

Market environment for innovative entrepreneurship

How do market development and access affect innovative entrepreneurship?

Market development and access play a key role for innovative entrepreneurship since market opportunities will ultimately determine the conditions that lead to business success or failure. Competition can foster innovation by giving firms an incentive to be more effective and thus survive. Barriers to market entry are a substantial obstacle for innovative entrepreneurs. Moreover, improved access to domestic and foreign markets can facilitate the acquisition of foreign technologies and contribute to improved knowledge spillovers, as well as facilitate firms' market expansion. At the same time, competition will not always benefit innovation: if it does not allow innovators to recover the costs of their investments in innovation, the rate of those investments will decline. Markets for technology also play a critical role in innovative entrepreneurship as they allow new ventures to get access to technologies that might be too time consuming, too costly or even impossible to develop internally.

In the context of innovative entrepreneurship, the following factors are worth taking into account:

- **Public procurement can be particularly influential** if set up specifically to support innovative entrepreneurs.
- **The impact of competition on innovative entrepreneurship is unclear.** The empirical evidence is mixed and there is still a lack of consensus on the impact of competition on innovation.
- **Markets for technology might be of highest value to smaller innovative companies** since they have fewer internal capabilities to develop technologies in-house and therefore need to rely more on external linkages. However, small and new ventures are often at a disadvantage for accessing those markets notably given substantial informational and negotiation costs.

What are key policy dimensions regarding market development and access and innovative entrepreneurship?

As for innovative businesses in general, common policy challenges across four policy dimensions are particularly relevant and include:

- How can governments support innovative firms to enter foreign markets? How can governments help innovative firms overcome barriers to entering foreign markets, such as unclear laws and regulation? (see [Access to foreign and domestic markets](#) [1])
- How can policies help domestic innovative companies benefit from foreign direct investments? (see [Access to foreign and domestic markets](#) [1])

→ Access to foreign and domestic markets (see [Access to foreign and domestic markets](#) [1]), which deals with imports, exports and foreign direct investments (FDI), and focuses on tariff and non-tariff barriers (e.g. quotas, administrative entry procedures) and other legal conditions that limit or encourage foreign firms' entry.

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- How can public policies improve innovative firms' access to technologies that are key for in-house innovation but that would be too time consuming, too costly or even impossible to develop internally? How can public policies help innovative businesses increase revenues generated by the new technologies they develop? (see [Markets for technology](#) [2])

→ Markets for technology (see [Markets for technology](#) [2]), which refer to places where the technology seller (supply side) meet the technology buyer (demand side).

- How can regulations help ensure that innovative entrepreneurs face competitive market conditions vis-à-vis incumbents? (see [State of competition](#) [3])

→ State of competition (see [State of competition](#) [3]), defined as the extent to which firms independently strive in order to achieve profits, increase sales and keep market share.

- How can governments encourage innovative businesses through public procurement, while mitigating potential technological or organisational risks associated with innovation-oriented procurement? (see [Public procurement for innovation](#) [4])

→ Public procurement for innovation (see [Public procurement for innovation](#) [4]), which refers to the conditions involved in the acquisition of products and services by the public sector.

What are the main rationales for policy interventions in support of market development and access?

There are several rationales for policy attention to market development and access conditions. These notably include the following (see [Rationales for policy intervention](#) [5] and [Public Policy and Governance](#) [6]):

- A key rationale for policy interventions in support of market development and access is to guarantee competitive markets so that innovative entrepreneurs are not disadvantaged.
- Demand-side innovation policies based on public procurement can be used to stimulate innovation in areas where societal needs are pressing (e.g. health, environment). Demand-side innovation policies can also address other market failures: for example, innovation-oriented public procurement can be designed to help counter gaps in the supply of risk finance for small early stage ventures.

What are the main policies that influence market development and access in the context of innovative entrepreneurship?

As for innovative businesses in general, public policy can influence:

State of competition (see [State of competition](#) [3]) by:

- assessing the direct and unintended impacts of rules, regulations and policies on competition
- enabling businesses to benefit from their innovation through an appropriate intellectual property rights system

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- further improving the competition policy framework through antitrust and network policies.

Access to foreign and domestic markets (see [Access to foreign and domestic markets](#) [1]) by:

- providing targeted support programmes to selected innovative businesses
- facilitating innovative companies' access to information on foreign markets and to relevant training
- reducing tariff and non-tariff barriers to provide domestic firms with easier access to foreign advanced technologies and knowledge
- providing incentives to attract foreign firms' R&D and innovation (e.g. introducing tax incentives, offering subsidies to cover various costs of setting up R&D centers)
- encouraging knowledge spillover (e.g. encouraging joint technology development involving foreign affiliates and local firms).

Public procurement for innovation (see [Public procurement for innovation](#) [4]) by:

- developing expertise competencies within the public administration to design and monitor innovation-oriented procurement
- evaluating effectively the effects of public procurement on innovation
- reducing barriers for SMEs in accessing public procurement

Markets for technology (see [Markets for technology](#) [2]) by:

- raising companies' awareness about the strategic opportunities offered by markets for technology
- supporting trading mechanisms that facilitate the match between supply and demand for technologies (e.g. licensing markets, university technology transfer offices, patent auction houses)
- improving information on markets for technology (e.g. making licensing deals public)
- establishing standards and transparent methods for valuing patents
- ensuring the existence of appropriate conditions to support competitive and well-structured markets for technology (e.g. through appropriate IP policy)

References

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- OECD (2010), SMEs, Entrepreneurship and Innovation, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264080355-en> [7]
 - OECD (2008), Promoting Entrepreneurship and Innovative SMEs in a Global Economy, OECD, Paris. <http://dx.doi.org/10.1787/9789264044357-en> [8]

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