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Government and corporate policies to incentivize and promote innovation inside firms

An analysis and comparison of externally-incentivized innovation and internally-incentivised innovation for sustainable economic growth inside companies.

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Innovation distinguishes between a leader and a follower (Steve Jobs)

Table of Contents

Introduction	4
Chapter I: Government Policies to Promote innovation	8
Chapter II: Corporate Culture to generate innovation inside firms	19
Chapter III: A comparison between externally-incentivised and internally-incentivised innovation	29 29
Chapter IV: Case study: Corporate innovation in ICT companies	39
Conclusion	48
Bibliography	52

Introduction

Innovation has become a key driver of economic growth, competitiveness, and development in the contemporary global economy. The rapid pace of technological change, coupled with the dynamic and interconnected nature of global markets, has elevated innovation to the forefront of government agendas and corporate strategies. This thesis seeks to explore the multifaceted nature of innovation, examining how it can be promoted and sustained by different stakeholders, including governments and corporations, and how incentives (both internal and external) shape innovation efforts. Additionally, a case study on the Information and Communications Technology (ICT) sector will be conducted to provide concrete examples of how corporate innovation can be cultivated in real-world settings.

The concept of innovation is broad and complex. At its core, innovation involves the development and implementation of new ideas, processes, products, or services that lead to significant improvements in efficiency, productivity, or quality. However, innovation does not occur in a vacuum. It is shaped by a variety of factors, including economic conditions, government policies, corporate culture, and individual motivation. This thesis aims to provide a comprehensive understanding of the key factors that drive innovation, while also considering the differences between internally-driven innovation, which emerges organically within firms, and externally-driven innovation, often spurred by government policies or market incentives.

Over the past few decades, innovation has increasingly been recognized as a critical element of economic success. Countries that excel in fostering innovation tend to experience higher rates of economic growth, improved standards of living, and greater global influence. For example, advanced economies such as the United States, Germany, Japan, and South Korea have consistently invested in innovation through research and development, human capital development, and the creation of innovation-friendly environments. These efforts have resulted in breakthroughs in technology, medicine, manufacturing, and numerous other fields, further reinforcing the importance of innovation as a central pillar of economic development.

From a corporate perspective, innovation is equally vital. Firms that innovate successfully are better able to respond to changing market conditions, meet customer needs, and differentiate themselves from competitors. This is especially true in industries characterized by rapid technological change, such as the ICT sector, where firms must constantly innovate to remain relevant. Moreover, innovation can drive profitability, open new markets, and create long-term sustainable growth. Yet, fostering innovation within a corporate setting is a complex task that requires the alignment of various internal and external factors, including corporate culture, leadership, organizational structure, and government incentives. The importance of innovation has not only been emphasized by scholars and policymakers but also by international organizations.

The first chapter focuses on the role of government in promoting innovation. Governments have historically played a crucial role in shaping the innovation landscape, whether through direct investment in R&D, the establishment of legal frameworks to protect intellectual property, or the creation of innovation-friendly policies. This chapter will examine how various government interventions, such as tax incentives, grants, subsidies, and public-private partnerships, can encourage firms to invest in innovation. Furthermore, the chapter will explore the potential downsides of excessive government intervention, such as market distortions and inefficiencies. Special attention will be given to the differing approaches taken by various countries. The chapter will also explore the role of international collaboration in promoting innovation, highlighting examples of cross-border partnerships and multinational innovation initiatives.

The second chapter will shift the focus to the internal dynamics of firms, specifically examining how corporate culture influences innovation. Corporate culture encompasses the values, beliefs, and behaviors that shape how employees interact and work together. In innovative firms, this culture often encourages risk-taking, creativity, and open communication. However, fostering such a culture requires intentional effort from leadership and management. This chapter will analyze how different organizational structures and leadership styles impact the innovation process. For instance, firms with flat hierarchies and decentralized decision-making processes are often more innovative than those with rigid, top-down structures. Additionally, the chapter will explore the importance of diversity in innovation, as firms that promote diversity in terms of skills, backgrounds, and perspectives tend to generate more creative solutions.

The third chapter will delve into the debate over the effectiveness of externally-incentivized versus internally-incentivized innovation. Externally-incentivized innovation refers to innovation that is driven by external factors, such as government grants, market pressures, or competition. Internally-incentivized innovation, on the other hand, is driven by intrinsic factors, such as a company's mission, employee passion, or a desire for continuous improvement. This chapter will analyze the strengths and weaknesses of both approaches, using examples from different industries. For instance, some companies may innovate primarily in response to competitive pressures, while others may pursue innovation as part of a long-term strategic vision. The chapter will also consider the role of hybrid approaches, where firms combine both external and internal incentives to foster innovation. Ultimately, this analysis will provide insights into which approach is more effective in different contexts and industries.

