

Market conditions and innovation

Why are markets, competition and standards important for innovation?

Markets play a key role for innovation. Access to markets (see [Market development and access](#) [1]) determines both the resources that innovative businesses have access to and the market opportunities that ultimately shape innovators' conditions for success or failure. Markets for intermediate and final goods and relevant services are equally critical for innovation. In particular, for innovative firms, markets for technology can be critical to sell and purchase relevant technologies to spur their innovation performance (see [Markets for technology](#) [2]). Markets for finance (see [Firms' access to finance for innovation](#) [3]) and labour (see [Firms' access to labour for innovation](#) [4]) are equally important because they can provide the necessary capital and skills needed for innovation. Access to international markets may be affected by tariff and non-tariff barriers (e.g. quotas, administrative entry procedures) and other legal conditions that limit or encourage foreign firms' entry (see [Access to foreign and domestic markets](#) [5]). Similarly barriers for accessing national markets are often in place.

Competition. (see [State of competition](#) [6]) Competition can provide firms with incentives to innovate in order to be more effective and thus survive; relatively flexible product and labour market conditions can enhance opportunities of firms to innovate; and lower administrative burdens can facilitate business creation, an important seedbed for innovation. 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 they would have no incentives with the result that the number of those investments would decline.

Standards. Standards (see [Standards and certification](#) [7]) facilitate interoperability: this is important for competition. Furthermore, by setting ground rules, a common terminology, development methods and measurement techniques, standards enable the development of follow-up innovations and the diffusion of innovations. Standardisation may also help create critical mass in the formative stages of a given market. However, setting standards can also pose risks: they may lead to undesirable lock-in into sub-optimal technologies and allow incumbents to create barriers to market entry with negative implications for innovation.

What are the key policy dimensions regarding markets, competition and standards?

- **Competition.** The state of competition conditions firms, must face critically affect their innovation performance (see [State of competition](#) [6]). Particularly challenging are threats of collusion posed by networks which can play a critical role for innovation. International market access can affect market conditions since exporting to other countries can substantially increase sales opportunities for firms and enhance their exposure to new technologies (link to 130. Access to foreign and domestic markets)
- **Standards** (see [Standards and certification](#) [7]). Policy may affect standards in the context of innovation notably in the way public procurement is designed (see [Public procurement for innovation](#) [8]) and also in facilitating negotiations of international standards. In a globalised economy, compatibility and interfaces across countries are also important. However, it is critical for policy to ensure that standards not constrain competition and that lock-in effects into technologies that are not optimal are avoided (see [Standards and IP](#) [9]).
- **Market conditions** (see [Market development and access](#) [1]). Policies targeting market conditions deal notably with the regulations shaping market enabling conditions, barriers to entry and intellectual property rights (IPRs) (see [regulatory framework for innovation in firms](#) [10]). Barriers to entry can effectively discourage the creation of innovative new companies (see [Administrative framework for entry and growth](#) [11]). They can divert substantial

resources to dealing with administrative issues instead of investments in innovations. Moreover, such barriers can negatively affect markets by reducing competition. An effective IP system will also shape market conditions for innovators (see [Intellectual property rights and innovation in firms](#) [12]).

References

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