing of investment and the nature of firms’ investment portfolios;
- ***Understanding decision-making processes for firms’ most strategic investment*** – this section focuses on the criteria for investment decisions, the decision making process and the team of people making investment decisions.

Each theme was explored with half of the respondents to the survey (c.830 companies). Details on the survey methodology are provided in Annex 1.

Our study covers both tangible and intangible investments, including physical assets such as machinery and equipment, and non-monetary assets such as patents and software. This distinction is crucial for analysing productivity: British firms have not been investing in capital as expected, despite historically low interest rates and a higher rate of return on capital. This is known as the ‘missing investment puzzle’, which can be explained by intangible investment (Bailey et al., 2022). There is also evidence that intangible investment enhances productivity (Karmakar et al., 2022). However, measuring intangible investment is more challenging: the UK National Accounts record some, but not all, intangible capital (Wilkes, 2022).

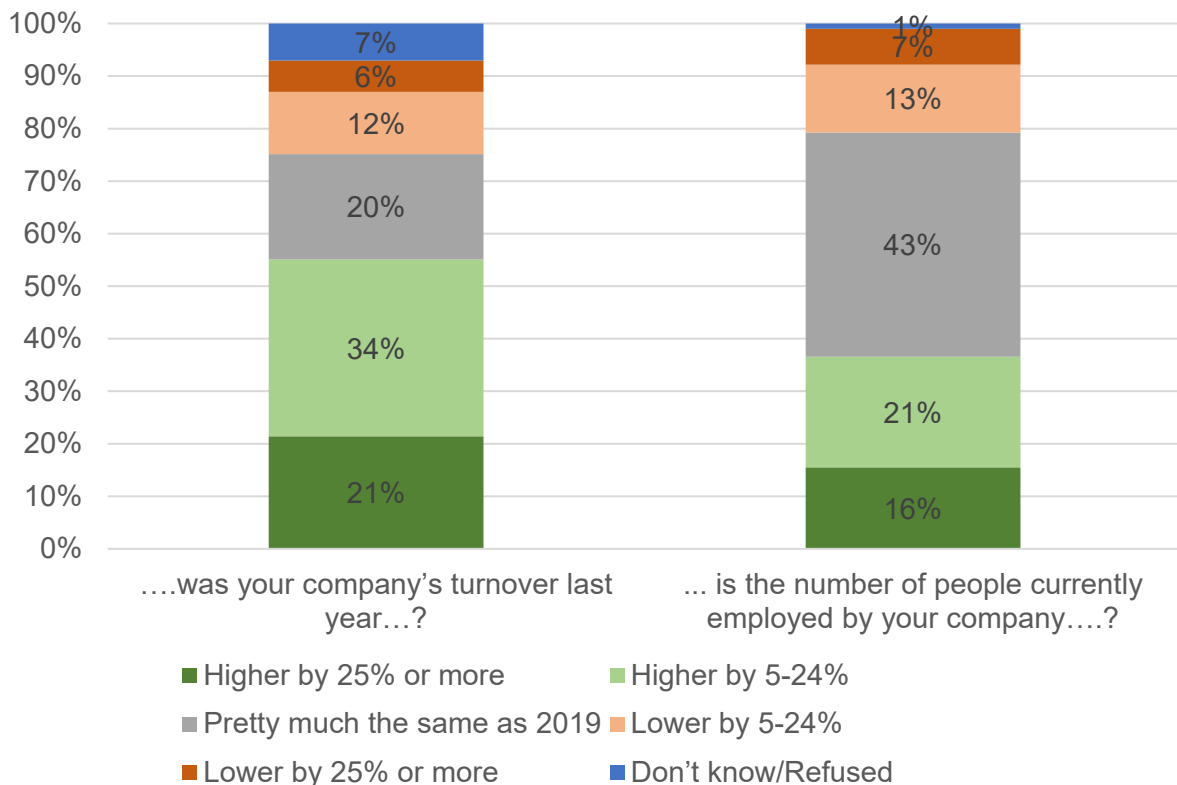
## 1.2 Overview of survey respondents

This section outlines the key characteristics of the firms that responded to the survey. Firms were only included if they had made at least one investment of £5,000 or more during the 2019–2024 period. Out of the 1,831 firms contacted, 1,624 (88.7 per cent) were considered in scope, meaning they had made at least one investment of £5,000 or more in the 2019-24 period (see Annex 1).

Respondents had an average of 47 staff, an average business turnover of £5.4m in 2023, and had been trading for an average of 33 years. By business size category, 83% of firms were small (10–49 employees), 14% were medium (50–249 employees), and 3% were large (250+ employees).

Compared with 2019, most respondents reported higher turnover, and about a third noted growth in staff numbers, although for most firms staff levels remained roughly the same (Figure 1).

**Figure 1: Share of firms by changes in turnover and staff compared to 2019**



Forty-eight per cent of respondents sold services, 24% sold goods, and 28% sold both goods and services. Firms that sold goods or both mainly dealt in consumer goods (72%), followed by intermediate goods (29%), raw materials (17%), capital goods (18%), and 'other' goods such as custom-built items or livestock (2%).

By customer type, respondents were mainly business-to-business (B2B) (66%) and business-to-consumer (B2C) (62%) firms, with 22% being business-to-government (B2G) firms. Most firms (58%) were family-owned, including 5% that were family-

owned but not family-run, and 8% were foreign-owned. The leading countries of foreign ownership were the USA (19%), Germany, and Sweden. Finally, 31% of firms exported goods or services between 2019 and 2024. For exporting firms, export sales averaged 21% of turnover in their most recent year of exporting.

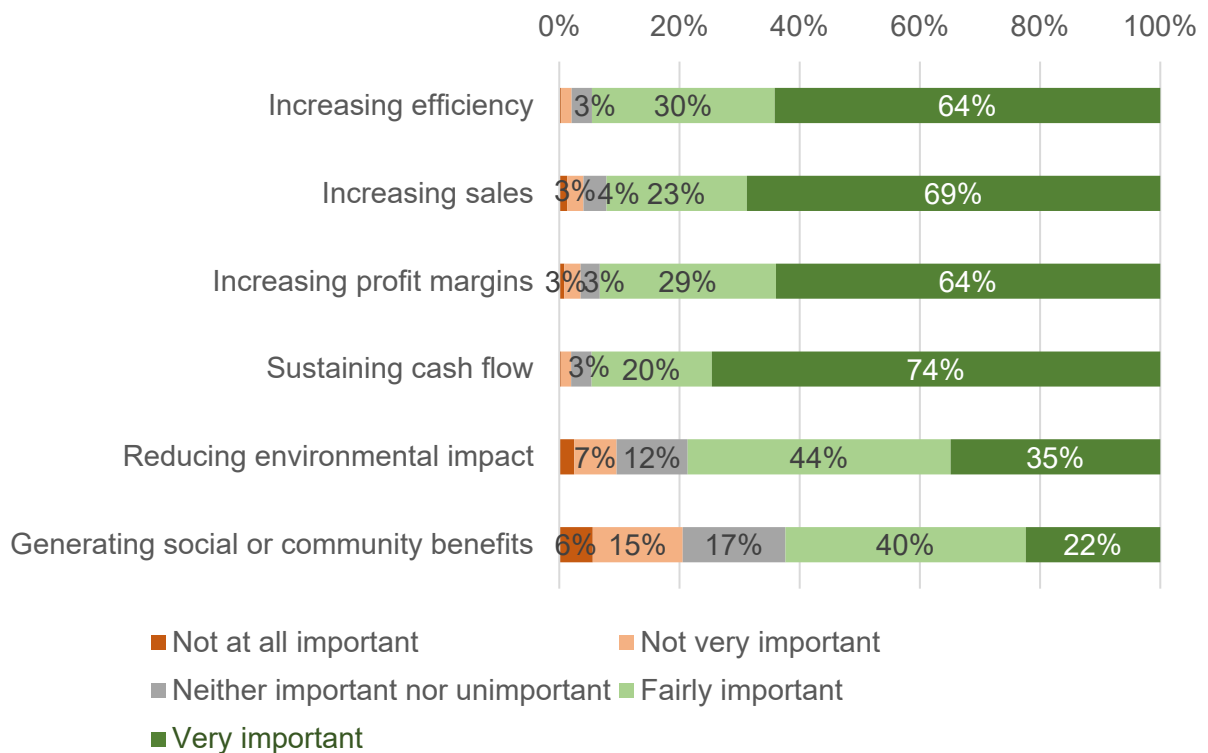
Naturally, the business characteristics of firms are interconnected. For example, smaller respondents tend to be younger and have lower turnover. It is important to bear this in mind when analysing differences in firms' investment decisions, as these may result from several factors.

### 1.3 Business objectives

The 'Productive Investment Decisions Survey' examined business objectives and how firms aimed to achieve them. Over 90% of firms considered financial goals (such as increasing sales, improving profit margins, and maintaining cash flow) and improving efficiency as 'fairly' or 'very important'. Maintaining cash flow was most frequently regarded as 'very important', cited by 74% of firms.

Conversely, social objectives—such as reducing environmental impact and creating social or community benefits—were less often regarded as 'fairly' or 'very important' (by 79% and 62% of firms, respectively). Social objectives were also far less likely to be seen as 'very important'. For instance, 35% of firms considered reducing environmental impact 'very important', compared with 64% that regarded increasing efficiency as 'very important' (Figure 2).

Figure 2. Importance of business objectives over the last 12 months

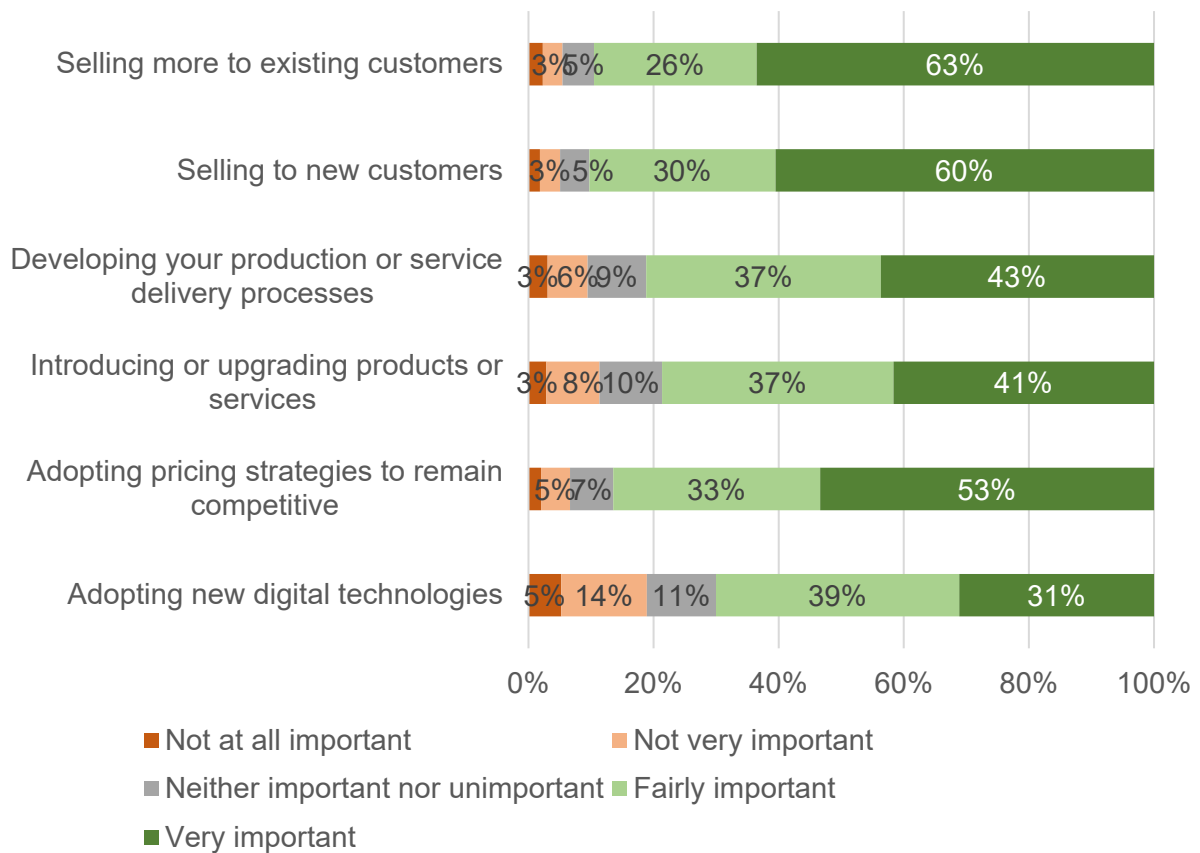


Note: responses of 2% or less are not labelled in the chart; might not add up to 100% due to rounding and because 'don't know' responses are not included

Overall, UK firms showed similar business motivations, with few statistically significant differences by business size, location, or sector. When differences did exist, they were generally minor: for instance, small firms were slightly less likely to consider reducing environmental impact as 'fairly' or 'very important' (78% versus 84% among medium and large firms).

Selling to new customers and increasing sales to existing customers were regarded as the most important strategies for achieving these objectives, cited by 90% and 89% of firms, respectively. Adopting new digital technologies was deemed important by fewer firms (70%) than the other strategies (Figure 3).

