# Firms' market environment for innovation

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. Markets for technology also play a critical role in innovative entrepreneurship as they allow firms to get access to technologies that might be too time consuming, too costly or even impossible to develop internally.

### What are key policy dimensions regarding market environment and innovation in firms?

Common policy challenges across several 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])
- 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])
- How can regulations help ensure that innovative entrepreneurs face competitive market conditions vis-à-vis incumbents? (see State of competition [3])
- How can policy encourage innovative businesses through public procurement, while mitigating potential technological or organisational risks associated with innovation-oriented procurement? (see Public procurement for innovation [4])
- To what extent will industrial specialization and technological trajectories affect firm innovation and how do they affect on innovation policies? (see Industrial specialisation [5], Industrial ecology [6] and Technological trajectories [7])

### What are the main rationales for policy interventions in support of market environment?

There are several rationales for policy attention to market environment. These notably include the following (see Rationales for policy intervention [8] and Public Policy and Governance [9]):

- A key rationale for policy interventions in support of market development and access is to guarantee competitive markets so that innovative firms 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 innovative 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
- 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.

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
- encouraging the commercialisation of IP (e.g. through bigger rewards to researchers)
- ensuring the existence of appropriate conditions to support competitive and well-structured markets for technology (e.g. through appropriate IP policy).

**References**

- Kiriyama, N. (2012), "Trade and innovation: Synthesis report", OECD Trade Policy Papers, No. 135, OECD, Paris. doi: 10.1787/5k9gwprtbtxn-en
- OECD (2011), Demand-side Innovation Policies, OECD Publishing, Paris. doi: 10.1787/9789264098886-en

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