The fourth chapter presents a detailed case study of corporate innovation in the ICT sector. This industry is particularly relevant because it has been at the forefront of global innovation for the past few decades. This chapter will explore the specific challenges and opportunities faced by ICT firms in their innovation efforts. The analysis will focus on how these companies navigate the fast-paced nature of the industry, respond to changing consumer demands, and leverage emerging technologies to stay competitive. Additionally, the chapter will examine the role of government regulation in the ICT sector, particularly in areas such as data privacy, intellectual property, and antitrust laws, and how these regulations impact innovation. The thesis will conclude by highlighting the importance of both government policies and corporate culture in fostering innovation, while also emphasizing the nuanced differences between externally and internally incentivized innovation. Finally, the conclusion will reflect on the future of innovation in the global economy, considering emerging trends such as artificial intelligence, green technology, and the increasing role of digital platforms in driving innovation.

While this thesis seeks to provide a comprehensive analysis of innovation, it is important to acknowledge certain limitations. First, the focus on ICT companies in the case study may limit the generalizability of the findings to other industries. However, given the importance of the ICT sector as a driver of global innovation, this focus is deemed appropriate. Additionally, the emphasis on government policies and corporate culture may overlook other factors that influence innovation, such as consumer behavior, technological advancements, and environmental considerations. Despite these limitations, the thesis aims to contribute valuable insights into the complex and multifaceted

nature of innovation. By examining innovation through the lenses of government policy, corporate culture, and incentives, the research will provide a robust framework for understanding how innovation can be promoted and sustained in today's rapidly changing global economy.

Chapter I: Government Policies to Promote innovation

In the rapidly evolving global economy of the twenty-first century, innovation has emerged as a critical component of economic growth, competitiveness, and societal advancement. Governments everywhere are therefore making an increasing effort to draft and implement laws that promote creative activity within their borders. The Oslo Manual defines innovation as "a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process)." This wide definition highlights how varied innovation is and how it can have an impact on different areas of the economy and society.

The recognition of market failures in the innovation process, the positive externalities generated by innovative activities, which frequently result in social returns to innovation exceeding private returns and underinvestment in research and development (R&D) from a societal perspective, the inherent risks and uncertainties associated with innovative activities can deter private investment, particularly in fundamental research or emerging technologies, and the increasingly complex and interdisciplinary nature of innovation, which frequently requires coordination and collaboration that may be beyond the capabilities of individual firms or institutions, are the reasons behind government intervention in promoting innovation.

Governments have developed a wide range of policies and instruments to encourage innovation in light of these factors. These consist of direct funding for research and development, tax breaks, the creation of supportive legislative environments, and the encouragement of knowledge sharing between businesses and academic institutions. The effectiveness of these policies can, however, be significantly impacted by the particular context in which they are implemented, the characteristics of the target industries or firms, and how these interact with other elements of the greater innovation ecosystem.

One of the primary justifications for government innovation involvement is the concept of market failure, and the theoretical framework of government innovation policy also incorporates other tenets of economic and innovation theory. Economists such as Kenneth Arrow argue that the market for knowledge and innovation has several shortcomings that can lead to less than optimal levels of research and development investment from a societal perspective. Once created, knowledge can be

used by others for little to no additional cost because it is a public good. The non-excludability and non-rivalry in consumption, however, can lead to issues with free riders, as companies might be persuaded to forgo investing in their own R&D in favor of waiting for others to innovate. Innovation also has a great deal of beneficial externalities. Oftentimes, the benefits of innovative activity go beyond the innovative firm itself, helping to achieve greater economic and social gains that the innovator may not fully realize. This discrepancy between private and social returns may cause society to underinvest in research and development.

Another key theoretical foundation is the concept of the "innovation system," developed by scholars such as Christopher Freeman and Bengt-Åke Lundvall: this approach emphasizes the importance of interactions between various actors - including firms, universities, government agencies, and financial institutions - in shaping a country's innovative capacity. The view of innovation systems emphasizes the role of government in creating connections and information flows within the system in addition to addressing market failures. This theory holds that the accumulation of knowledge and human capital is the primary driver of technological advancement, which in turn drives long-term economic growth. It suggests that knowledge-producing and knowledge-sharing policies may have a significant impact on the directions of economic growth: these theoretical perspectives justify government intervention in the innovation process and offer guidance for innovation policy design, even as they underscore the complexity of the innovation ecosystem and the need for nuanced, context-specific policy approaches.

Governments use various policy tools to promote innovation with initiatives that aim to increase the potential for innovation are categorized into two main groups: supply-side initiatives and demand-side initiatives. The former creates or broadens markets for innovative products and services. Governments can

fund both basic and applied research in universities and public research institutions, as well as research conducted in partnership with industry.