**Figure 3. Importance of different means of achieving business objectives over the last 12 months as reported by firms**

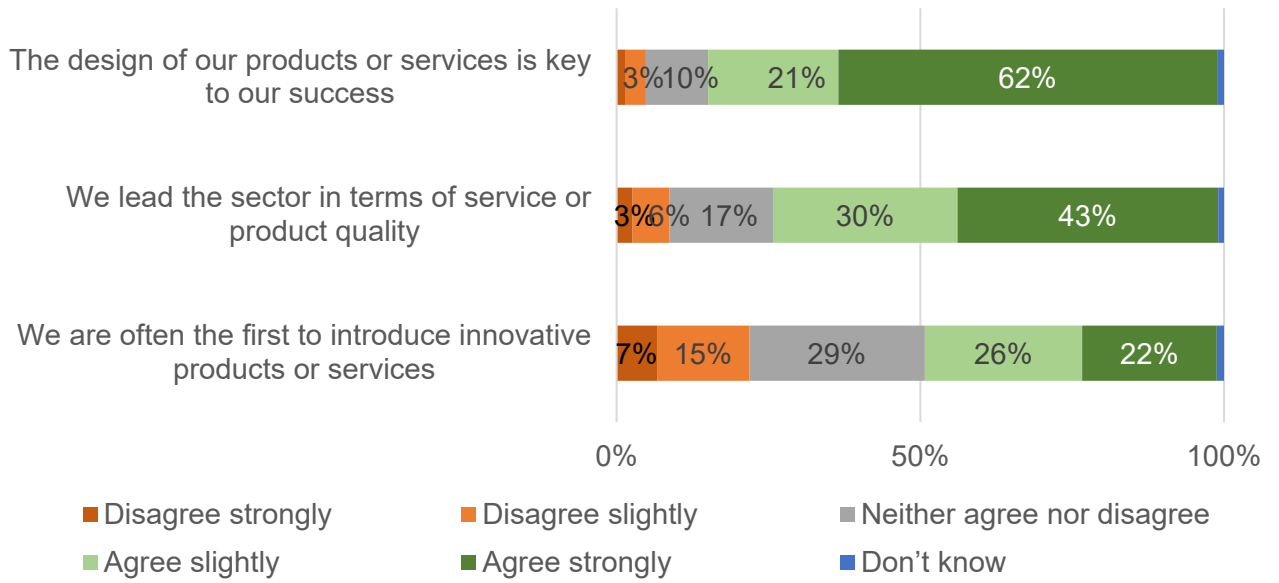


Note: responses of 2% and less are not numbered in the chart; might not add up to 100% due to rounding and because 'don't know' responses are not included

When comparing themselves with their main competitors in the UK market, most UK investing firms (84%) 'strongly' or 'slightly' agreed that the design of their products or services was a key to their success, and 73% said they led the sector in terms of service or product quality. Just under half (48%) also reported often being the first to introduce innovative products or services (Figure 4).

Exporting firms, in particular, were more likely to report outperforming their main competitors: for instance, 58% of exporters reported being the first to introduce innovative products or services, compared with 44% of non-exporters.

**Figure 4. How UK firms compare to their main UK competitors**



Note: percentages of 2% or less are not presented in the graph

## Section 2: Understanding firms' investment profile

### 2.1 Investment patterns

Respondents reported making an average of four business investments exceeding £5,000 between 2019 and 2024. As expected, the number of investments was positively associated with business size, age, turnover, and other characteristics. For instance, small businesses made fewer investments (4 compared with 6 in medium and large firms), while businesses that sold both goods and services made more investments (on average 5 versus 4 in firms selling only goods or only services). Overall, firms appeared to invest similarly across sectors and regions, and there were no differences by business objectives.

### 2.2 Types of investment

Firms primarily made tangible investments (49%) or a combination of tangible and intangible investments (37%). A smaller proportion of firms (12%) relied solely on intangible investments from 2019 to 2024. Additionally, there was a relationship between investment type and the number of significant investments. UK firms that combined tangible and intangible investments tended to make more investments, averaging 5, compared with 4 for firms that made only tangible investments and 3 for those that made only intangible investments.

Typically, companies across investment types were quite similar, with a few notable exceptions. First, small businesses were less likely to combine tangible and intangible investments (34% versus 51% in medium and large firms) and more likely to invest solely in tangible assets (51% versus 38%). Second, service firms were more likely to invest in intangibles (19% versus 6% in firms selling goods or both goods and services) and less likely to invest in tangibles (42% versus 56% in goods firms and 54% in firms selling both goods and services).

Geographically, the main difference was that English firms were more likely to engage exclusively in intangible investments (13% versus 7% in the rest of the UK), whereas Northern Irish firms invested less in intangibles (including when combined with tangible investments). In terms of business motivations, firms did not exhibit different investment patterns.

Regarding investment types, firms primarily invested in tangible assets such as machinery, buildings, or plants, and in IT hardware or systems (excluding software), alongside intangible assets such as computer software or databases, and in staff training or education (see Table 1).

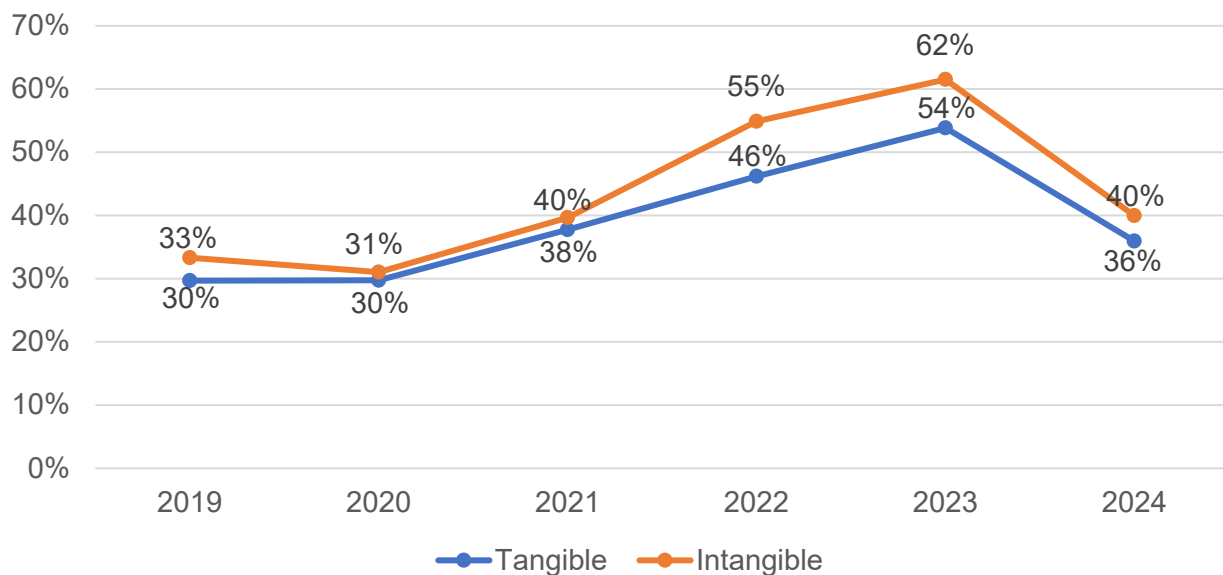
**Table 1. Share of firms that made tangible and intangible investments, by sub-types (multiple selection possible)**

<b>Tangible</b>	<b>%</b>	<b>Intangible</b>	<b>%</b>
Machinery	61%	Computer software or databases	74%
Buildings or plants	50%	Staff training or education	72%
IT equipment or systems excluding software	49%	Branding or brand recognition	53%
Vehicles	41%	Business structure or organisation	40%
Other equipment (excl. IT)	47%	R&D	36%
Inventory or stock	38%	Customer goodwill	31%
Land	8%	Entertainment, literary and artistic originals	15%
Other	1%	Intellectual property products	15%
		Other	5%

### 2.3 Investment timeline and frequency

Between 2019 and 2024, firms invested on average in tangible assets over 2 years and in intangible assets over 3 years. A higher proportion of firms invested in 2022 and 2023 than in 2019 to 2021, possibly reflecting recovery from the COVID-19 pandemic. The proportion of firms investing in 2024 was lower than in the previous two years, although the survey fieldwork took place before the year's end (Figure 5).

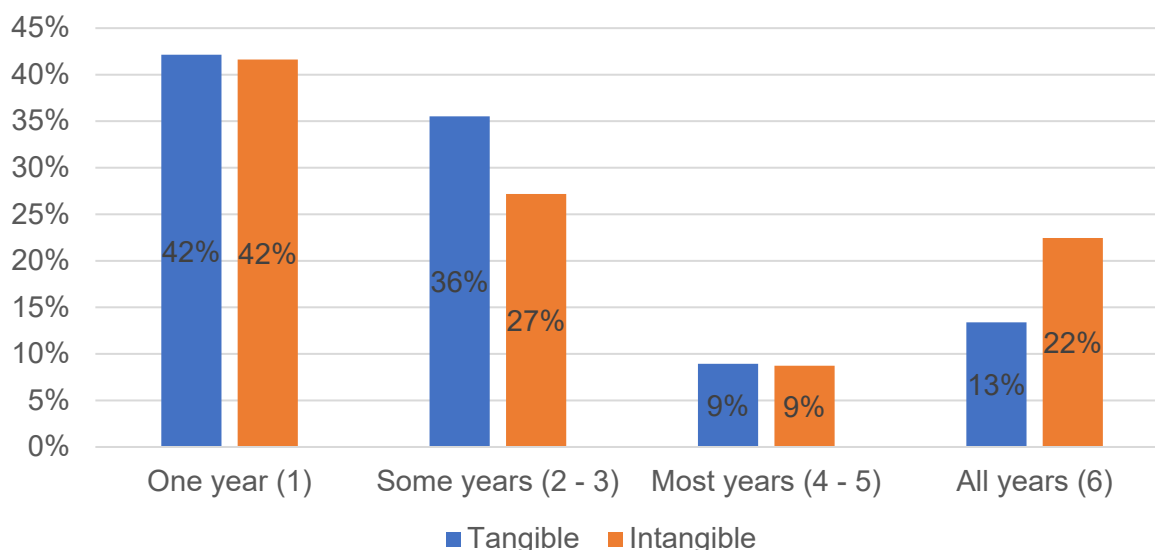
**Figure 5. The share of UK firms that made significant investments from 2019 to 2024**



For both tangible and intangible assets, a significant proportion of firms (42%) invested in only one year, mainly in 2022 or 2023. Meanwhile, 22% of firms invested annually

in intangible assets, and 13% invested annually in tangible assets (Figure 6). Businesses that invested in just one year made fewer investments overall, yet still more than one: on average, these firms made two investments in either tangible or intangible assets, compared with five in tangible and four in intangible assets among firms that invested over multiple years.

**Figure 6: Share of UK firms by how frequently they invested in 2019 – 2024**



## 2.4 Investment planning

About half of respondents (46%) reported having a business investment plan in 2024, a slightly higher proportion than in 2019 (40%). The most common pattern was that businesses either had no plans in 2019 or 2024 (38%) or had plans in both years (31%). The 2024 business investment plan typically covered a medium-term timeframe of 2 to 5 years (70% of firms), similar to the plans firms had in 2019 (67%, Table 2).

**Table 2. Timeline of the business investment plan among firms that reported having one, a comparison between 2019 and 2024**

Investment timeline	% in 2019	% in 2024
Less than 1 year	17%	15%
2 – 3 years	40%	38%
4 – 5 years	27%	32%
6 years or more	10%	12%
Don't know / refused	5%	3%

Note: percentages might not equal 100% due to rounding

Geographically, UK firms were largely consistent in their use of investment plans. Regarding business characteristics, smaller firms were less likely to have a business investment plan. In 2024, 42% of small firms reported having a business investment plan (36% in 2019), compared with 64% of medium or large firms (55% in 2019).

Controlling for key business characteristics, there was no association between having an investment plan and the number of significant investments undertaken. However,

firms with investment plans (in 2024, 2019, or both years) were more likely to invest in both tangible and intangible assets: 46% of firms with a business investment plan in 2024 made both types of investment, compared with 29% of firms without a plan. This proportion was similar for firms with investment plans in 2019 (47% versus 29%) and for those with plans in both 2019 and 2024 (47% versus 31%).

## 2.5 Financing investment

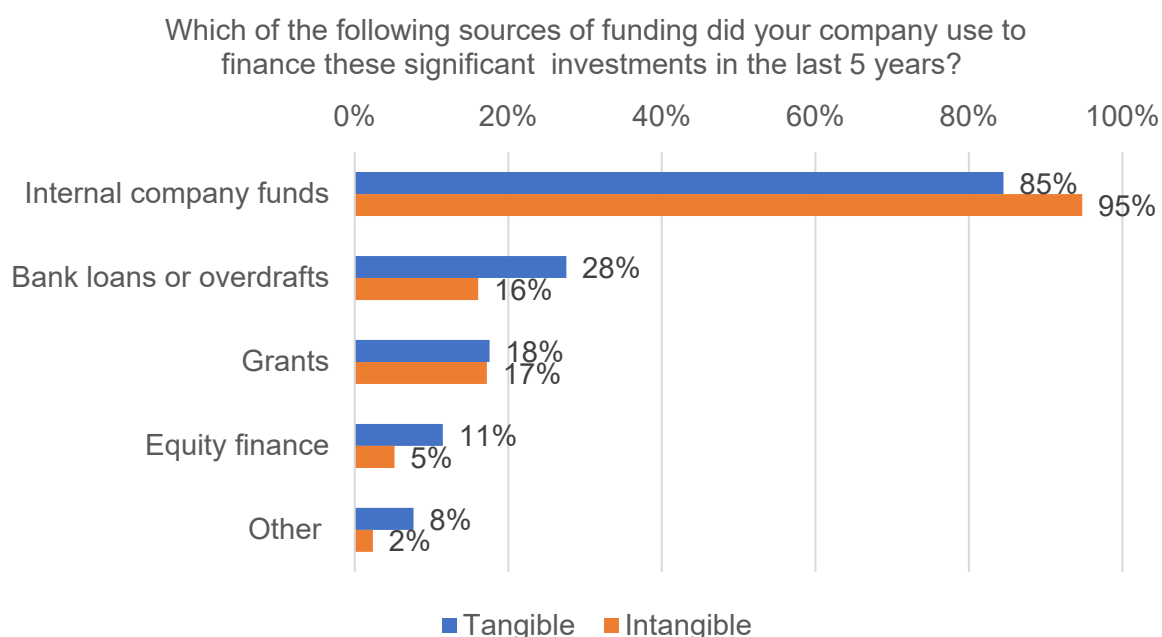
Over the last five years (2019–2024), UK firms allocated an average of 13% of their turnover to tangible investments and 10% to intangible investments. These proportions were broadly similar across firms by investment type, so businesses investing in both tangible and intangible assets spent a higher overall share of their turnover (approximately 23%). Understandably, there was a relationship between the number of significant investments and the proportion of turnover invested, with firms making more investments also investing a larger share of their turnover.

