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Pathways to efficiency, pathways to growth: Evidence from the UK Innovation Survey

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ABSTRACT

Previous studies have suggested there is little correlation between efficiency – measured by sales per employee - and growth at firm level. Here, using data from successive waves of the UK innovation survey we consider two questions. First, do different types of innovation have different effects on efficiency and growth? Our analysis suggests that product or service innovation has a positive relationship to employment growth but a negative effect on efficiency growth two years after innovation is measured. Organisational innovation has a positive efficiency growth effect due to a negative employment effect. Process innovation raises both efficiency and sales growth. These product and process innovation effects both prove robust across sample sub-groups and extending the time period to four years after innovation is measured.

Secondly, we consider whether the source of firms' R&D finance matters. Is there a difference between the effects on innovation of publicly-supported and wholly-privately-funded R&D? We find that firms receiving public R&D support are no more likely to undertake process or organisational innovation than those paying for all of their own R&D costs. Additionality is greater in terms of product or service innovation. Again these results proves robust across a range of sectors and firm sizebands. Together our results suggest the importance of aligning innovation investments with broader corporate and policy objectives and the potential value of policy support for process innovation to achieve positive growth and efficiency outcomes.