Direct funding of R&D encompasses grants, subsidies, and contracts for research projects: examples are the UK Research and Innovation (UKRI) funding programmes and the National Science Foundation (NSF) grants in the United States. For R&D expenses, many nations provide tax credits or deductions in order to encourage private sector investment in innovation: the Research and Experimentation Tax Credit (RETC) in the United States and the R&D Tax Relief (R&DTR)

scheme in the United Kingdom are notable instances of policies designed to augment the competencies and aptitudes of the labor force.

These policies encompass investments in STEM education, backing for vocational training, and endeavors to draw and retain exceptional researchers and entrepreneurs. Additionally, spending on research infrastructure includes things like labs, centers for high-performance computing, and innovation hubs or clusters. are essential for encouraging innovation by enabling innovators to appropriate the returns on their investments, in tandem with fortifying and enforcing intellectual property régimes. Government purchasing power is one of many demand-side strategies used to open up markets for cutting-edge goods and services. putting into practice rules or guidelines that mandate or promote the adoption of creative solutions; for instance, environmental laws can spur the development of clean technology. Lastly, governments can offer subsidies or other inducements to consumers to embrace new products. Examples of these include feed-in tariffs for renewable energy or rebates for electric vehicles. A number of systemic measures exist, such as government initiatives to support the growth of innovation ecosystems or clusters that bring together businesses, academic institutions, and other stakeholders in particular geographic areas or industries; policies that promote industry-academia collaboration, like the UK Knowledge Transfer Partnerships (KTP); or the establishment of networks to support knowledge sharing and cooperation among various innovation system participants.

Let's investigate: for example, the United States has long been acknowledged as a global leader in innovation, thanks to a strong ecosystem that combines top universities, a thriving private sector, and encouraging government regulations. A combination of direct federal funding for research, tax breaks, and laws intended to promote a competitive business climate define the American approach to innovation policy.

Federal financing for research and development (R&D) is one of the main components of U.S. innovation policy; major investments are made through organizations like the Defense Advanced Research Projects Agency (DARPA) and the National Science Foundation (NSF), making the U.S. government one of the world's largest R&D funders. These organizations assist applied research as well as the commercialization of technologies in addition to basic research funding.

There are numerous real-world examples, such as the 1982-established Small Business Innovation Research (SBIR) programme, which mandated that federal agencies with sizable R&D budgets give a portion of their funds to small businesses: that has been crucial in fostering innovation in new

technology companies by providing early-stage funding that is frequently challenging to secure from private sources; additionally, the U.S. had a robust system of intellectual property rights that provided incentives for innovation by enabling companies and inventors to protect and commercialize their inventions.

The Research and Experimentation Tax Credit incentive became permanent in 2015 and allowed companies to claim a credit for qualifying research expenses, by becoming a major driver of U.S. private sector R&D investments. The 1980 legislation known as the Bayh-Dole Act gave universities and small businesses the right to keep ownership of inventions created under federally funded research programmes: this legislation has been credited with greatly increasing the commercialization of university research.

Also, in 2014, the Manufacturing USA initiative, also known as the National Network for Manufacturing Innovation (NNMI), was introduced with the goal of establishing a network of research institutes dedicated to the advancement of manufacturing innovation: the U.S. strategy is distinguished by a strong focus on innovation driven by the market, with the government serving as a facilitator by providing funds, offering incentives, and establishing an environment that is favorable to business. The success of places like Silicon Valley is proof positive that this strategy works especially well at promoting innovation in new technology-based businesses.

Additionally, as it looks to establish itself as a global innovation leader after Brexit, the UK has been proactive in creating policies to strengthen its innovation capacities. Its strategy blends elements of direct government support with initiatives to foster an environment that is supportive of private sector innovation. This has been especially true in recent years.

Among the UK's innovation policies was UK Research and Innovation (UKRI), which was founded in 2018 and brought together Research England, Innovate UK, and the seven Research Councils to provide a more coordinated approach to funding research and innovation across various fields and industries; one important policy instrument for promoting private sector investment in innovation has been the R&D Tax Relief, which provided substantial tax breaks for businesses that invested in R&D, with various programs for SMEs and larger businesses.

The UK's industrial strategy includes the Industrial Strategy Challenge Fund (ISCF), which supports businesses and researchers nationwide in addressing the most pressing industrial and societal challenges of our day. The UK recognizes the importance of human capital in driving

innovation and offers two immigration routes, the Start-Up Visa and the Global Talent Visa, to attract talented researchers and entrepreneurs to the country. The UK approach places a strong emphasis on fostering collaboration between academia and industry, as well as on supporting key technology areas where the nation has potential competitive advantages. Addressing regional differences in innovation performance is another goal of programs like Midlands Engine and Northern Powerhouse.