There were only a few significant geographical differences among UK firms, but some variations based on business characteristics. Interestingly, business size or category did not influence the level of investment. Instead, firms with higher turnover allocated a smaller proportion of their turnover to investment. Additionally, there were a few sectoral differences. For example, the manufacturing sector on average invested less in tangible assets (9% compared to 13%), while the ‘other’ services sector invested more on average (16% versus 12% in tangible assets and 14% versus 8% in intangible assets).

Regarding funding sources, UK businesses mainly financed their investments through internal company funds (85% for tangible and 95% for intangible investments). Additionally, 44% of firms making tangible investments and 30% of those making intangible investments utilised external funding, such as bank loans, equity, or grants.

External funding often supplemented internal resources: only 13% of firms financed their tangible investments solely from external sources, and just 3% financed their intangible investments entirely through external means. Bank loans or overdrafts were also somewhat more likely to be used to fund tangible investments (Figure 7). Other sources of funding for investments included brokers, finance agreements, hire purchase agreements, donations, funding circles, and business leaders’ personal finances.

**Figure 7. Funding sources of tangible and intangible investments in UK firms (multiple selections possible)**



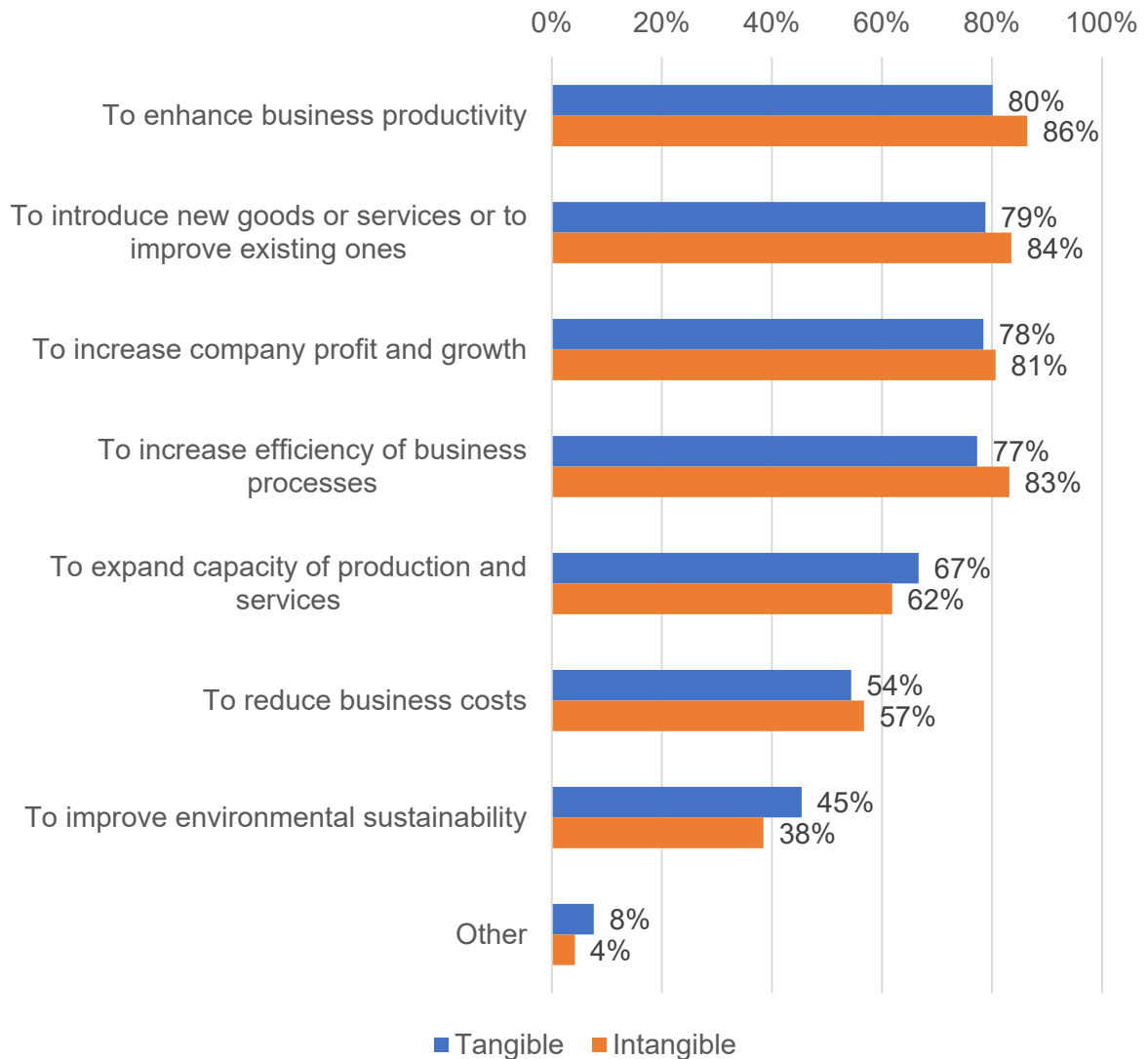
Firms with higher turnover and characteristics associated with higher turnover (e.g., foreign-owned) were less likely to utilise external funding for any investment type. Firms with an investment plan in 2024 were more likely to utilise external funding for intangible investments (36% versus 24% in firms without the plan), although no such link was found for tangible investments. Additionally, English firms were less likely to utilise external funding for intangible investments (28% versus 42% in the rest of the UK), whereas Scottish firms were particularly more likely to use external funds for intangible investments (48% versus 28% in the rest of the UK).

Lastly, firms that used external funding for tangible investments also tended to allocate a higher share of their turnover to tangibles (15% versus 11%), but no such relationship was observed for intangible investments.

## 2.6 Purpose of investing

UK firms reported making significant investments for various reasons, with patterns across tangible and intangible assets largely similar. The most common reason was to boost business productivity, while the least common was to improve environmental sustainability (Figure 8). UK firms also cited other motives for investing in tangible assets, such as replacing existing equipment and maintenance. Additional reasons for investing in intangible assets included maintaining operational continuity and health and safety considerations.

**Figure 8. Purpose for which UK firms made tangible and intangible investments (multiple selections possible)**



While more than three-quarters of firms invested to improve productivity, only 11% cited this as their main motivation for investing. Instead, firms identified increasing company profit and growth as the primary aims of tangible (28%) and intangible (29%) investments (Figure 9).

**Figure 9: The most important purpose of making tangible and intangible investments among UK firms**



Note: includes firms that cited only one purpose of investing and treats it as the most important purpose

The primary goal of investment varies by sector and whether firms sell goods or services. For example, in tangible investments, firms that sell services or both services and goods are more likely to cite product innovation as their main reason (18% and 20% respectively, versus 6% for goods businesses). Although largely similar, there are also geographical differences in the main purpose of investment. For instance, firms in Yorkshire & Humber are much more interested in improving the efficiency of business processes through intangible investments (46% versus 20% in other regions and devolved nations).

Interestingly, businesses that invested in both tangible and intangible assets had somewhat different motivations for investing in tangible assets compared with those that invested only in tangible assets. Companies with combined investments were more likely to invest in tangible assets for all purposes explored in the survey, except for expanding production capacity and services. The differences generally ranged around 10 percentage points, with the largest gaps observed in enhancing business productivity (88% in firms with combined investments versus 74% in those with only

tangible investments) and improving environmental sustainability (54% versus 39%). However, there were no differences in the main reasons for investing in tangibles or intangible assets.

Ultimately, there was a link between business objectives and investment purposes. Business objectives and investment aims are usually aligned. For instance, firms that regarded increasing efficiency as 'very' or 'fairly important' were more likely to make tangible investments to improve the efficiency of business processes (78% compared with 57% of firms for whom efficiency was not important).

Similarly, firms that prioritised reducing environmental impact or generating community benefits were much more inclined to invest in improving environmental sustainability (e.g., 46% of firms for whom reducing environmental impact was important made intangible investments for this purpose, compared with only 7% of firms for whom environmental sustainability was not a key business objective). Furthermore, businesses aiming to increase profit margins or boost sales focused more on the financial aims of investment, such as increasing company profits, expanding production capacity or services, and enhancing business productivity.

## 2.7 Annual rate of return

For 42% of firms making tangible investments and 31% making intangible investments, achieving a specific annual rate of return was necessary. For tangible investments only, small firms were slightly less likely to need to attain the rate of return (41% versus 48% of medium or large firms). The only other difference was that firms in the accommodation sector were more likely to need to achieve a specific rate of return for any type of investment (53% versus 40% for tangible and 51% versus 29% for intangible investments). Businesses from London were also more likely to need to attain a rate of return, while a few other regions in England were less likely to do so, but only for tangible investments.

Apart from these differences, there was a positive correlation between firms that needed to meet the annual rate of return and their investment levels. Firms aiming for a specific rate of return invested, on average, 16% of turnover in tangible assets, compared with 10% in firms that did not require a specific return, and 14% of turnover in intangible assets, compared with 7%. Additionally, businesses aiming for a specific rate of return were more likely to utilise external funding for both tangible investments (55% versus 36% of firms that did not need to achieve a return) and intangible investments (38% versus 26%).

Among firms that needed to achieve a specific rate of return, the expected annual rate varied. About a third of firms anticipated an annual return of up to 8%, while a similar proportion expected it to be over 14%. Additionally, many firms stated they did not know the expected annual rate of return. See Table 4 for details on the annual rate of return for tangible and intangible investments.

**Table 3: Annual rate of return that UK firms expected to achieve from tangible and intangible investments (% of firms for whom it was necessary to achieve a specific rate of return)**

<b>Expected annual rate of return</b>	<b>Tangible</b>	<b>Intangible</b>
Less than 5 %	13%	13%
5-8%	18%	25%
9-10%	17%	12%
11-12%	6%	0%
12-14%	3%	2%
More than 14%	24%	32%
Don't know	17%	16%
Refused	1%	0.5%

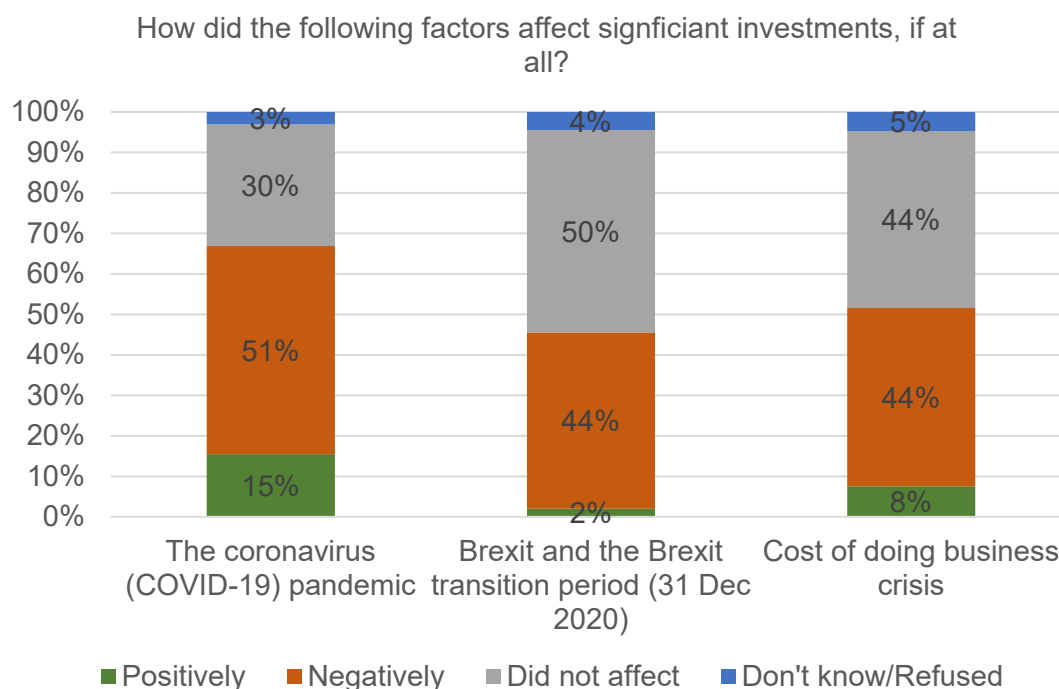
Note: percentages might not equal 100% due to rounding

## 2.8 Other influences on investment decisions

About half of respondents (51%) reported that the coronavirus (COVID-19) pandemic negatively affected their significant investments over the last five years (2019–2024). Nearly half of firms (44%) also reported that Brexit, the Brexit transition, and the crisis related to the cost of doing business harmed their investments. Unlike the coronavirus pandemic, a large proportion of firms did not find these events impactful (Figure 10).

The differential effects of external shocks appeared to be mainly related to sector and product. Not surprisingly, the accommodation sector was far more likely to report negative impacts from some shocks than other sectors. For example, 81% of firms in the accommodation sector reported negative effects from the pandemic, compared with 47% in other sectors. Meanwhile, firms selling goods were more likely to be negatively affected by Brexit (52% versus 37% in services).

