

## Executive summary

### Boost innovation to meet economic and societal challenges

- The Netherlands has one of the most advanced economies in the world. But it is also facing some challenges. It is still overcoming a protracted recession. Ongoing demographic change requires that economic growth increasingly depends on productivity gains. Dutch exporters have benefited less than some other EU countries from the expansion into emerging markets. Innovation is a key to future growth and competitiveness, and is also needed to address societal and environmental challenges, including energy supply and climate change.
- Dutch policies in the area of innovation recognise these challenges and reflect high aspirations, aiming to place the Netherlands among the top five knowledge economies globally. In light of the high quality of its human resources and excellent universities, the Netherlands is in a good position to fulfil this ambition. Further improvements in innovation policies and performance can help.

### Enhance the benefits of the top sectors approach

- The new top sectors approach based on public-private partnerships is well suited to achieve alignment of strategies and pooling of resources. It has the potential to bring about closer co-operation between business and knowledge institutes, such as universities, and to raise the scope and ambition of business innovation (including in performing more R&D).
- The impact of the top sectors could be enhanced, however, by ensuring a strong representation of smaller and entrepreneurial companies, and by extending coverage – or at least transferring valuable experience and policy lessons – to other sectors with room for improvement in the intensity, scope and ambition of their innovation activities.
- The top sector approach would also benefit from a process to identify possible new areas of strength. This would help ensure the necessary dynamism in the top sectors in light of societal challenges, emerging technologies and changes in global demand. Care should also be taken not to align a too large share of public resources for fundamental research with the top sectors. It will be important to closely monitor its impact on the strong international performance of Dutch fundamental research.

### Strengthen business capabilities for world-class innovation

- Dutch enterprises are among the world's leading innovators, with strong technological capabilities and performance. However, the business sector as a whole invests less in R&D and in knowledge-based capital than is the case in other advanced innovation systems. It would be important to broaden the base for innovation and engage more firms in innovation activities, especially in sectors that, relative to other advanced systems, collaborate little with knowledge institutes and conduct little R&D.

- The current system of R&D tax credits is well-designed, but does not serve all of the varying needs of the business sector. Rebalancing the system with a sufficient focus on competitive, well-designed direct support instruments (e.g. for joint R&D projects with knowledge institutes, including instruments used in the context of the top sector approach) would be better suited to longer-term and more ambitious innovation and would also serve the needs of SMEs subject to liquidity constraints.
- Young and entrepreneurial firms account for most of net job growth in the Netherlands and are an important source of radical innovation. However, start-ups grow only little in the Netherlands as they age and many never grow beyond one employee. Improving the environment for experimentation by young firms includes further improvement in product market regulation, e.g. as regards licensing and permits; improved labour market regulation, notably rules as regards permanent contracts; and stronger financing for innovative firms.

### **Maintain world-class public research, particularly in universities**

- The Netherlands has strong research universities as reflected in the number and quality of scientific publications, as well as high research productivity. Most Dutch universities do very well in international rankings. Policy should continue to nurture high-quality research performed in the public sector. This involves maintaining healthy funding streams for fundamental research.
- Public budgets for applied research institutes (PRIs) have remained stable over the last decade. In the coming years they are set to fall and will be increasingly tied to the Top Sectors. Universities, too, are increasingly relying on competitive funding and are moving into the types of research traditionally carried out by PRIs. While these changes in funding regime are improving links with industry, they also carry risks: universities and PRIs require core funding to maintain a healthy knowledge base and to perform their primary roles in the provision of skills and of public goods. Government will need to strike a balance and avoid cutting too much in core funding.

### **Improve valorisation and skills**

- The Dutch government places much emphasis on the commercialisation of public research. Dutch universities have strong links with the business sector, as reflected in a comparatively high share of industry funding for university research and the high rate of co-publication. The strong focus on commercialisation is welcome, but should not detract from the other important contributions that university research makes to the economy, particularly for the development of skills that diffuse across the economy.
- The Netherlands has a strong and highly educated workforce for innovation, but has faced challenges in maintaining quality in tertiary education and responding to emerging labour market needs. The share of science and engineering graduates also remains relatively low. Existing initiatives to encourage profiling and specialisation of university teaching and research activities could enhance efficiency, though care should be taken to avoid “blank spots” in national coverage of disciplines. Co-ordination in the Human Capital Agendas of the Top Sectors and the Technology Pact could help improve responsiveness to labour market demand.

- The universities of applied sciences (UAS) perform relatively little and mostly applied research. They play an important role in the provision of innovation skills and have strong links to industry. Strengthening their research capabilities would be well-timed as they could bridge the divide between firms with little or no innovation experience and world-class research universities and PRIs. This will require greater levels of government investment in UAS research capabilities, and the strengthening of links between nascent research activities and existing teaching programmes.





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