The governments of the United States and the United Kingdom had many tools at their disposal to promote innovation, but developing and implementing effective innovation policies presented a number of challenges: innovation policies often involved multiple government departments because it can be challenging to maintain coherence and avoid duplication or conflicts between various policy initiatives. In addition to U.S. and UK innovative laws, you have the unrelenting wave of innovation driving a constant transformation in the global economic landscape: leading this shift are New Technology-Based Firms (NTBFs), which are causing growth and upheaval in a variety of industries: all across the world, governments understand how important NTBFs are to promoting social cohesion and economic success and, as a result, legislators are focusing more of their time on developing strategies that will encourage innovation in these fast-paced companies.

NTBFs function in a distinct setting marked by elevated degrees of unpredictability and peril. They frequently lack the resources and proven track record of bigger, more established businesses. Because of this, it is especially difficult for them to find money, draw in talented employees, and handle the complexities of intellectual property (IP) protection.

Furthermore, because of the speed at which technology is developing, NTBFs must constantly adapt and change, necessitating a supportive and accommodating environment. When it comes to tackling these issues and encouraging innovation within NTBFs, governments are essential. In order to help New Technology-Based Firms succeed in innovating and adapting to quickly changing technological landscapes, a number of crucial policy areas have emerged as being especially effective.

One such area is the need for a workforce with strong backgrounds in science, technology, engineering, and mathematics. In addition to imparting technical knowledge, STEM education develops critical thinking, creativity, and problem-solving abilities in students—all qualities that are crucial for promoting innovation in non-traditional business fields. Recognizing the critical role

STEM education plays in bolstering their technology sectors, the U.S. and the UK have both launched a number of initiatives aimed at strengthening their STEM pipelines.

America's "Educate to Innovate" campaign, which was introduced in 2009, is one noteworthy initiative that the US has put in place to improve STEM education at the primary and secondary school levels: its main goal is to elevate American students' performance in science and math from the middle to the top of the pack within the next ten years. In addition, provisions to support STEM education are included in the Every Student Succeeds Act (ESSA), which was signed into law in 2015: it permits States and Districts to allocate federal funds for STEM-focused projects, such as teacher preparation, after-school activities, and the incorporation of non-formal STEM education.

The United States has launched a number of initiatives at the higher education level to raise the proportion of STEM graduates and enhance the caliber of STEM education: one such initiative is the Advanced Technological Education (ATE) programme of the National Science Foundation, which aims to enhance the training of technicians for high-tech fields in two-year colleges and secondary schools.

The United Kingdom has instituted various initiatives to enhance STEM education in primary and secondary schools: notable among these is the National STEM Learning Centre and Network (NSTEM LCN), which was founded in 2005 and offers professional development for STEM educators. Additionally, the STEM Ambassadors of this programme brings STEM experts into schools to motivate students and showcase practical applications of STEM subjects.

Robust Intellectual Property (IP) is a vital component of business strategy for New Technology-Based Firms, not just a legalese formality. Since NTBFs frequently devote a large amount of time and money to creating novel technologies or procedures, they run the risk of losing their competitive advantage to bigger, more established businesses that can easily copy their innovations if they don't have strong intellectual property policies. Their most valuable asset is their intellectual property, which they protect with patents, trademarks, and other IP protections to help NTBFs carve out a distinct market niche and stop rivals from outright copying their innovations. and robust IP regulations increase these businesses' appeal to investors, who view protected intellectual property as an indication of possible future profits. In addition, IP rights allow NTBFs to license their technologies, creating additional revenue streams that can fund further research and development: the United States have long been recognized for its strong IP policy system, which is enshrined in the Constitution and has evolved over centuries to adapt to new technologies and challenges.

Utility patents have a 20-year expiration date from the date of filing, according to the U.S. Patent and Trademark Office (USPTO); the 2011 America Invents Act -automatic upon creation, lasting for the author's life plus 70 years for individual works- brought the United States more in line with international standards by converting the country from a "first-to-invent" to a "first-inventor-to-file" system.

The U.S. system is renowned for its strong enforcement mechanisms, including the availability of injunctive relief and significant damages for infringement: the 2016 Defend Trade Secrets Act further strengthened trade secret protection by establishing a federal cause of action for trade secret misappropriation, as the practice of "patent trolls," or companies that obtain patents only to bring infringement lawsuits, has drawn criticism, as have the high costs of litigation.

Though the effects of Brexit on IP law are still being felt, the United Kingdom also has a robust system of intellectual property policy that is shaped by both its common law heritage and European Union regulations. The European Patent Convention allows for broader European patent protection, which is similar to that of the United States: the UK Intellectual Property Office (UKIPO) grants patents for 20 years, and its system is generally thought to be less litigious than that of the United States, with a greater emphasis on alternative dispute resolution mechanisms. The protection for most works is granted for the duration of the author's life plus an additional 70 years for unregistered design rights.

The rise of AI-generated inventions has raised questions about authorship and patentability that current IP laws are struggling to address; advancements in fields like CRISPR gene editing have sparked debates about the ethical limits of patentability in the life sciences; and the ease of copying and distributing digital content has challenged traditional copyright paradigms.