**Figure 10: Impact of external factors on significant investments reported by UK firms**



Negative impacts from external shocks did not affect firms' number of significant investments, investment frequency, share invested, or investment type. In fact, firms reporting negative effects from Brexit invested a larger share of their turnover in tangible assets (14% compared with 11%).

Furthermore, a link was identified between using external funding for intangible investments and the impact of external shocks: 65% of firms that utilised external funding for intangible investments reported that their investment was negatively affected by COVID-19 (compared with 48% of those that did not use external funding), and 57% of firms using external funds for intangibles were affected by the cost-of-doing-business crisis (compared with 41%).

## 2.9 Investment decision-makers

On average, firms reported that four people in their company were involved in making business investment decisions. Only 4% of firms reported having just one investment decision-maker, even among firms with only 10 employees. The number of decision-makers was positively associated with business size and related factors, such as turnover, ownership, and exporting. For example, in small firms, on average, three staff members were investment decision-makers, compared with seven in medium or large firms.

On average, 35% of firms' investment decision-makers were women, and 11% belonged to ethnic minority groups. As with the distribution of decision-makers, these

proportions also correlated with business characteristics, including age, sector, and ownership. UK firms also differed in the composition of their decision-making teams, particularly by ethnicity, depending on location. For example, London-based firms had the highest proportion of decision-makers from ethnic minority groups (26% compared with 8% in the rest of the UK), which influenced the overall English average. Northern Irish firms had a greater proportion of women decision-makers (47% compared with 34%).

It is notable that the number of investment decision-makers, as well as the proportion of women and ethnic minority decision-makers, was not linked to the number of significant investments or the share of turnover invested. However, businesses that made both tangible and intangible investments tended to have, on average, more decision-makers (five compared with four in other firms). Similarly, firms with business investment plans reported a higher number of decision-makers: an average of five versus three in 2024 and five versus four in 2019. Additionally, firms with a business investment plan in 2024 had a greater proportion of decision-makers from ethnic minority groups (16% compared with 8% in firms without the plan), even when accounting for regional differences.

## Section 3: Understanding firms' most strategically significant investment

### 3.1 Introduction

The Productive Investment Decisions survey asked firms to identify their most strategically significant investment during the 2019 to 2014 period, then posed a series of questions relating to the nature of that investment and the decision-making process involved.

Most firms identified tangible investments as the most strategically significant to their business (56%), followed by a mix of tangible and intangible (28%), and intangible investments (15%). There were variations by business type and region in which investments firms deemed most strategically important. For instance, goods firms placed greater importance on tangible investments (69% compared with 49% of service firms and 54% of firms involved in both services and goods), whereas London-based firms were more likely to regard intangible investments as the most strategically significant (24% versus 13%).

Among investment sub-types, firms most frequently cited machinery under tangible investments and staff training or education under intangible investments as their most strategically important investments. Firms also selected multiple investment sub-types as their most strategically significant, averaging two sub-types for tangible and four for intangible investments (Table 4).

**Table 4: The most strategically significant investment among UK firms by sub-type (multiple selections possible)**

<b>Tangible</b>	<b>%</b>	<b>Intangible</b>	<b>%</b>
Machinery	57%	Staff training or education	75%
Other equipment (excl. IT)	46%	Computer software or databases	62%
Buildings or plants	42%	Business structure or organisation	51%
IT equipment or systems excl. software	41%	R&D	48%
Vehicles	31%	Branding or brand recognition	45%
Land	8%	Customer goodwill	37%
Other	4%	Intellectual property products	22%
		Entertainment, literary and artistic originals	16%
		Other	5%

About a third of UK firms (34%) involved partners, collaborators, or consultants outside the company in their most strategically significant investments.<sup>1</sup> Firms involved the following stakeholders:

- private consultants (63%)
- other private firms (43%)
- business networks, trade organisations or associations (21%)
- local authorities (12%)
- higher or further education institutions (8%)
- government agencies (3%)

Ten per cent of firms also reported involving other external partners in their most significant investment, such as lawyers, investors, customers, IT experts, and financial institutions. Most of the businesses that involved external partners engaged only one external stakeholder (63%), about a third (36%) involved 2 to 4 stakeholders, and 1% of firms engaged 5 to 6 stakeholders.

The likelihood of involving external partners was higher among large firms: 58%, compared with 36% among medium and 34% among small firms. There were no significant regional differences. Firms that regarded tangible investment as the most strategic were less likely to report involving external collaborators (29%, compared with 44% among firms making intangible investments and 40% among those making a combination of tangible and intangible investments).

## 3.2 The Investment Decision Process

This section explains the process of making firms' most strategic investments, from ideation to performance monitoring.

### 3.2.1 Ideation

UK firms generally acted quickly when planning their most strategic investments. Most companies (64%) reported taking less than a year to plan before making the investment, while 90% of firms took under three years (see Table 5). Tangible investments were more likely to be completed swiftly: 70% of firms that identified tangible investment as their most strategic investment took less than a year to plan, compared with 54% of firms making a combination of tangible and intangible investments.<sup>2</sup>

**Table 5: Time to plan to make the most strategically significant investment prior to actually making it**

Time taken	%
Less than 1 year	64%
2 – 3 years	26%

<sup>1</sup> Other than the suppliers of any equipment or other assets.

<sup>2</sup> The difference between tangible and intangible investments was significant at a 10% level

<b>Time taken</b>	<b>%</b>
4 – 5 years	2%
5 years or more	4%
Don't know / refused	4%

Sixty-two per cent of firms developed a business case to make the proposed investment.<sup>3</sup> Larger firms and firms with higher turnover (e.g., foreign-owned) were more likely to have developed a business case. For example, 59% of small firms developed a business case compared to 75% of medium and large firms.<sup>4</sup> Plus, firms that had external collaborators involved in their investment were more likely to develop a business case (69% versus 58% in firms without external collaboration). There were no differences by investment type.

There were some geographic differences, with Welsh firms less likely to develop a business case, even after accounting for demographic business characteristics (49% of Welsh firms developed a business case compared with 62% in the rest of the UK).

### 3.2.2 Evaluation stage

Seventy-two per cent of firms assessed the benefits of the proposed investment. As in the business case, larger and wealthier firms were more likely to assess, as were firms that collaborated externally (77% versus 69%).

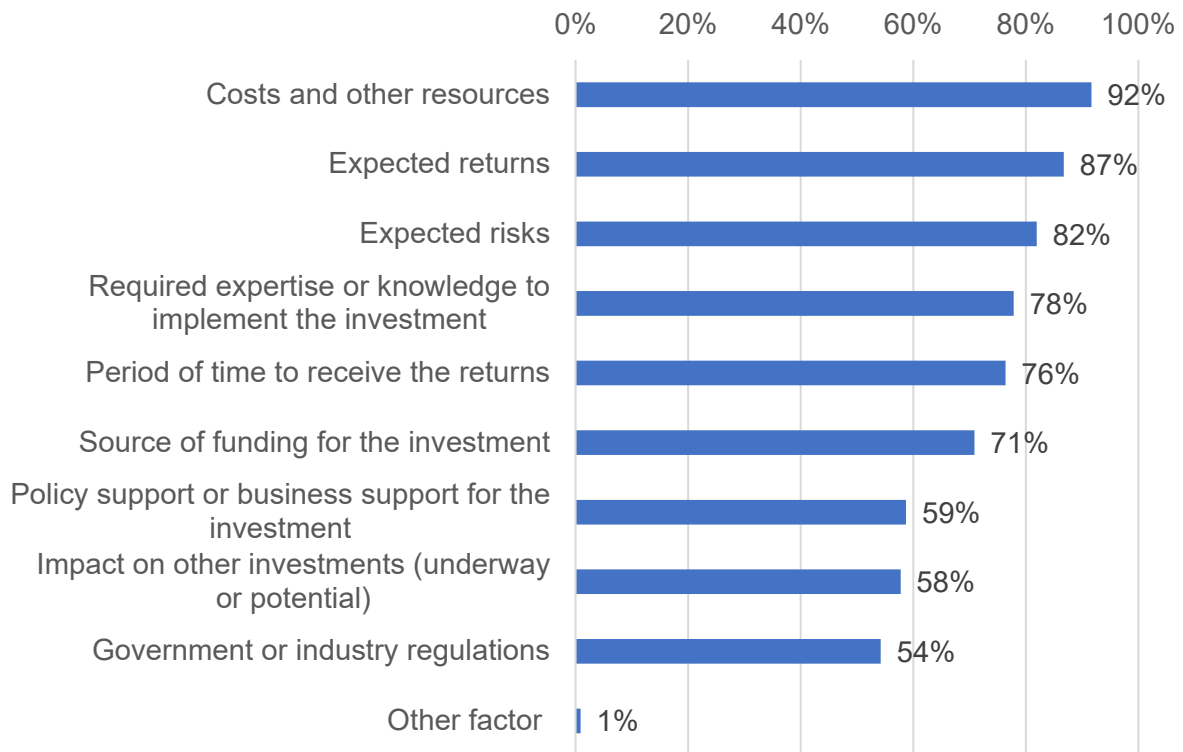
Firms evaluating their proposed investment considered multiple factors. They almost always evaluated costs and other resources (cited by 92% of firms) and expected returns (87%). Policy and business support for the investment, impact on other investments, and government or industry regulations were considered less frequently but still by the majority of firms (Figure 11).

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<sup>3</sup> 33% of firms did not develop a business case and 5% did not know if they did.

<sup>4</sup> See Table 10 in Appendix 3 for all results on associations between investment planning and business characteristics

**Figure 11: Factors considered when evaluating the most strategically significant investment (multiple selections possible)**



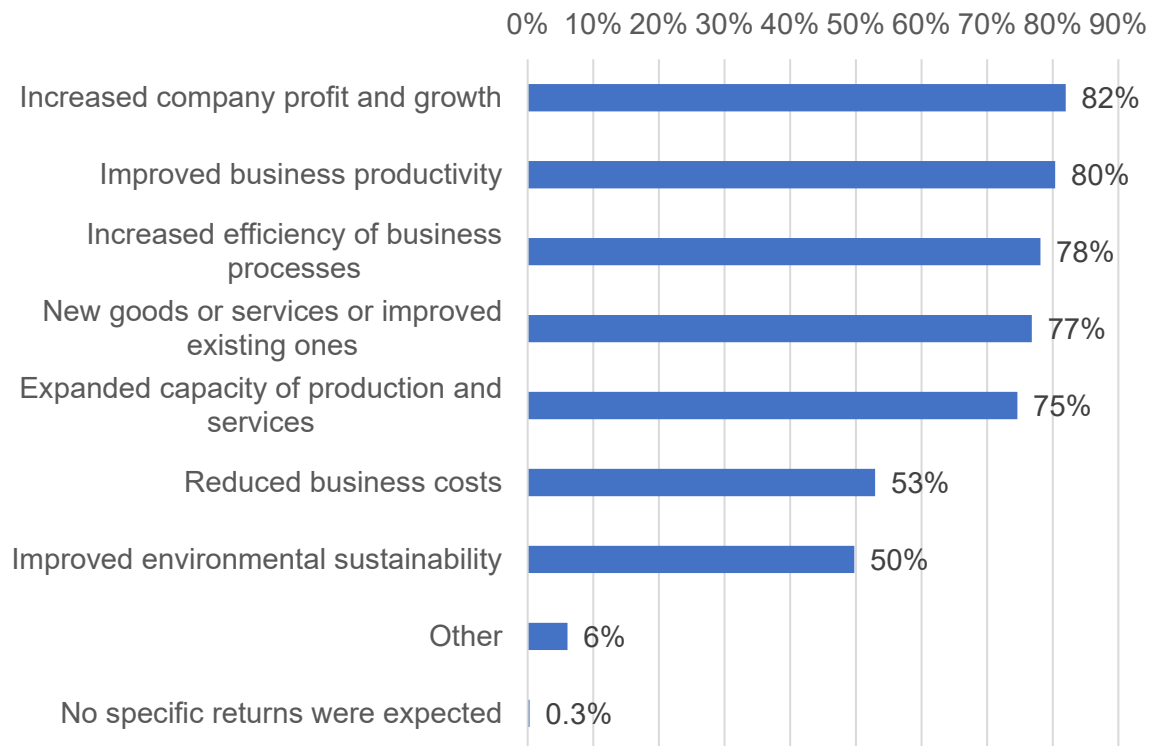
Businesses generally showed little variation in their investment assessment criteria. However, small firms were about 10 percentage points less likely to consider the time required to realise returns, policy or business support, and the impact on other investments. There were also notable differences across larger sectors and product categories. For example, service firms were less likely to consider expected returns in their evaluations (80% versus 96% in goods firms), but more likely to consider funding sources (76% versus 59% in goods firms).

There were several notable differences in evaluation criteria depending on the type of the most important investment. Firms that identified a mix of tangible and intangible investments as their most strategically significant were more likely to consider policy or business support (68% versus 54% of firms making tangible investments), required expertise (84% versus 70%), and government or industry regulations (66% versus 52%). Those that identified only intangible investments were less likely to consider sources of funding (50% versus 75% of firms identifying tangible or a combination of investments) and the impact on other investments (42% versus 58% for tangible investments and 65% for the combination of investments).

Firms anticipate achieving multiple returns from their most significant investments. Most commonly, businesses aim to increase company profit and growth (82%), with the least emphasis on improving environmental sustainability (50%) (Figure 12). Companies identified increased profit and growth as the most important expected outcome (cited by 29% of firms), followed by increased efficiency of business

processes (16%), expanded capacity for production and services (13%), and development of new goods or services or improvements to existing ones (12%). Improved business productivity was considered the most important expected return by 10% of firms, while 5% cited reduced business costs, and 3% mentioned enhanced environmental performance and sustainability.

