Preface

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Seen in the context of the current financial and economic crisis, at least two reasons why many may have seen a diminished role for innovation stand out. First, many question how it is possible to generate R&D-driven, technological innovation, given the shortage of funds and the apparent unwillingness or reluctance of banks to lend, even to solvent companies. Second, the entire notion of innovation may have suffered in the public imagination. Financial "innovations" have been at the centre of the crisis itself—derivatives, structured products, financial engineering driven to perfection, yet often incomprehensible even to many bankers and their managers, and seen as value-destroyers by the general public.

However, it is particularly in times like these that innovation—done the right way—should play a more prominent role in companies and nations at large. Innovation is a powerful value-*driver*, which can be utilized by governments and companies to improve their competitive advantage and emerge from the crisis in a stronger position, better able to face the challenges of our increasingly complex global marketplace.

Our understanding of what drives national prosperity has evolved over time. Natural resources, population growth, industrialization, geography, climate, and military might have all played a role in the past. We also know that the relative importance of these drivers has shifted over time, and that in recent decades more importance has been given to the coherence and quality of policies and the development of supporting institutions. A relative newcomer to this debate—identified as perhaps one of the most important modern engines of productivity and growth—has been the innovation excellence of a country; that is, its industries, researchers, developers, creative thinkers, politicians, lecturers, managers, and clusters.

The "discovery" of innovation as a driver of prosperity is not only an indication of the rising social welfare awareness of nations. It also constitutes an unexpected shift in direction towards a more equitable world and a fairer division of the fruits of global prosperity at this critical stage in the evolution of capitalism. The prosperity of a country no longer depends solely on raw materials, capital, and other structural endowments, as the current unequal distribution suggests, but increasingly mirrors a nation's innovation strength, as reflected in the quality of its governance and the strength of its institutions. More critical today is the extent to which societies

allocate resources for the development of human capacities through education and training, and succeed in promoting social inclusion, gender equity, and environmental sustainability.

Commendable as the insight about the importance of innovation for prosperity may be, the challenge is to make this realization practical. How does a country boost its own innovation potential? What constitutes a nourishing innovation climate? How can it be created, cultivated, and allowed to flourish? If the innovation capacity of a country developed in a particular way in the past, how will it develop over the next few years when changes have taken place in the global environment? In which direction is the innovation capacity of a country moving? Has innovation resulted from greater attention to training the labor force in new skills and from investment in human capital? Or has greater attention been paid to creating a more transparent regulatory environment, one in which the state sees its role as the setter of sensible rules rather than mindless bureaucracy? What are the tradeoffs and how quickly can changes in direction be made? Is the pace of change consistent with shifts in the environmental dynamic?

In contrast, what are innovation climate "killers" and how can countries avoid them? These are all important policy questions that must be probed. The answers to these questions entail more than the usual sweeping recommendations which often come from the mouths of policymakers. Answers are needed that will allow every country to assess its strengths and weaknesses and gauge where it stands in comparison to other countries, to see more clearly which factors contribute to its current ranking, and to understand how it can improve innovation through a combination of more efficient allocation of scarce resources and more coherent policies based on scientifically established strategies and roadmaps. *The Innovation for Development Report* provides an excellent foundation for intelligent debate on these central questions, for the saying that "You can't manage and improve what you can't measure" applies equally well in this context.

Unquestionably, nations have come to recognize the importance of innovation for productivity growth. Indeed, the global race for excellence in innovation is on. However, desire alone is not sufficient to "win the race." It is the support for the culture of innovation, adequate structures and effective and efficient processes, which make the difference between will and reality. I am convinced that leaving decisions of how to develop the right atmosphere, structures and processes to the free market alone is at best inefficient, and at worse dangerous. The free market is not only blind to fair and equal distribution in theory and practice; it is also blind in other ways. It only innovates what is economically advantageous or profitable. Sometimes it does not innovate at all, or not enough of what is absolutely necessary for future generations—witness our well-justified, present-day worries about the dangers of climate change and the extent to which environmental problems reflect serious market failures. It is the responsibility of scholars, researchers, and managers to remedy these failures. For these reasons, we feel it is worthwhile collaborating in the preparation of a report which addresses these fundamental questions.

In its broad view of innovation, this *Report* goes far beyond R&D as the main source of (product) innovation, beyond conventional process and business models, and beyond the private sector, which is so often seen as the main locus of innovation. The *Report* provides a macro perspective of the entire value-chain of innovation and innovation management, and includes analysis of the many factors which underpin a modern conception of innovation. Furthermore, as the title indicates, innovation is seen as an important driver of development in its broadest sense. It is here that the strengths of the *Report's* Editor, Augusto López-Claros, are of greatest value. His many years of service with such institutions as the International Monetary Fund and the World Economic Forum, have given him an understanding of innovation from a truly global perspective. Together with a team of eminent contributors from diverse backgrounds, institutions and countries, he has put together a volume that delivers both a range of insightful perspectives on many dimensions of innovation and that offers the Innovation Capacity Index, a tool for assessing the extent to which nations have succeeded in developing a climate that will nourish the potential for innovation. The Index allows policymakers and entrepreneurs around the world to examine the broad range of country-specific factors which underlie innovation capacity, creating a quantified intellectual framework for formulating and implementing better policies for the creation of an environment supportive of innovation.

The *Report* contains three thematic sections. Part 1 features the Innovation Capacity Index, a methodological tool that

examines those factors, policies, and institutions that critically affect innovation in a large number of countries. Part 2 offers the contributions of a number of leading experts, who deal with different dimensions of innovation, and address such questions as: What is the effect of increasing access to information and communication technologies on a country's economic growth? What is the role of good governance in fostering a culture of innovation? What are the myths and the realities of knowledge-led productivity growth? Does the US patent system strengthen or weaken innovation and progress? How do emerging markets innovate? Finally, Part 3 presents innovation profiles for those 68 important countries, which account for the lion's share of world output.

The European Business School (EBS), with its strong ties to government, industry and entrepreneurs around the globe, is honoured to support this study. Our mission is to educate students to become responsible leaders, to inspire each individual with the vision of sustainable business through innovation. With our international profile and clear focus on emerging markets, EBS already offers an inside view on many countries to students, stakeholders, and the scientific community.

In supporting this publication we are making a contribution to further discussion on how to analyze, measure, and encourage innovation on various levels of society. I am confident that this publication will provide the basis for the fruitful exchange of ideas between countries, governments, policymakers, entrepreneurs, managers, and academics in our mutual striving to create a better world for the generations to come.