

What conditions impact on innovation?

Innovation critically depends on a range of framework conditions, notably including the following:

- **Finance for innovation** (see [Financing Innovation](#) [1]). Access to finance is a key driver of the creation, survival and growth of innovative businesses. Lack of finance can prevent companies from investing in potentially profitable innovation projects. Finance for innovation requires adequate provision of businesses' internal sources, which depends, for example, on resource allocation within firms as well as conditions for tapping into private source of funding. External sources including stock markets, venture capital, banks and public support are similarly critical. Various policies can improve access to finance to support innovation (e.g. through financial market regulation, tax treatment, bankruptcy regulation, contract enforcement, as well as efficient IP systems).
- **Skills for innovation** (see [Skills for Innovation](#) [2]). Skilled labour plays a key role in innovation by generating new knowledge, adopting and adapting existing ideas to develop incremental innovations, and identifying relevant new business opportunities. Various different skills are required for innovation: technical skills; "soft" skills (e.g. ability to communicate, to work and interact in teams and heterogeneous groups); entrepreneurial skills (e.g. competences in risk assessment and strategic thinking, self-confidence, and ability to make the best of personal networks). Skills mismatches may result from a gap between the demand for and the supply of skills. The demand for skills is affected by technological progress (e.g. the expansion of ICTs increases the demand for digital-age literacy skills); labour market conditions (e.g. mobility of skilled workers); and firm specialization, organization, and innovative process and culture (e.g. some firms may tend to collaborate with other organizations to access specific skills, while others may prefer to hire people and internally develop these specific skills). The supply of skilled personnel is shaped by a country's education system, firms' involvement in employees training, and migration of skilled labour. Education policies can serve the need for diverse and complex skills in innovative activities.
- **Intellectual property rights (IPR)** (see [Intellectual Property Rights](#) [3]). The intellectual property system plays a critical role in innovation. Intellectual property rights (IPRs), such as patents, trademarks, designs and copyrights, give innovators ownership of their knowledge creations and can facilitate the transfer of knowledge and technologies. They may also have multiple other functions, such as signalling current and prospective value to investors, accessing knowledge markets and networks, and facilitating the disclosure of information on inventions. IP market activities may provide an incentive for investment in new knowledge creation but can also lead to opportunistic rent-seeking behaviour. In recent years, some observers have raised concerns regarding a decline in patent quality owing notably to lower legal standards of novelty and to the work overload of examiners in patent offices.
- **Markets, competition and standards** (see [Markets, Competition and Standards](#) [4]). Markets for intermediate and final goods and relevant services are equally critical for innovation. Competition fosters innovation by giving firms incentives to innovate in order to be more effective and to survive. However, if competition does not allow innovators to recover the costs of their investments in innovation, the rate of those investments can decline. Standards can also significantly affect innovation by facilitating the interoperability necessary for competition and setting common ground rules, terminology, and measurement techniques that facilitate the diffusion of innovation.
- **Policy framework** (see [Public Policy and Governance](#) [5]). Policy rationales, objectives, and instruments define the nature of public intervention in support of innovation. The larger number of policy instruments used, the greater variety of objectives pursued, and the wider number of actors involved in innovation policy have increased the complexity of its policy

landscape and enhanced risks of inconsistencies and redundancies between policies and programs. Seeking coherence and balance in the set of policies that affect innovative entrepreneurship, co-ordinating with the actors involved in these policies, measuring and evaluating policies consequently have become increasingly important issues.

References

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