**Figure 12: Expected returns from the most strategically important investment  
(multiple selections possible)**



Generally, expected returns from investments were similar across firms with different characteristics. However, small firms were less likely to expect improved environmental sustainability from their investments (48% versus 58%), while goods firms anticipated product innovation (67%) less than service firms (80%) or those involved in both goods and services (80%). There were no significant geographical differences in expected returns.

Among investment types, businesses that made both tangible and intangible investments were more likely to expect returns such as increased efficiency (84% versus 75% of firms that made only tangible investments), higher business productivity (86% versus 78%), product innovation (84% versus 72%), and improved environmental sustainability (53% versus 37% of firms making only intangible investments). Companies also differed in what they regarded as the most important expected return by investment type. Increasing company profit mattered most to firms that made both tangible and intangible investments (38% versus 26% of those with only tangible investments), while expanded capacity was less important to firms

making only intangible investments (4% versus 17% of firms with tangible investments alone and 12% of those with both). Firms that identified intangible investment as their most strategic considered increased efficiency the most important expected return (28% versus 14% of firms with only tangible investments and 15% of those with a combination).

There was also a relationship between business objectives and expected returns. Firms that considered increasing efficiency as ‘very’ or ‘fairly important’ were more likely to expect improved efficiency of business processes (80% compared with 56% of firms that did not see increasing efficiency as important) or lower business costs (54% compared with 34%) from their most strategic investments. Better business productivity was more frequently observed among firms that valued increasing efficiency (82% versus 62%) and maintaining cash flow (82% versus 60%).<sup>5</sup>

Finally, firms were asked to specify which expected returns they quantified, if any. Seventy-six per cent of firms quantified at least one expected return. Medium and large firms, those with higher turnover and goods companies, were more likely to quantify at least one return.<sup>6</sup>

The share of firms that quantified each specific return is as follows:

- Increased company profit and growth (68%)
- Reduced business costs (64%)
- Improved business productivity (60%)
- Expanded capacity of production and services (57%)
- Other returns as specified by the firm (57%)
- Increased efficiency of business processes (56%)
- Improved environmental sustainability (55%)
- New or improved goods or services (54%)

Consistent with the research literature, firms anticipated that their investment returns would be swift and predictable. Seventy-five per cent of firms expected to achieve these returns in less than five years, and 89% were ‘somewhat’ or ‘very certain’ that they would be attained (Table 6).

**Table 6: Timeline and certainty of expected returns from the strategic investment**

<b>How long did you anticipate that it would take for this investment to achieve all its expected returns?</b>	<b>%</b>	<b>How certain, if at all, were you that the investment would achieve its expected returns?</b>	<b>%</b>
Less than 1 year	24%	Very certain	56%
1 – 2 years	26%	Somewhat certain	33%
3 – 5 years	25%	A little certain	7%

<sup>5</sup> See Table 21 in Appendix 5 for results on expected returns by business objectives.

<sup>6</sup> As shown in Table 10 in Appendix 3.

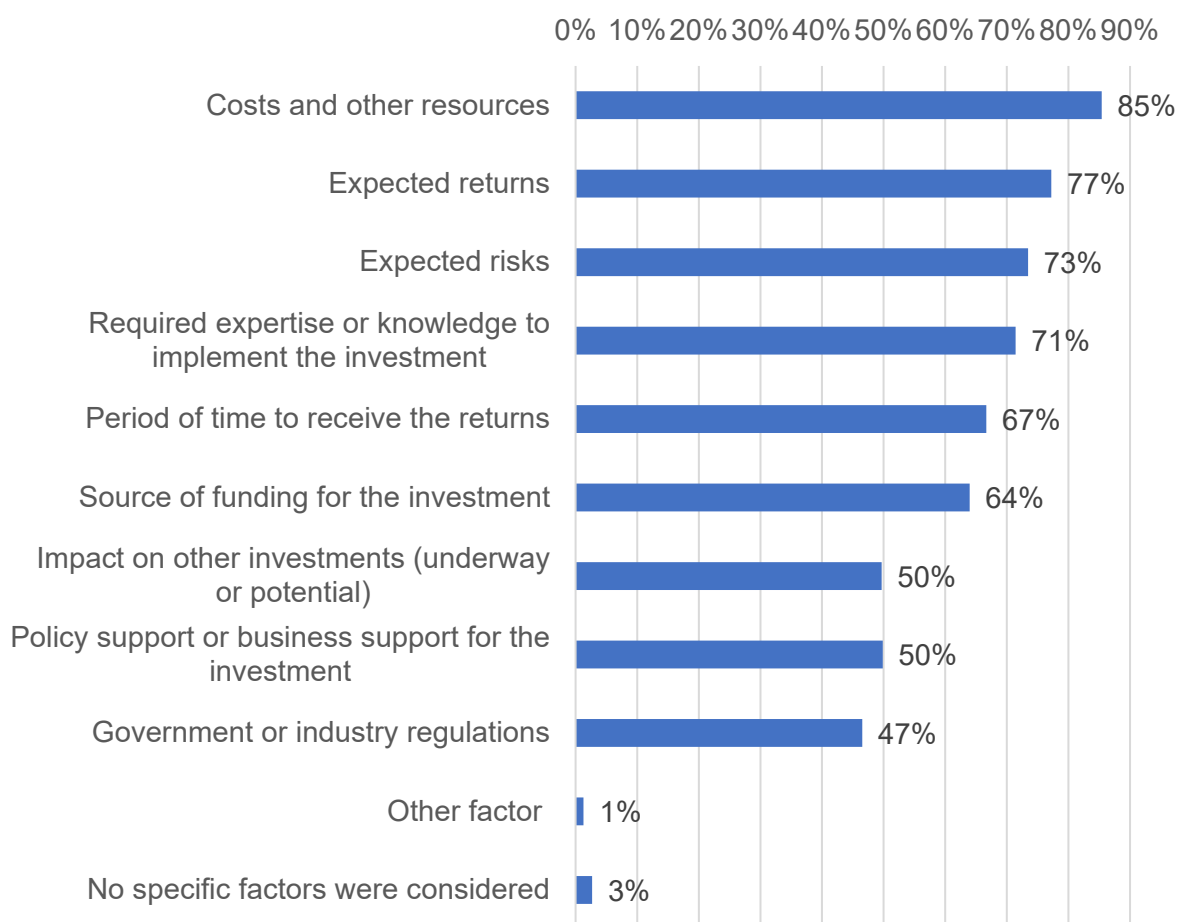
How long did you anticipate that it would take for this investment to achieve all its expected returns?	%	How certain, if at all, were you that the investment would achieve its expected returns?	%
5 – 10 years	5%	Not certain at all	2%
More than 10 years	2%	Don't know	2%
No specific timeline anticipated	17%		
Don't know	2%		

Note: percentages might not add up to 100% due to rounding

### 3.2.3 Approval stage

UK firms considered various factors when deciding whether to approve strategically important investments, most notably costs and other resources (85% of firms) and expected returns (77%). About half of firms also considered policy or business support for the investment (50%) and government or industry regulations (47%) in their decision-making (Figure 13). Businesses most commonly identified expected returns (32%) and costs and other resources (20%) as the most crucial criteria in their decision to approve the investment. The significance of other criteria varied, and they were cited by about 5% of firms each.

**Figure 13: Criteria considered for approving investment**



Most differences in approval criteria among businesses relate to size category (small versus medium/large), specific sectors, and product type (goods or services). Less than half of small firms considered policy or business support in their approval decisions (47% versus 63% of medium or large firms) and any potential impact on other investments (47% versus 62%). Goods firms were less likely to consider government or industry regulation when approving investments (34% versus 53% for services and 46% for goods and services firms). Meanwhile, services firms were more likely to consider funding sources (69% versus 54% of goods firms). There were no differences in the most commonly mentioned primary approval criteria among firms, except that older firms were less likely to consider expected returns.

Approval criteria varied notably by investment type. Specifically, firms that identified intangibles as their primary strategic investment were less likely to consider funding sources (41% compared with 67% for tangible investments and 69% for combination investments) and any influence on other investments (34% versus 50% and 57%, respectively). Conversely, firms with both tangible and intangible investments were more attentive to the necessary knowledge (78% versus 67% for tangible investments) and to government or industry regulations (58% versus 44% for tangible investments and 33% for intangible investments).

Lastly, it was noted that approval factors varied regionally. English firms were more inclined to consider policy or business support (51% versus 42% in the devolved nations).

Fifty per cent of firms reported that the impact on other investments was one of the criteria considered when approving their most strategic investment. Among these firms, the majority (62%) indicated that this applied to potential investments, 29% said it applied to investments already made, and 29% to investments that were in the process of being made.<sup>7</sup>

Seventy-eight per cent of firms considering other investments at the approval stage anticipated a complementary effect from the proposed investment on their other investments, such as enabling additional investments or increasing returns. Nineteen per cent of firms expected a restrictive effect, with the proposed investment interfering with or preventing the realisation of other investments, either fully or partially.

39% of companies had to meet a specific return rate when undertaking their most strategic investments. The need to achieve a return was consistent across different firms, varying only by age and sector. Firms that combined tangible and intangible investments were more likely to need to meet a return rate (53% compared to 37% for tangible and 29% for intangible investments). The expected annual return among firms varied, but just under a third (29%) anticipated it to exceed 14%, similar across each type of investment (Table 7).

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<sup>7</sup> Multiple selections possible.

**Table 7: Annual rate of return expected from the proposed investment  
(% of firms for whom it was necessary to achieve a specific rate of return)**

<b>Expected annual rate of return</b>	<b>%</b>
Less than 5%	6%
5-8%	19%
9-10%	21%
11-12%	7%
12-14%	5%
More than 14%	29%
Don't know	13%

Finally, in the approval stage, the vast majority of firms (87%) reported that the proposed budget for their most strategically significant investment was approved fully. For 9% of firms, the budget was approved partially.<sup>8</sup>

### 3.2.4 Implementation

38% of firms reported that they fully attained their expected returns from the strategic investment, and 20% achieved them partially. However, a substantial proportion of firms (40%) indicated that it was too early to determine if their expected returns had been realised. There were no statistically significant differences based on business characteristics among firms that fully achieved their results.

Businesses that invested in both tangible and intangible assets were less likely to fully achieve their results (30% compared to 43% for those with only tangible investments). Organisations that had developed a business case were also less likely to fully realise their returns (34% versus 44% in firms without a business case), possibly because formally documenting expected returns made it easier to monitor progress.

Additionally, 25% of firms reported that their most strategic investment brought other unexpected benefits. Most of these firms mentioned benefits such as improved staff welfare, customer satisfaction, better public relations, higher employment, and a better working culture.

Companies that developed a business case were more likely to report additional benefits (28% versus 21% without the business case), as were firms that measured any expected returns (28% versus 18%). A possible explanation is that these formal approaches more rigorously recorded and tracked expected benefits, making it easier to recognise unintended benefits. Alternatively, it could be that investments requiring formal strategies are more complex, larger, or more expensive and thus more likely to yield additional benefits.

### 3.2.5 Post-investment monitoring

Seventy-two per cent of UK firms reported monitoring the performance of their most significant investment after its implementation. About a fifth (21%) of firms did not

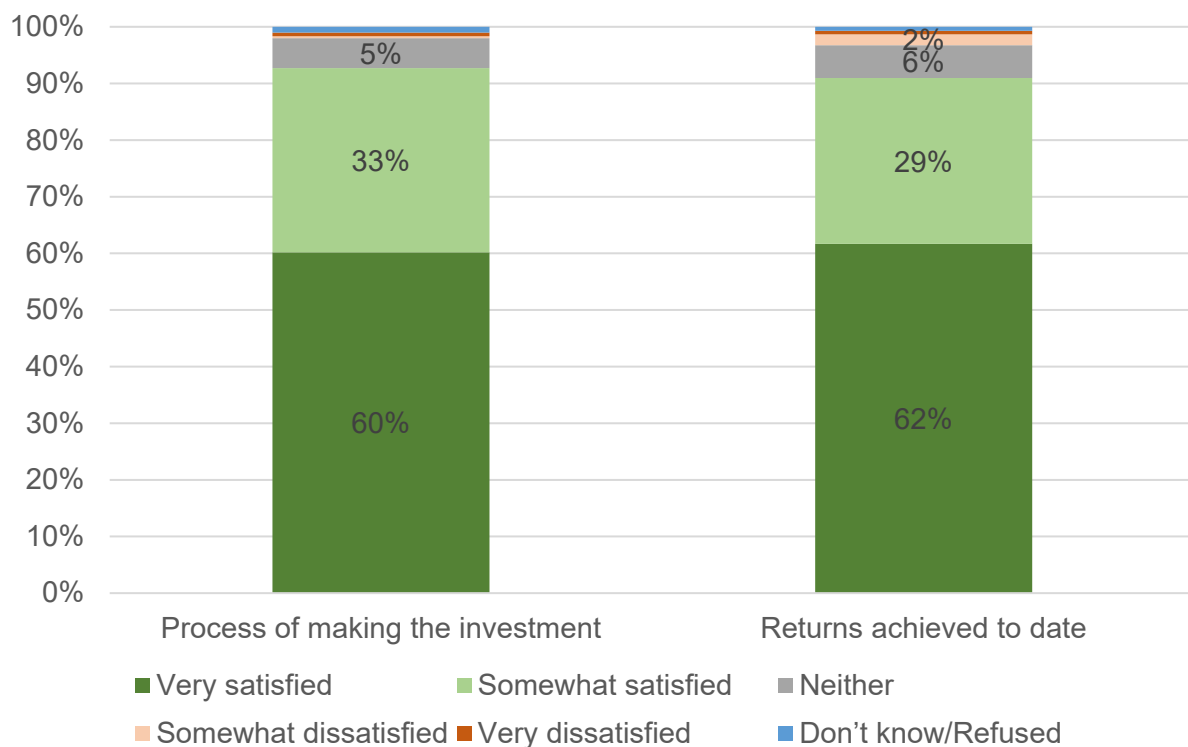
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<sup>8</sup> Remaining 4% did not know the extent of budget approval.

monitor the investment's performance, and for 6% of firms, the investment project was still ongoing at the time of the survey. As with most other formal methods, small firms and those with lower turnover were less likely to monitor their investments' performance (e.g., 70% of small firms monitored performance compared with 81% of medium and large firms). Firms that identified their most significant investment as tangible were also less likely to monitor its performance (66% versus 80% of intangible and 78% of combination investments).