Despite the strength of these systems, both countries face challenges in maintaining effective IP protection in the face of rapid technological change. International harmonization of intellectual property laws and enforcement mechanisms is becoming more and more necessary as innovation becomes more globalized.

Both the UKIPO and the USPTO have started consultations on AI and IP rights, and both countries are actively trying to modify their IP frameworks to meet these challenges. For instance, the USPTO has started policy talks centered on AI: these robust IP protection schemes give NTBFs a strong platform on which to innovate. But protecting and upholding intellectual property rights can be expensive and complicated, particularly for smaller businesses. This emphasizes how crucial it is

to have robust IP protection in addition to offering assistance and training to NTBFs so they can use these systems efficiently.

The success of New Technology-Based Firms (NTBFs) in today's globalized and fiercely competitive world increasingly depends not only on their individual capabilities but also on the ecosystem in which they operate. The development and success of these creative businesses can be greatly accelerated by a supportive ecosystem that encourages cooperation, makes information sharing easier, and gives access to markets and resources: science parks and innovation hubs are examples of how the concept that proximity fosters cooperation and speeds up innovation is physically manifested.

These designated areas bring together NTBFs, well-established businesses, academic institutions, and research centers, fostering the exchange of ideas, the sharing of resources, and the development of synergistic growth. Because of the rich talent ecosystem that these hubs create, the close proximity of diverse entities promotes both formal and informal knowledge sharing. Additionally, these hubs attract and concentrate skilled workers. To be sure, NTBFs can cut costs by using shared spaces, equipment, and services; they can also build connections with researchers, investors, and entrepreneurs by hosting regular events; and being a part of a reputable hub can raise an NTBF's profile among prospective clients, partners, and investors. California's Silicon Valley is one of the most well-known examples; it is the most well-known and significant innovation hub in the world, and many other places have looked to it as a model for success. The main characteristics of Silicon Valley are its close connections to Stanford University and UC Berkeley, which guarantee a steady stream of top-notch talent and research; additionally, this area is home to many venture capitalist firms, which facilitate NTBFs' access to capital; and finally, its rich innovation culture, which is typified by a risk-tolerant, failure-accepting mentality that fosters audacious entrepreneurship.

A rich ecosystem of legal, financial, and consulting services catered to tech startups exists, and the dense network of tech companies offers many opportunities for collaboration and knowledge sharing: In addition, Silicon Valley is currently a hotbed for cutting-edge technologies like artificial intelligence (AI), robotics, and biotechnology. Despite its success, Silicon Valley faces challenges like high living costs, growing competition from other global tech hubs, and concerns about diversity and inclusion. Several successful NTBFs that were born in the region's ecosystem have gone on to become global tech giants like Apple, Google, and Facebook.

Now let's look at London-based Tech City, a European innovation hub located in one of Europe's top innovation hubs, which is centered on East London's Silicon Roundabout: due to its proximity to London's financial district, it has been able to establish many connections with potential clients and investors.

The UK government has also actively supported its development through initiatives such as the Tech City Investment Organization; because of its status as a global city, Tech City is home to a diverse mix of startups, scaleups, and established tech companies.

It also benefits from a number of programs that support early-stage NTBFs and draw talent from around the world. As a result of Tech City's support for the expansion of prosperous UK-based NTBFs like Deliveroo, TransferWise, and Revolut, London has become known as a leading global fintech hub. In fact, Brexit has raised questions about access to European talent and markets, and in the last ten years, higher operating costs have emerged.

Furthermore, science parks, which frequently share similarities with innovation hubs, are known for their emphasis on research and development, frequently in conjunction with academic institutions. Research Triangle Park in North Carolina and Cambridge Science Park in the UK are two examples of science parks that have given NTBFs access to state-of-the-art research, specialized facilities, and a highly qualified graduate pool. For NTBFs in research-intensive industries like biotechnology and advanced materials, they are especially helpful.

Innovation hubs and science parks, despite their success, have faced a number of challenges, including: maintaining the advantages of proximity in an increasingly remote digital world job scenario; fostering a spirit of open innovation while protecting intellectual property; ensuring these ecosystems are accessible to a diverse range of entrepreneurs and do not exacerbate existing inequalities; focusing on specific technological domains to create deep expertise and strengthening connections between different hubs to facilitate international collaboration. Moreover, in the contemporary knowledge economy, creating an environment that supports New Technology-Based Firms is essential to promoting innovation and accelerating economic growth: science parks and innovation hubs are essential components of this ecosystem because they provide settings that encourage resource access, cooperation, and knowledge exchange; these real-world and virtual venues serve as innovation accelerators by attracting the essential components of skill, money, and ideas.

In addition to these collaborative spaces, government procurement programmes are a potent means of supporting new technology-based businesses (NTBFs): by offering a market for creative solutions and assisting in the transition from research to commercialization, these programmes can dramatically speed up the development and success of NTBFs.

