

Regulatory framework for innovation in firms

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. Standards may support the diffusion of innovation by setting common rules, facilitating the interoperability between products, reducing risks for producers and consumers, and diminishing transactions costs. Besides, intellectual property rights can facilitate the transfer of knowledge and technologies. They may also have multiple other functions, such as signaling current and prospective value to investors, accessing knowledge markets and networks, and facilitating the disclosure of information on inventions.

What are the key policy dimensions regarding regulatory framework and innovation in firms?

Common challenges across several policy dimensions are particularly relevant and include:

- What are the key aspects of product market regulation needed to support competitive markets for innovative businesses? (see [Product market regulation](#) [1])
- What policy measures can guarantee contract enforcement to support innovative firms' growth? What alternative systems of dispute settlement can governments establish to ensure the widest possible scope of protection at a reasonable cost? (see [Contract enforcement](#) [2])
- How can intellectual property systems be strengthened to foster knowledge diffusion for innovative businesses? (see [Intellectual property rights and innovation in firms](#) [3])
- What standards are needed to facilitate the diffusion of innovation (see [Standards and certification](#) [4])
- What environmental regulations may foster firms' innovation aimed at addressing environmental challenges? (see [Environmental and safety regulations](#) [5])

What are the main rationales for policy interventions in support of regulatory framework?

Several market and systemic failures imply a need for policy attention to regulatory framework. These notably include the following (see [Policy rationales and objectives for innovation in firms](#) [6] and [Public Policy and Governance](#) [7]):

- Demand-side innovation policies based on product standards and regulations can be used to stimulate innovation in areas where societal needs are pressing (e.g. health, environment).
- Government action in the area of technical standards is somewhat different, corresponding to the "public good" characteristics of such standards. The development of standards is likely to create some degree of market failure. By itself, the market may provide too few standards. Creating standards entails fixed costs, while the gains may not be attainable by individual firms.

References

- OECD (2011), "Public support for business R&D", in OECD, Business Innovation Policies: Selected Country Comparisons, OECD Publishing. doi: 10.1787/9789264115668-4-en
- World Bank (2013), Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises, The World Bank Group, Washington, DC.

Related Link: Public Policy and Governance
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Policy rationales and objectives for innovation in firms

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