Most businesses were satisfied with the entire process of making the most strategically important investment (93%) and with the returns achieved to date (91%) (Figure 14). 27% of firms reported that their overall satisfaction with the strategic investment positively influenced other investments, although more firms reported that it had no effect (31%). Furthermore, 37% of firms had not made any investment since the strategic investment discussed in the survey. Only 2% of firms stated that the strategic investment had a negative impact on other investments.

**Figure 14: Satisfaction level of UK firms with the process and returns of the most strategically significant investment**



Note: results of 1% or less are not presented in the graph

Overall, companies were similar in their satisfaction levels and how satisfaction influenced their investments. One exception was small firms, which were less satisfied with their returns: 60% of small firms were 'very satisfied' compared to 72% of medium and large firms.

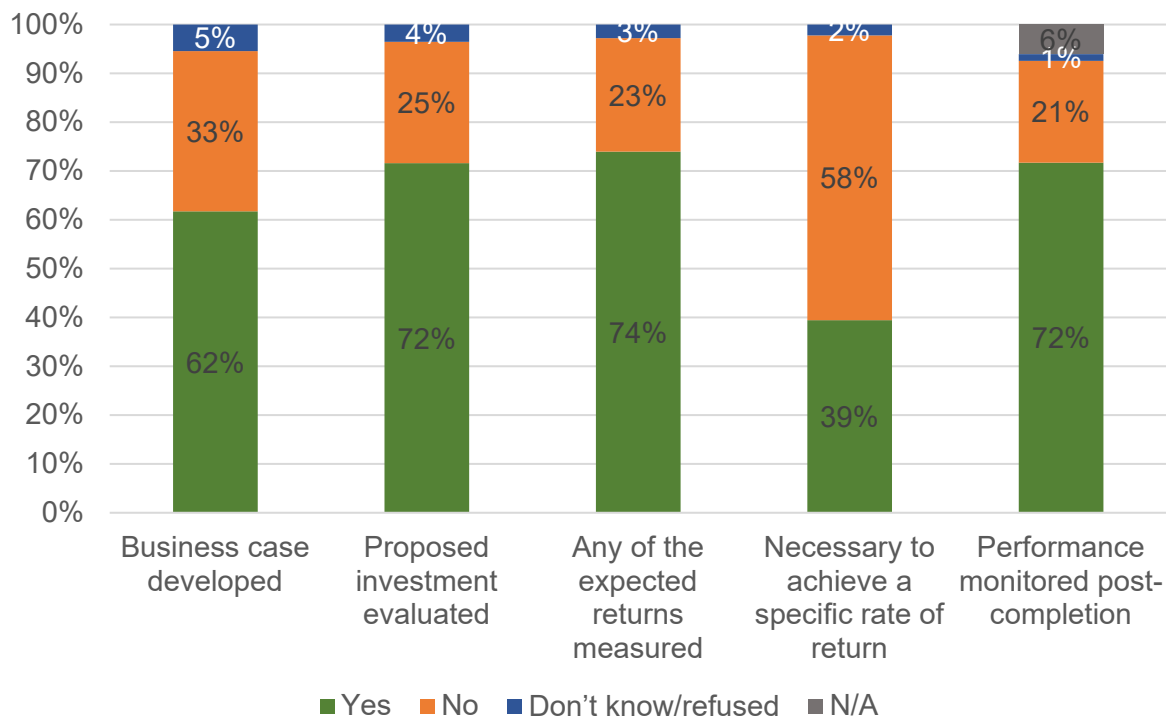
Interestingly, firms that involved external collaborators in their investments were slightly less satisfied with both the process and the outcomes. 55% of businesses that

involved external collaborators were ‘very satisfied’ with the investment process, and 49% were ‘very satisfied’ with the returns. In contrast, among companies that did not involve external collaboration, these figures were 63% and 68% respectively. Conversely, businesses with external collaborators were more likely to report that their overall satisfaction with the strategic investment positively influenced other investments (32% versus 24% in firms without external collaboration).

### 3.3 Formal investment planning approaches

One topic that we believe warrants further analysis is the adoption of formal methods for investment planning, such as assessing investment proposals, estimating expected returns, achieving a specific rate of return, and monitoring an investment’s performance after completion. Overall, only 7% of surveyed firms did not use any of these methods, 9% used one, 14% used two, 21% used three, 28% used four, and 21% used all five. On average, companies employed three methods. As can be inferred from the findings on each method separately, larger firms and those with higher turnover were more likely to utilise a broader range of formal methods, though regional differences were minimal. Figure 15 below summarises the most commonly used formal approaches.

**Figure 15: Share of businesses that use different formal approaches to investment**



An interesting finding was that formal approaches to investment planning were associated with satisfaction with the impact of firms' most strategic investment on other investments. Thirty per cent of businesses that evaluated the investment proposal reported a positive impact on other investments compared to 20% of businesses that did not evaluate. These figures were 31% in firms that measured any expected returns (versus 17%), 34% in those that needed to achieve a specific rate of return (versus 22%) and 32% in firms that monitored the performance (versus 22%).

Measuring any returns was also linked to higher satisfaction with the returns achieved (66% versus 48% among firms that did not measure any returns). Businesses that monitored their investment after completion were more likely to be 'very satisfied' with the entire process (64% versus 53% among firms that did not monitor). Finally, businesses that used more formal approaches were more likely to report unexpected benefits from their most significant investment (e.g., 15% of businesses that used 1–2 formal approaches reported unintended benefits, compared with 32% of those using 4–5 formal approaches).

In contrast, developing a business case was linked to lower satisfaction with returns (58% of firms that developed a business case were 'very' satisfied, compared with 69% of firms without one). Using more formal approaches was also associated with longer planning times for the investment: 58% of firms that employed 4 or 5 approaches planned their investment in less than a year, compared with 68% of those using 1 or 2 approaches. Moreover, employing a greater number of approaches was linked to considering more factors during the evaluation of the investment proposal, expecting higher returns, and examining more factors when approving the investment.

### 3.4 Investment decision-makers

The survey looked into the backgrounds of key decision-makers at each stage of the decision process for firms' most strategically important investments. Those who came up with the idea were, unsurprisingly, individuals with the highest responsibility within the firm.

- Company directors or board of directors (47%)
- Owners or founders (28%)
- Managing directors or CEOs (23%)
- Department heads or senior managers (20%)
- Other staff (6%)
- External partners, consultants or collaborators (2%)
- Other external people (4%)

The most senior individuals involved generally had a high level of education and experience. On average, they had 28 years of work experience, including experience at other firms, when they developed the idea for the most strategic investment. About half (53%) of these senior people held a university degree, and only 3% had no formal qualifications. There was an inverse relationship between these two measures, as

decision-makers with less work experience were more likely to have university education (on average, 27 versus 31 years for those without a university degree).

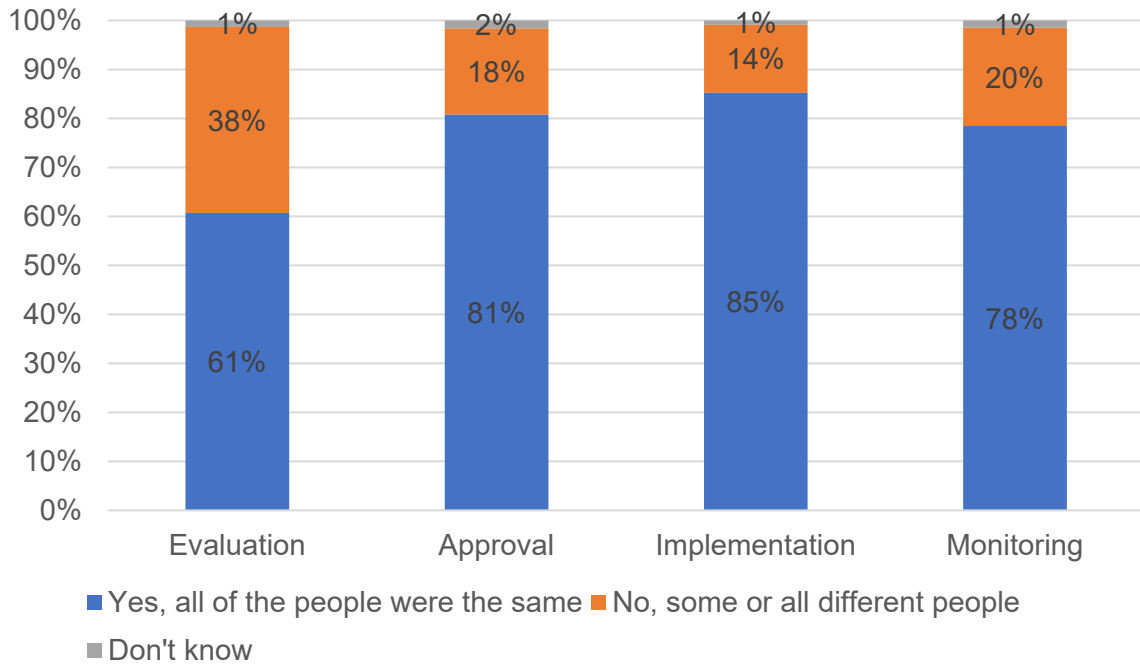
Businesses did not vary significantly based on the work experience of the most senior decision-maker, except for some regional differences. However, they exhibited more variation in education levels. For instance, small and family firms were less likely to have decision-makers with university-level or equivalent education, whereas firms with higher turnover were more likely to do so.

Furthermore, businesses that identified a combination of tangible and intangible investments as their most strategic tended to have decision-makers with slightly less work experience (26 years compared to 29 in tangible and 28 in intangible investments). Additionally, decision-makers' characteristics were not related to other investment characteristics, such as using formal approaches. There was one exception: businesses that monitored their investment after completion were more likely to have university-educated (or equivalent) decision-makers (55% versus 45% in firms that did not monitor).

Key decision-makers typically remained consistent throughout the entire investment process. Eighty-one per cent of firms reported that the individuals who approved the investment were the same as those who originated the idea. In 85% of firms, the people responsible for implementing the investment were the same, and in 78% of firms, the same individuals monitored the investment. However, at the evaluation stage, only 61% of firms reported that the people who developed the investment idea also evaluated the proposal, representing a lower proportion compared to other stages of the process (Figure 16).

At the implementation stage, businesses with various characteristics were equally likely to retain the same key decision-makers. However, at other stages, smaller firms, including family-owned ones, tended to keep the same decision-makers, whereas larger firms and those associated with bigger size were more prone to change them. Despite these differences, most firms generally maintained their existing decision-makers.

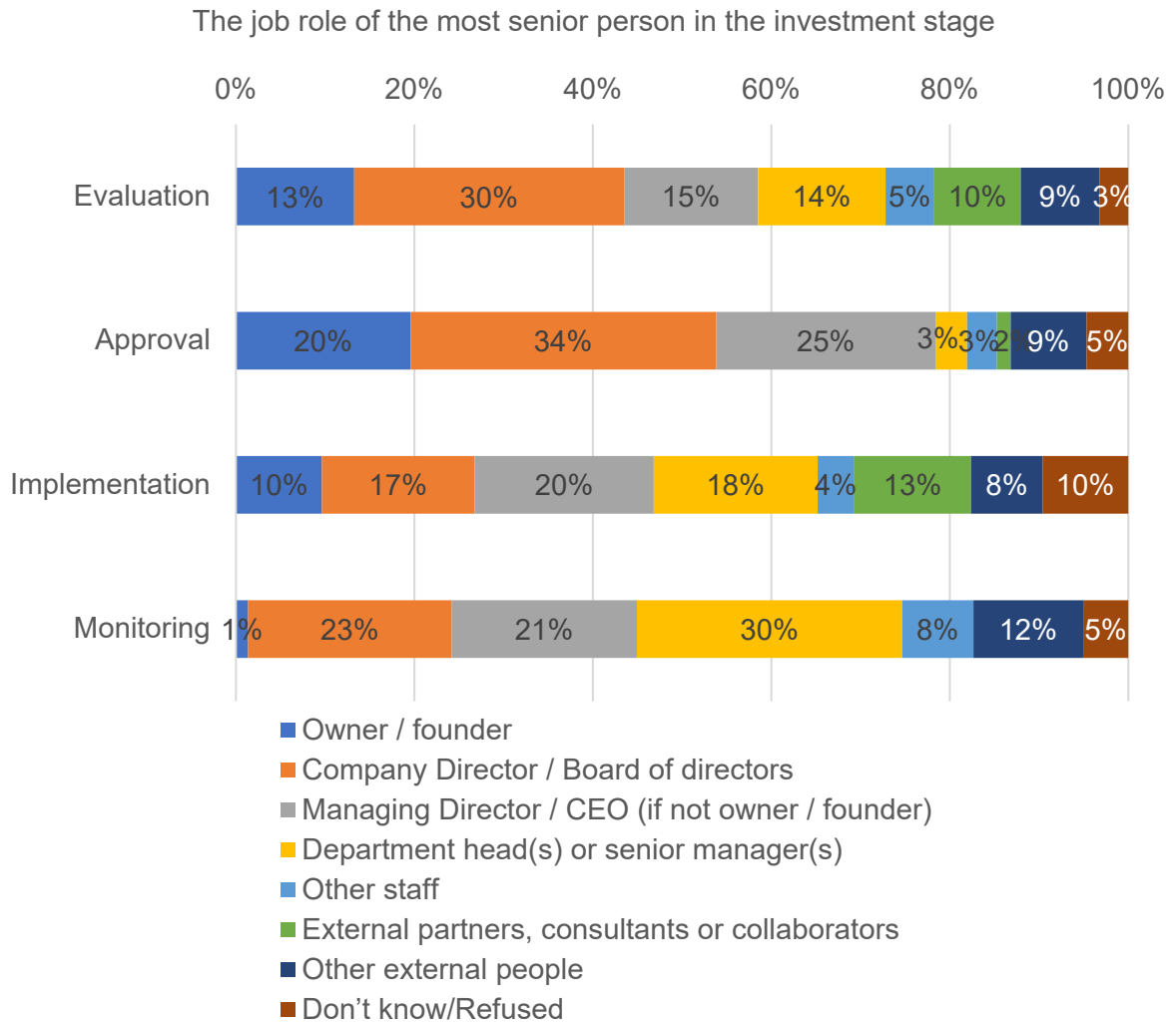
**Figure 16: Change of investment decision-makers across the process of investing among UK firms compared to the ideation stage**



For firms that involved different people throughout the investment process, owners or founders and company directors were typically less likely to be involved. The roles of managing directors or CEOs, department heads, and senior managers varied during the investment process. For instance, managing directors or CEOs were less likely to be the most senior people when evaluating the investment, while department heads or senior managers were less likely to approve the investment but more likely to monitor its performance.

