

Innovation in Firms

What is the role of firms in innovation systems?

The contribution of businesses to innovation is crucial, and a dynamic business sector is a key source and channel of technological and non-technological innovation. Business enterprise expenditure on R&D (BERD) is critical for innovation and economic growth. On average, firms tend to spend 1-2% of turnover on R&D and various innovation-related activities, but this share exceeds 5% for large firms in some countries (OECD, 2010). It also varies substantially across firms as innovation activities are highly skewed, a small proportion of firms account for the majority of inputs and outputs. Innovative firms play an important role in addressing socio-economic challenges, including notably contributions to economic growth and employment creation as well as to addressing social and environmental challenges (see [Contributions to socio-economic objectives](#) [1]).

What are the key policy dimensions regarding innovation in firms?

The following policy dimensions are particularly relevant for innovation in firms:

- **Access to labour** (see [Firms' access to labour for innovation](#) [2]). This policy dimension deals with the conditions for acquiring highly-skilled human capital. It includes policies affecting the cost of hiring/firing, the availability of skilled labour, and migration of skilled workers. Skilled labour play a key role in innovation by generating new knowledge, adopting and adapting existing ideas to develop incremental innovations, identifying new business opportunities, and enabling the adaptation of companies to the changing environment through a capacity to learn.
- **Firms' capacities and assets** (see [Firms' capabilities and assets for innovation](#) [3]). Firms' capabilities influence critically their ability to innovate. Different types of capabilities are relevant for engineering & design, production and commercialisation. The way innovation is managed within the firm is also of critical importance. Firms' investments in R&D and other investments in innovation are a critical asset not only as a source of future innovations: they also allow building innovation capabilities and facilitate firms' ability to absorb new knowledge created by others.
- **Access to knowledge** (see [Firms' access to knowledge for innovation](#) [4]). Access to knowledge is essentially as a key source for identifying and developing opportunities for innovation. This dimension covers the various sources of private, public and academic knowledge which nourish business innovation. That is, it relates to technological co-operation between firms, knowledge networks and clusters firms engage in, public sector research - industry interface, the acquisition of machinery as well as relations firms establish with consumers.
- **Access to finance** (see [Firms' access to finance for innovation](#) [5]). This policy dimension is concerned with access to financial resources which plays a critical role in innovation as they are needed to conduct research, adopt technologies necessary for inventions as well as develop and commercialize innovations. Sources of finance include debt financing; equity financing; government funding of R&D, co-funding, subsidies; and other types of finance but also firms' own resources, a much used source of funding for investments in innovation.

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- **Firms' market environment** (see [Firms' market environment for innovation](#) [6]). Market development and access play a key role in firms' innovation, 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. 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.
 - **Regulatory framework** (see [Regulatory framework for innovation in firms](#) [7]). Administrative framework, government regulations and public policies that impact the operation of firms can influence the growth of innovative companies. Dimensions of the regulatory framework include product market regulations, a critical factor as it will determine market competition but also other factors such as standards and the regulatory framework for intellectual property rights.

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- [1] <https://www.innovationpolicyplatform.org/content/contributions-socio-economic-objectives?topic-filters=12078>
- [2] <https://www.innovationpolicyplatform.org/content/firms-access-labour-innovation?topic-filters=12043>
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