The need for short-term economic results and the longer-term nature of many innovation processes, particularly in basic research, present governments with the difficult choice of focusing on fostering innovation in specific industries or technologies or on creating an environment that is generally supportive of innovation across the economy.

Because government intervention can address market failures in innovation, poorly designed policies may result in inefficiencies or unintended consequences. These factors make it challenging to evaluate the effectiveness of innovation policies, as can the lengthy time lags frequently involved.

It is crucial to make sure that innovation policies do not worsen already-existing inequalities and that the advantages of innovation are widely shared: the advantages of nationally funded R&D may spread to other nations in an increasingly interconnected world by posing concerns about the proper scope and makeup of national innovation policies; numerous emerging trends are influencing government policies regarding innovation in the future; for instance, laws that direct innovation efforts toward addressing specific societal problems like aging populations or climate change are becoming more and more popular, with updated policies that promote knowledge sharing across national and organizational boundaries starting to become more prominent.

Making sure that innovation processes take ethical considerations and societal effects into account from the outset is becoming more and more important as governments struggle to foster innovation in the face of the rapid digital transformation that is affecting every industry.

The necessity of innovation policies that tackle social injustices and promote inclusive growth is widely recognized: many countries are focusing on policies to promote innovation in clean technologies and sustainable practices as the urgency surrounding climate change increases: by determining the nature of innovation, fixing market failures, and creating an environment that stimulates original thought all depend on government policies. The United States and the United Kingdom's experiences illustrated the variety of approaches that can be used to foster innovation, especially in businesses that rely heavily on new technologies: successful innovation policies

necessitate a balance between various policy instruments, a thorough understanding of the innovation ecosystem, and careful consideration of the unique national and regional context.

The future of government innovation policy lies in creating more integrated, flexible, and responsive approaches that can handle the complex challenges of the twenty-first century, and innovation policies will need to adapt as the global economy continues to change, driven by technological advancements and societal challenges.

The ability of governments to create and implement effective innovation policies will be critical in determining national competitiveness and in addressing urgent global challenges: the lessons learned from previous experiences and the emerging trends identified in this chapter provide valuable insights for policymakers and researchers alike as they navigate the complex landscape of innovation promotion in the years to come; by ensuring that innovation drives sustainable and inclusive economic growth will require ongoing collaboration between policymakers, researchers, businesses, and civil society.

Chapter II: Corporate Culture to generate innovation inside firms

In the rapidly evolving business environment, innovation is no longer a luxury but a necessity for organizations striving to maintain a competitive edge. Innovation, however, does not occur in isolation: it is deeply intertwined with the organizational context, particularly the corporate culture that permeates every aspect of a firm. Corporate culture, with its unique set of values, norms and practices, profoundly influences the creative capabilities of an organization.

At the heart of innovation lies creativity, that involves generating novel and useful ideas. Organizational creativity, in particular, is the collective output of the creative endeavors of individuals and teams within a company. It is not merely the sum of individual creativity but a product of the dynamic interplay between people and their environment. This environment, shaped by corporate culture, either nurtures or stifles creativity.

Organizational creativity is influenced by several factors, including leadership, team dynamics, resources and, critically, the cultural context within which employees operate. A supportive culture provides the psychological safety and motivation necessary for individuals and teams to explore new ideas and challenge the status quo. Conversely, a culture that discourages risk-taking or punishes failure can significantly dampen creative efforts. Thus, the role of corporate culture in fostering an environment conducive to creativity cannot be overstated.

Corporate culture is often cited as a key differentiator between high-performing and underperforming firms, even within the same industry. The culture of an organization shapes how employees think, behave, and interact, directly impacting their performance and the overall success of the company. In the context of innovation, certain cultural attributes have been identified as particularly influential:

The values and beliefs embedded in a corporate culture set the tone for what is considered important within the organization. In firms where innovation is a core value, there is a clear expectation that employees will actively seek out new ideas and approaches. Such values encourage a mindset geared towards continuous improvement and adaptability, essential traits for innovation.

Behavioral norms within a company dictate how employees are expected to behave in various situations. In innovative cultures, norms often include openness to new ideas, willingness to

collaborate across departments, and acceptance of uncertainty. These norms create a fertile ground for creativity, allowing employees to experiment and take calculated risks without fear of negative repercussions.

The structure of an organization can either facilitate or hinder the flow of ideas. Flat or decentralized structures, where decision-making is distributed across various levels, tend to promote innovation by empowering employees to take initiative. In contrast, hierarchical structures with rigid chains of command can stifle creativity by limiting the flow of information and reducing the autonomy of employees.

Also, leadership plays a crucial role in shaping and sustaining corporate culture. Leaders who actively model innovative behaviors—such as openness to feedback, experimentation, and resilience in the face of failure—set a powerful example for others to follow. Their support for innovation initiatives signals to employees that creativity is valued and encouraged, reinforcing a culture of innovation.