Involvement of other staff, external partners, and other external people increased during the investment process after its ideation, especially at the implementation stage (Figure 17).

**Figure 17: The job role of the most senior person in the investment stage in those UK firms that changed decision-makers during the process of investing**



## Section 4: Key insights and implications

The 'Productive Investment Decisions' survey explored the decision-making process involved in firms' most strategically important decisions between 2019 and 2024. This section summarises the key insights from the survey and provides a more detailed summary of survey findings. Implications for policy and practice are considered in Section 7.3.

### 4.1 Key insights

#### **Why do firms invest?**

Exploring the purposes and motives for investments revealed several key findings. First, firms emphasised multiple objectives, anticipated various returns, assessed multiple criteria, and considered numerous factors when approving their investments. Core business goals, including profit and growth, productivity, efficiency, and product innovation (goods or services), tended to dominate firms' reasons for investing and showed the greatest consistency across different businesses. Meanwhile, environmental sustainability, cost reduction, support from business or government, and regulations from government or industry were less frequently mentioned, particularly by small firms and specific sectors. This highlights variability in firms' investment purposes and considerations.

Second, we found that costs and other resources were key considerations in evaluating and approving the proposed investment, highlighting the importance of adequate funding, a topic well examined in academic literature.

Third, there was a link between firms' investment motives and their business objectives. Business objectives tended to match investment goals or expected returns; for example, firms with stronger social business objectives were much more likely to invest to improve environmental sustainability, or those for whom efficiency was important were much more likely to invest to enhance efficiency. These differences based on business objectives were consistently greater than those based on demographic characteristics by about 20 percentage points, sometimes reaching 30–40 percentage points.

#### **How do firms plan investment?**

Investment planning seems to move quickly, with most firms planning their most strategically important investments in under a year.

A significant number of UK firms do not employ formal methods for investment planning. For example, about a third of firms did not prepare a business case, did not assess the proposed investment, did not measure any of the expected returns, did not

track their performance after completion, and roughly two-thirds of firms did not need to meet a specific rate of return.

The lack of formal strategies could lead to misallocated or underinvested resources. Formal investment planning methods are also important because they correlate with a greater positive impact of satisfaction with the most strategic investment on other investments.

### **Are tangible or intangible investments most strategically significant?**

Over 8 in 10 UK firms regard tangible investment, either alone or combined with intangible investment, as being of the most strategic importance. Only 15% of firms consider intangible investments to hold the highest strategic significance. Interestingly, firms often listed several investment sub-types when asked to identify their most crucial investment, indicating the synergies and complementarities between different types and sub-types of investments.

### **Do tangible and intangible investment decisions differ?**

Firms exhibited similar investment reasoning and equal satisfaction with the process and returns of the investment, whether investments were tangible, intangible, or a combination.

The main difference between tangible and intangible investments was the required financing. For the most strategically important intangible investments, external funding was less vital in the assessment and approval process. This likely reflects a preference for financing intangibles with internal funds. Additionally, fewer firms needed to meet a specific annual rate of return for intangible investments.

Decision-making also varied when firms invested in a mix of tangible and intangible assets. Firms making combined investments were more likely to use formal planning methods, such as setting a specific rate of return and monitoring performance. These firms also tended to involve external collaborators in their decisions. Additionally, it took longer for them to plan their most strategic investments, and fewer of these firms fully achieved their expected returns.

Combining both tangible and intangible investments can be more complex, requiring extra considerations, multiple investment stakeholders, and more detailed planning, especially compared to solely tangible investments.

## Who gets involved in investment decisions?

The individuals who proposed significant investments often held senior roles, including Directors and CEOs, with considerable work experience and high levels of education. In most cases, the main individuals who originated the investment idea tended to stay involved throughout the entire process. An exception was firms that evaluated the proposed investment, which were more likely to involve different people in the evaluation. Smaller firms were less likely to change key decision-makers at various stages of the investment, although most firms generally kept the same decision-makers regardless of their business characteristics.

Around a third of UK firms involve external stakeholders, such as private consultants and other private companies, in their most strategically important investments. Larger firms and those that invest in both tangible and intangible assets are more likely to engage external collaborators.

These findings suggest that the main sources of influence in business investment tend to remain consistent throughout the investment process. However, depending on the stage of the process and for some companies, other stakeholders, particularly those outside the organisation, may also exert influence.

## 4.2 Main survey findings

The key survey results, based on weighted survey data, are as follows:

- Firms tended to move quickly when planning their most strategically important investment. 64% of firms took less than one year to plan the investment and 90% took less than three years.
- Less than half of firms had a target rate of return on investment — only 39% of firms needed to attain a specific rate when making their most strategic investment. Among those aiming for a specific rate, just under a third (29%) expected an annual return of more than 14%.
- Firms emphasised multiple purposes, expected multiple returns, evaluated multiple criteria and considered multiple factors in approval of their most significant investments.
- Investment planning is often informal, particularly in smaller firms. 33% of these firms do not develop a business case for their most strategically significant investment; 25% do not assess the proposed investment; 23% do not measure any of the expected returns; and 21% do not monitor its performance after completion.
- In 80% of firms, key people involved in investment decisions tend to remain the same throughout the process.
- One in three firms involve external partners in their investment decisions. Among these firms, the most common partners are private consultants (63%),

other firms (43%), and business networks, trade organisations, or associations (21%).

- Investments have complementary business impacts, with 50% of firms considering potential interactions when approving their investments. Reinforcing business impacts were reported by 27% of firms.
- Formal investment planning is linked to greater satisfaction with the investment process, the returns on investment, and the positive influence on other investments.

### 4.3 Implications for policy and practice

It is important to recognise that the Productive Investment Decisions survey concentrates on the internal process of investment decision-making rather than external influences such as interest rates. The main implications therefore relate more directly to management practices and how these could be positively changed, rather than to the wider business environment for investment.

One, perhaps surprising, finding from our study is the lack of formal planning and evaluation in many firms, even for their most strategically important investments. Overall, about a third of firms did not develop a business case for their investment, and roughly a quarter carried out little prior or post-investment monitoring. These figures are higher among smaller firms. Furthermore, where formal planning and evaluation tools are employed, firms generally report a greater level of satisfaction with investment outcomes.

Interestingly, neither the ONS Management Practices survey nor the ONS Management Expectations surveys includes any information on the use of formal approaches for investment planning, although the latter does contain information relating to employment and hiring decisions. Confirmatory evidence of our findings is therefore limited, but they do suggest the importance of encouraging the use of formal investment planning and evaluation tools, particularly among smaller firms. One potential way forward would be to develop additional guidance for formal investment planning and evaluation through the British Business Bank Business Essentials web resource (see <https://www.british-business-bank.co.uk/business-guidance/guidance-articles/business-essentials>).

Linked to the informal evaluation of many investment decisions by smaller firms is the range of criteria which often guide their choices. In our survey, this has two aspects. First, less than half of the firms in our survey had a target rate of return on investment — only 39% of firms needed to reach a specific rate when making their most strategic investment. Second, most firms had a combination of motivations for making an investment, often linked to the strategic priorities of the business and reflecting costs and related investments. This indicates the strongly contextual, and often uncalibrated, nature of investment decisions, which are likely to heavily depend on the motivations and orientation of decision-makers. In this context, factors such as environmental uncertainty are likely to be influential determinants of investment decisions alongside more internal factors.

Ecosystem influences are also clear in our survey through the involvement of external stakeholders in about one in three investment decisions. These typically include private consultants, other firms and business networks, trade organisations, or associations. This highlights the significance of having access to high-quality professional services that can offer relevant guidance for firms' investment decisions. Such services may be easily accessible in larger urban centres but could be less available in more remote or rural areas, especially where very specialised equipment purchases are involved. In these cases, there may be a role for policy support organisations to either guide companies to appropriate support or provide investment advice directly.

## Appendix 1: Survey conduct and weighting

### A1.1 Survey conduct

This report summarises findings from a nationally representative survey of 1,623 UK businesses. The sampling frame for the survey was obtained from a commercial list broker, and survey data were collected using computer-assisted telephone interviewing (CATI). Fieldwork, including pilot testing of the survey instrument, occurred from June to October 2024. Participants were senior decision-makers with responsibility for investment.

The 'Productive Investment Decisions' survey was targeted at private firms that had been trading for at least five years at the time of the survey (2019–2024) and employed a minimum of ten people. After some pilot testing to identify minimum levels of investment for inclusion in the survey, firms were included if they made at least one investment of a minimum of £5,000 during 2019–2024. To better represent all groups of businesses, the survey oversampled larger firms, smaller business sectors, and regions such as Scotland and Wales. Survey responses are reported in Table A1 and A2.

**Table A1: Survey responses by region – unweighted (N=1623)**

Region	% of firms
East Midlands	6%
East of England	7%
London	12%
North East	6%
North West	8%
Northern Ireland	6%
Scotland	15%
South East	11%
South West	7%
Wales	9%
West Midlands	7%
Yorkshire & Humber	6%

**Table A2: Survey responses by sector (UK SIC 2007 codes) – unweighted (N=1623)**

Sector	% of firms
Primary (A B D E)	3%
Manufacturing (C)	14%
Construction (F)	8%
Wholesale and retail trade (G)	12%
Transport and Storage (H)	5%

<b>Sector</b>	<b>% of firms</b>
Accommodation and food service (I)	13%
Financial and insurance (K)	2%
Information and communication / Real estate / Professional activities (J L M)	17%
Administrative and support services / Education / Health and social work / Art, entertainment and recreation / Other services (N P Q R S)	26%

Information on the profile of businesses was collected from all firms. Then, due to length and to improve response rates, the survey was split into two sections. One section covered overall investment patterns from 2019 to 2024, reported in this paper, and the other focused on the process of making the most strategically important investments. Firms were randomly assigned to either section in a 50/50 split. These sections included 811 and 812 firms, respectively. There were no statistically significant differences in business characteristics between the two sections, which suggests that random assignment was effective.

The survey examined topics related to business investment decisions, including the staff and other stakeholders involved in investment, investment patterns over the past five years (2019–2024), the purpose of investing, and the investment process. The survey questionnaire was guided by a rapid literature review on factors influencing productive investment by firms.<sup>9</sup>

## A1.2 Weighting

For our main analysis responses were weighted by sector and region to be representative of the overall business population. This corrects for oversampling in the survey design in some regions and firm sizebands. This process is known as applying design weights.

We also considered an alternative weighting schema that attempts to make survey responses representative of the sub-population of firms that invested over the 2019-24 period. However, no directly comparable information is available from external sources on the proportion of firms with 10 or more employees which made investments of the size considered in the survey over the 2019-24 period. Our only option here, therefore, is to use data from the survey screening questions. In particular, we can use data from the proportion of firms in each sector which screened out when asked (Question A2) ‘Thinking about your business investments over the last 5 years (since 2019), have you made any single investments, either tangible or intangible, which were...?’ chose an option ‘Or you haven’t made any investments £5,000 or more’. Table A3 considers the response to this question by sector.

Of the 1831 firms which entered the screening questions, 1624 (88.7 per cent) were in scope, i.e., they had made at least one investment of £5,000 or more over the 2019-

<sup>9</sup> See <https://www.enterpriseresearch.ac.uk/publications/what-do-we-know-about-factors-that-affect-business-investment-decisions/>.

24 period. 207 firms (11.3 per cent) reported not making any such investments and were therefore screened out prior to completing the survey. These proportions differ somewhat between sectors, with lower shares of investors in Hotels and Catering (I) (Table A3).

