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Successful innovation needs more than just R&D

Kiwi firms need the tools to make the most of any increase in business research and development (R&D), according to new research by the Productivity Commission. Under the Business Growth Agenda the Government has committed to a target of increasing business expenditure on R&D to 1% of GDP by 2018. While valuable, this is just part of the puzzle of creating more innovative Kiwi firms.

The working paper, "Measuring the innovative activity of New Zealand firms", by Simon Wakeman (NZPC) and Trinh Le (Motu Economic and Public Policy Research) uses data from Statistics New Zealand's Longitudinal Business Database to provide a new perspective on innovation at the level of the firm.

"Innovation is a key driver of productivity growth and using resources in a more sustainable way. But New Zealand does not perform particularly well compared to other countries" said Paul Conway, Director of Economics and Research. "We have a lot of good ideas, but our weakness is when it comes to turning these ideas into commercial products.

"While there has been a general shift towards more firms engaging in R&D activity, fewer firms are introducing new goods and services. Firms are also earning a smaller share of their revenue from innovative products. This suggests the innovation process hasn't been working as well as it could.

"There is a loose connection between business spending on R&D and new innovations or the share of sales from new goods and services. We see this even in the industries where we would expect R&D to matter the most. Some younger firms are more innovative, even though they are not spending any more of their money on R&D.

"Firms in different industries innovate in different ways. Manufacturing firms are more likely to introduce new goods and services and operational processes. Firms in the services sector tend to rely on new organisational processes and marketing methods.

"Business innovation is about more than just R&D expenditure or activity. It includes how firms combine new ideas with those of others and how they translate ideas into new goods and services that customers want, ideally on international markets. Firms need to be clever at absorbing ideas and knowledge from their environment – including customers, suppliers, and even competitors – and at connecting the products they generate with the needs of others."

About the New Zealand Productivity Commission

The Commission – an independent Crown entity – was established in April 2011 and completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.

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Notes for editors

1. Innovation allows firms to generate more with less – increasing economic wealth while consuming fewer resources. An OECD paper previously published by the Productivity Commission estimates that as much as 40% of New Zealand's productivity gap compared to the OECD average is arguably the result of low investment in knowledge-based capital, including innovation.
2. "Measuring the innovative activity of New Zealand firms", by Simon Wakeman (NZPC) and Trinh Le (Motu), was produced under the Longitudinal Business Database Partnership, along with "The impact of R&D subsidy on innovation: A study of New Zealand Firms" by Motu researchers Adam Jaffe and Trinh Le.
3. A further paper, "The impact of R&D subsidy on innovation: A study of New Zealand Firms" (Jaffe and Le), is also being released by Motu Economics and Public Policy Research. This paper focuses on firms that have received R&D grants and found that receiving an R&D grant almost doubles the probability that a firm introduces a product or service that is new to the world. However, firms that received R&D grants were no more likely to introduce organisational or marketing innovations. Although R&D grants help drive one type of innovation, other, complementary activities are needed to increase innovation across the board.
4. The Statistics New Zealand's Longitudinal Business Database links information from tax records, trade data, a variety of surveys, patenting and trademark activity, and government programmes over a number of years to create a comprehensive picture of the activity and performance of New Zealand firms.
5. The Longitudinal Business Database Partnership is a collaboration between Productivity Hub agencies – the Productivity Commission, the Ministry of Business, Innovation and Employment, Statistics New Zealand and the Treasury – and Motu Economic and Public Policy Research.