One of the key values that underpins innovative corporate cultures is cooperation: collaboration and teamwork are, in fact, essential for harnessing the diverse skills and perspectives needed to generate groundbreaking ideas. A cooperative culture encourages employees to work together, share knowledge, and build on each other's ideas, leading to more robust and innovative outcomes.

In many cases, innovation arises at the intersection of different disciplines. A culture that promotes interdisciplinary collaboration allows employees from various departments—such as R&D, marketing, and operations—to come together and contribute their unique expertise to a project. This cross-pollination of ideas can lead to creative solutions that might not emerge within a single discipline.

Cooperation is most effective when employees are united by a common purpose. A shared vision of what the organization aims to achieve through innovation provides direction and motivation for collaborative efforts. When employees understand how their contributions fit into the larger picture, they are more likely to engage in cooperative behaviors that advance the collective goals of the company.

Trust is a critical component of cooperation. In a culture of trust, employees feel secure in sharing their ideas and opinions, knowing that they will be respected and considered by their peers.

Psychological safety—where employees feel safe to take risks and make mistakes without fear of blame—is essential for fostering the open exchange of ideas that drives innovation.

Unlike the culture of other communities, corporate culture is not a passive or organic development: it is often deliberately shaped by the firm to achieve specific outcomes, such as increased profitability, market leadership, or innovation. This intentional influence over culture allows companies to align employee behaviors and attitudes with their strategic objectives, including the goal of fostering innovation.

Firms often use cultural artifacts—such as slogans, logos, and rituals—to reinforce the values they wish to promote. For instance, a company that values innovation might celebrate "innovation days," where employees are encouraged to brainstorm and develop new ideas. These symbols and rituals serve as constant reminders of the importance of innovation, helping to embed it into the daily practices of the organization.

The way in which employees are rewarded can significantly influence the culture of a company. Reward systems that recognize and celebrate creative contributions—such as bonuses for innovative ideas, public recognition, or opportunities for career advancement—reinforce the value of innovation within the culture. Over time, these rewards shape employee behavior, encouraging them to prioritize innovation in their work.

To sustain an innovative culture, it is essential to develop leaders who can champion and nurture creativity within their teams. Leadership development programs that focus on building skills such as creative problem-solving, emotional intelligence, and collaborative leadership are crucial for cultivating a culture of innovation. These programs help ensure that leaders are equipped to guide their teams through the complexities of the creative process, from idea generation to implementation.

Creating and sustaining a culture that consistently promotes innovation is a complex but achievable goal. While each organization is unique, certain cultural traits have been universally recognized as conducive to creativity and innovation. The following are key characteristics of cultures that foster innovation:

A culture of openness and transparency is fundamental to fostering innovation. In such cultures, information flows freely across all levels of the organization, enabling employees to access the knowledge and resources they need to innovate. Open communication also allows for the free

exchange of ideas, where employees feel comfortable sharing their thoughts and suggestions without fear of criticism. Transparency in decision-making further reinforces trust, encouraging more active participation in innovation efforts.

Innovation requires experimentation, and experimentation inevitably involves risk. Cultures that encourage experimentation and view failure as a learning opportunity create an environment where employees are willing to take risks and explore new ideas. This "fail-forward" mentality, where mistakes are seen as stepping stones to success, is crucial for maintaining momentum in the innovation process. Companies that celebrate lessons learned from failure, rather than penalize mistakes, are more likely to foster a culture of continuous innovation.

Diversity is a critical driver of creativity. A diverse workforce brings together a wide range of perspectives, experiences, and ideas, which are essential for generating novel solutions to complex problems. However, diversity alone is not enough; it must be coupled with inclusion, where all employees feel valued and empowered to contribute their ideas. Inclusive cultures ensure that creativity is not confined to a select few but is a collective endeavor that draws on the strengths of the entire organization.

In a rapidly changing business environment, the ability to learn and adapt is crucial for sustaining innovation. Cultures that prioritize continuous learning and development keep employees engaged and equipped with the skills needed to innovate. This can be achieved through formal training programs, mentoring, and opportunities for employees to work on challenging projects that stretch their capabilities. By fostering a culture of learning, companies ensure that their employees remain curious, motivated, and open to new ideas.

Innovation thrives in environments where employees feel empowered to take initiative and make decisions. Cultures that grant employees a high degree of autonomy—trusting them to manage their own work and make decisions within their areas of expertise—encourage a sense of ownership and responsibility. This empowerment not only boosts morale but also drives innovation, as employees are more likely to pursue creative solutions when they have the freedom to do so.

While creativity requires freedom, it also benefits from a clear sense of direction. Cultures that align their innovation efforts with the strategic goals of the organization ensure that creative initiatives contribute to the company's long-term success. A shared sense of purpose—understanding how

innovation fits into the broader mission of the company—motivates employees to engage in creative work that is both meaningful and impactful.