**Table A3: Responses to screening question on investment volume**

	Total	Investor	Non-investor	% Investor
1. Agriculture/Mining/Energy (A B D E)	50	47	3	94.0
2. Manufacturing (C)	237	229	8	96.6
3. Construction (F)	146	135	11	92.5
4. Retail/Distribution (G)	214	190	24	88.8
5. Transport/Storage (H)	86	80	6	93.0
6. Hotel/Catering (I)	258	211	47	81.8
7. Finance (K)	38	37	1	97.4
8. Property/Management/Business Services (J L M)	297	273	24	91.9
9. Administration/Other (N P Q R S)	505	422	83	83.6
Total	1831	1624	207	88.7

The implication is that design weights – which weight observations to be representative of the business population as a whole – may provide misleading results given the differential extent of investing. This suggests that it may be appropriate to scale the design weights by sector to provide results which are representative only of the population of investing firms. However, the number of screenouts we observe is relatively low in each sector and may therefore not give a particularly accurate guide to the actual proportion of investing firms in each sector. Using the implied investor ratios suggests a potential bias of uncertain scale. Secondly, as there is a proportion of non-investors in each sector design weights will be misleading only to the extent that there is sectoral variation.

To test the implications of using either design weights or investor-based weights we examined some of the key survey indicators using each different weighting approach (Table A4). Both sets of weights suggest an almost identical number of investments made by firms over the 2019-24 period (4.13) and also very similar proportions of firms making different types of investments and requiring specific rates of return for tangible and intangible investments (Table A4).

The implication is that the choice of design weights or investor-based weights makes little practical difference to survey outcomes. For simplicity, and because of the uncertainty attached to the investor-based weights due to small samples of non-investors in some sectors, we use design weights consistently in the main text.

**Table A4: Illustrative comparisons using design and investor-based weights**

		<b>Design weights</b>	<b>Investor-based weights</b>
1	Number of investments over the 2019-24 period (no.)	4.13	4.13
2	Type of investments (% firms)		
	Tangible	48.88	48.93
	Intangible	12.40	12.46
	Both	36.59	36.51
3	Target rate of return: tangibles (y/n)	42.27	42.16
	Target rate of return: Intangibles (y/n)	31.14	30.78

### A1.3 Analysis

This report presents survey results based on weighted data using design weights. Differences between groups of firms on key variables were analysed using appropriate statistical significance tests for the data type, where sample sizes permitted. Associations between investment decisions and between investment decisions and business objectives were additionally examined using control variables (business size, age, and product type – goods, services, or their combination). Sectoral analysis was limited to sectors with at least 75 firms in the unweighted sample.

Only differences that were statistically significant at the 5% level are reported, although some differences at the 10% level were also notable and showed clear descriptive distinctions. Detailed statistical comparisons are available in the Additional Materials.

Some respondents could not provide an exact value for some questions requiring a numeric response (e.g., turnover). In these cases, respondents were asked to estimate their numeric response using a set of bands. A mean value for each band (rounded up) was then used to substitute for a missing specific numeric value to minimise data loss. Qualitative comments from the survey were analysed thematically. We used a labour productivity definition (turnover per employee).

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## 5. Summary and conclusions

### 5.1 Key insights

This section summarises some of the key insights from the Productive Investment Survey analysis of firms’ investment activity from 2019 to 2024:

- **Investment motivations are complex** – motivations for investment are often multi-dimensional and closely linked to broader business objectives. Although interpretation can be challenging, ‘productivity’ is frequently cited as an investment motivation but is seldom (11%) firms’ primary reason for investment.
- **Many investment decision factors are shared** - The investment motivations, objectives, financing and other factors underlying firms’ investment decisions were, perhaps, surprisingly consistent across regions, sectors and firm size bands. Some differences were, however, evident for the minority of firms investing only in intangibles (particularly relating to finance). The implication is that external influences such as uncertainty in the business environment are likely to have broadly-based negative effects on investment decisions.
- **Tangible and intangible investment decisions are similar** - comparing tangible with intangible investments shows that firms have similar reasoning for investments. A key difference is financing, as intangible investments are less likely to be funded by external sources.
- **Internal funds dominate investment decisions** - Internal company funds are most commonly used to finance investments, often alongside external funding sources such as banks, equity, or grants, with the extent varying. Firms facing financial constraints are more inclined to seek external finance for their investments.
- **Uncertainty remains a key factor shaping investment decisions.** Examining firms’ investment profiles from 2019 to 2024 highlights the influence of uncertainty caused by the COVID-19 pandemic, the Brexit transition, and the cost-of-doing-business crisis. Interestingly, this uncertainty mainly had a qualitative impact, affecting the timing and returns of investments rather than

the number of significant investments, the type of investments, or the amount invested.

- **Investment planning often remains informal**, with about half of the surveyed firms lacking a business investment plan. This issue is especially prevalent among smaller firms. Although there is no evidence that this reduces investment, it may lead to misallocated investments, which could diminish the benefits of such investments.
- **Types of investment and related measurement issues** - Approximately ninety per cent of firms are investing in either solely tangible assets or a mix of tangible and intangible assets. However, it is noteworthy that when firms invest in intangibles – either alone or alongside tangible assets - many are investing in asset types not reflected in the UK national accounts, such as staff and training, branding or brand recognition, and business structure or organisation, rather than traditional forms of intangible assets like R&D. While this may have positive implications for growth, it also raises concerns about the reliability of standard indicators of intangible investment, which may be underestimated.
- **Investment decision teams are typically small** - On average four people were involved in making business investment decisions. However, firms that made both tangible and intangible investments and firms that had a business investment plan tended to have more investment decision-makers.

## 5.2 Main survey findings

The 'Productive Investment Decisions' survey explored the decision-making of 1,632 UK firms that made investments of at least £5,000 over the 2019 to 2024 period. This report focuses on investment patterns. A related report focuses on decision-making related to a firm's largest investment.

### Which firms invest?

On average, respondents had 47 employees, a £5.4m turnover, and had been operating for 33 years. The majority were family-owned and domestically owned. Seventy-six per cent of firms sold services or both goods and services. Business characteristics of firms were, of course, interrelated (e.g., small firms were younger and had lower turnover). We accounted for key business characteristics when analysing how investment decisions interrelate.

UK firms making significant investments were also highly motivated by financial objectives and increasing efficiency. Meanwhile, fewer firms, though still the majority, considered social objectives such as reducing environmental impact as important. Businesses of different characteristics or geographical locations were similar in their business motivations.

## How do firms invest?

UK firms mainly invested in tangible investments or a combination of tangible and intangible investments. Only about 1 in 10 firms invested solely in intangible investments. The most common sub-types of tangible investments were, perhaps as expected, machinery, buildings or plants, and IT equipment or systems (excluding software).

For intangible investments, many of the UK firms invested in assets not captured in the UK national accounts, including staff and training, branding or brand recognition, and business structure or organisation, rather than traditional forms on intangible assets, such as R&D.<sup>10</sup> This is a positive finding because intangible investments are associated with higher productivity.<sup>11</sup> However, intangible assets cannot be as easily used as collateral for debt finance, which might affect firms' access to funding. Encouraging intangible investments also might be more effective in conjunction with tangible investments or to firms that solely make tangible investments.

On average, UK firms made four investments of £5,000 or more between 2019 and 2024. This number was fairly uniform across sectors, UK regions, devolved nations and varying business objectives. On the other hand, smaller firms and those with lower turnover and other characteristics associated with size and turnover (e.g., family ownership) made fewer investments. Smaller firms were also less likely to make a combination of tangible and intangible investments, which might have implications for their productivity growth.

Survey findings further showed that firms invested across several years in 2019 – 2024, though a substantial share of firms (c. 40%) invested in only one year.

External shocks, such as the COVID-19 pandemic, the Brexit transition, and the cost-of-doing-business crisis, disrupted investment for a large share of firms, with some sectors and product types being more susceptible. The reported negative impact of external shocks did not appear to affect key investment characteristics, i.e., the number of significant investments, investment type or how much was invested. The negative impact was likely qualitative, for instance, delays to investment projects or reduced benefits, including the potential knock-on effect on productivity growth.

## How do firms plan investment?

The findings from our survey indicate that a large proportion of UK firms do not use formal approaches to investment planning. For instance, about half of the firms did not have a business investment plan, and the majority did not need to achieve a specific rate of return from their significant investments.

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<sup>10</sup> Wilkes 2022.

<sup>11</sup> Karmakar et al. 2022.

The absence of formal strategies did not prevent firms from making significant investments, nor was it linked to fewer investments, but it could potentially result in misallocated investments or under-investment for some firms, which would reduce the benefits of the investment. This is especially true for smaller firms and firms with lower turnover, as they were less likely to use any of the formal investment planning approaches.

### **How do firms fund investment?**

Between 2019 and 2024, UK firms invested an average of 13% of their turnover in tangible and 10% in intangible investments, with firms making a combination of tangible and intangible investments tending to invest more (on average, 23%). Business turnover was a predictor of how much companies invested, as financially better-off firms invested a lower share of their turnover. This suggests that businesses with higher turnover do not invest increasingly more in line with their greater internal financial resources and presumably better access to external finance. To illustrate, surveyed medium and large firms, whose turnover is nearly four times higher than that of small firms, made on average six investments compared to four in small firms, or 1.5 times more.<sup>12</sup>

Furthermore, firms mostly used internal company funds to finance their investments. While a substantial share of businesses used external funding (banks, equity or grants – to a varying extent), external funds were typically used in addition to internal funds. Plus, firms with higher turnover were less likely to use external funding, suggesting that more financially constrained firms are more likely to seek external finance for their investments.

### **Why do firms invest?**

Exploring purposes and motives for investment highlighted several key findings. First, firms emphasised multiple purposes for their significant investments. Core business objectives, including productivity, product innovation (goods or services), efficiency, and profit and growth, tended to dominate firms' reasons for investing and showed the most uniformity among different businesses.

Meanwhile, environmental sustainability and reducing business costs were less often mentioned, especially by small firms and certain sectors. However, while many firms highlighted increasing profits and growth as the primary reasons for investment decisions, only a third emphasised these motivations. This indicates variability in what firms consider to be the most important reason for investment. This is a particularly

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<sup>12</sup> Accounting for outliers.

stark finding for business productivity, which about 8 in 10 businesses considered in their investment decisions, but only about 1 in 10 regarded as the most important reason for investing.

Second, firms differed in the relationship between business characteristics and investment motivations, but most of these differences were only weakly statistically significant (10 percentage points). On the other hand, there was a relationship between firms' investment motives and their business objectives. Business objectives tended to align with investment purposes or expected returns. For example, firms with stronger social objectives were much more likely to invest to improve environmental sustainability; those firms for whom efficiency was important were much more likely to invest to improve efficiency. These differences based on business objectives were consistently larger than differences based on demographic characteristics.

Highlighting the multiple benefits of investment and multiple reasons for investing, especially when aligned with business objectives, might be more successful in driving business investment than focusing on one or two key areas.

### **Who gets involved in investment in firms?**

In UK firms, on average four people were involved in making business investment decisions (this is positively related to business size, as expected). Just over a third of firms reported having women investment decision-makers, and about 1 in 10 reported investment decision-makers from ethnic minority groups. The latter proportion varies within the UK, most likely due to differences in the demographic profile of the local population.

When controlling for key business characteristics, the number of decision-makers and the decision-makers' demographics were typically not associated with the key investment decisions explored by this survey (e.g., the number of significant investments, the share of turnover invested, using formal investment approaches, etc.). However, firms that made both tangible and intangible investments and firms that had a business investment plan (and there is a relationship between these two metrics) tended to have more investment decision-makers. This was not due to business size, so either more complex investments require more decision-makers, or more decision-makers produce more complex investments.

### **Do tangible and intangible investment decisions differ?**

There were clearer differences in decision-making between firms that made tangible, intangible and a combination of tangible and intangible investments. To start with, larger firms were more likely to invest in both investment types and firms making a combination of investments made more significant investments and invested a higher share of their turnover (accounting for key business differences). Firms making a

combination of investment were more likely to use formal investment planning approaches: the business investment plan or a specific rate of return. These firms also had more investment decision-makers.

There were further differences among businesses depending on the investment type in investment motivations. Businesses that made a combination of investments were more likely to make tangible investments for all purposes but expanding capacity.

Therefore, combining both tangible and intangible investments is likely more complex, requiring careful consideration, multiple investment stakeholders, and more detailed planning compared to solely tangible investments. Alternatively, it could be that firms with diverse expectations, needs, and more intricate investment structures are more inclined to pursue a combination of both tangible and intangible investments.

### 5.3 Policy and practice implications

The focus of the Productive Investment Decisions survey was on the decision-making processes within firms rather than broader sectoral or national conditions that influence investment. However, the impact of uncertainties in the business environment—much of which stems from international events—significantly affected the timing of investments from 2019 to 2024. The costs associated with uncertainty remain linked to weak national growth, interest rates, inflationary pressures, and policy changes. These factors are contributing to low business confidence, which is likely influencing current investment decisions.

Creating a climate that provides a certain level of certainty and thereby encourages businesses to invest is a key factor in promoting investment. The Productive Investment Decisions survey also indicates that more targeted support could be helpful in aiding firms to plan and undertake productive investments. For many smaller firms – which often depend on internal finance for investment, particularly in intangibles – developing an investment plan could be a valuable first step. Some online support is available from the British Business Bank (see <https://www.british-business-bank.co.uk/business-guidance>), while more personalised assistance can be obtained through, for example, the ICAEW Business Advice Service. Interestingly, much of the support provided by publicly-funded agencies, such as the Growth Hubs, is aimed at investment readiness rather than helping firms to maximise returns from internally available capital.

Finally, it is worth noting that the Productive Investment Decisions survey provides evidence on the composition of firms' intangible investments. This highlights the dominance of investment types – e.g., staff and training, branding or brand recognition, and business structure or organisation – which are not typically captured in National Accounts measures. Expanding the range of intangibles included in these measures may offer a more accurate picture of the total volume of intangible investment.

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