A crucial component of this culture is the reward system, which is designed to control and direct the behavior of organization members. The incentives provided by this system are a powerful tool for shaping employee behavior and ensuring alignment with the company's strategic objectives. However, the relationship between incentives and innovation is complex, particularly when it comes to creative tasks. This chapter explores how corporate culture and incentive structures interact to influence innovation within firms. It examines the ways in which reward systems can both foster and hinder creativity, and provides insights into how organizations can design incentives that align with their cultural goals to promote sustained innovation.

According to Kerr and Slocum (1981, 1987), as well as Lawler and Jenkins (1992), a substantial part of corporate culture is concerned with controlling the behavior and attitudes of organization members. This control is exercised through various mechanisms, with the reward system being one of the most significant. The reward system in an organization is a primary means of controlling employee behavior by specifying the contributions that are expected and determining the responses that individuals can anticipate based on their performance. By clearly linking rewards to specific behaviors and outcomes, the organization sets expectations for how employees should act and what they should prioritize in their work. This system of rewards and recognition serves to align employee actions with the organization's goals, ensuring that their efforts contribute to the company's overall success.

For example, if an organization places a high value on innovation, it might reward employees who come up with creative solutions or successfully implement new ideas. Conversely, if the focus is on efficiency and routine task completion, rewards may be tied to productivity metrics and adherence to established procedures. In this way, the reward system communicates the organization's priorities and reinforces the behaviors that are most valued.

While corporate culture encompasses a wide range of elements, the incentives system is a particularly visible and tangible expression of the organization's values and beliefs. The way in which rewards are structured and distributed sends a clear message to employees about what the organization considers important. For instance, a company that rewards collaboration and teamwork is likely to foster a culture of cooperation, where employees feel encouraged to share ideas and work together towards common goals.

On the other hand, an organization that primarily rewards individual achievement and competition may create a culture where employees are more focused on outperforming their peers than on contributing to collective innovation. This can lead to a more cutthroat environment, where creativity may be stifled by the pressure to conform to the expectations set by the reward system. Thus, the incentives system is not just a mechanism for motivating performance; it is also a powerful tool for shaping the culture of the organization and influencing how employees perceive their roles and responsibilities.

The relationship between incentive structures and creativity is complex and multifaceted. While financial incentives are often effective in motivating performance in routine tasks, their impact on creative tasks can be less straightforward. Research by Bradler et al. and Erat and Gneezy provides valuable insights into how different types of incentives influence creativity and innovation.

Bradler et al. conducted a study comparing the effects of financial incentives on performance in both routine and creative tasks. The routine task involved the Gill and Prowse slider task, where participants were required to adjust sliders to specified positions—a task that demands precision and consistency. In contrast, the creative task involved the "Unusual Uses task," where participants were asked to list unusual uses for a routine object, a task that requires divergent thinking and creativity.

The study found that financial incentives, structured as a tournament prize for above-average effort, were effective in motivating performance on the routine task. Participants were driven by a concern for their relative rank, which accounted for a significant portion of the performance improvement. This suggests that competitive financial incentives can effectively enhance effort and productivity in tasks that require consistent, focused effort.

However, when it came to the creative task, the same financial incentives did not lead to an improvement in creative output. While financial rewards increased effort, they did not necessarily enhance the originality or quality of the ideas generated. This finding highlights a key challenge in using financial incentives to promote creativity: the factors that drive success in routine tasks do not directly translate to creative tasks, where intrinsic motivation, cognitive flexibility, and the ability to think outside the box are more critical.

Erat and Gneezy explored the impact of different incentive structures on creativity using a rebus task—a puzzle that requires solving a word and/or picture puzzle with a hidden, non-obvious

solution. The study compared the effects of piece-rate incentives, where participants were paid a fixed amount per task completed, with competitive incentives, where rewards were based on outperforming others.

The results showed that while financial incentives generally led to increased effort, competitive incentives actually reduced creativity compared to piece-rate incentives. Participants under competitive pressure were less likely to produce creative solutions, possibly due to the increased stress and narrowed focus associated with competition. In contrast, piece-rate incentives, which rewarded individual effort without the added pressure of competition, were more conducive to generating creative solutions.

These findings suggest that while financial incentives can motivate employees to work harder, they may not always lead to better creative outcomes. In fact, competitive incentives, which are often used to drive performance in high-stakes environments, may actually hinder creativity by creating a stressful and risk-averse atmosphere.

In an era where technological advancements and market dynamics are constantly evolving, the ability to innovate has become a crucial determinant of a firm's success. Innovation is not just about creating new products or services; it encompasses the development, refinement, and improvement of existing technologies and processes. The foundation for such continuous innovation lies in a firm's corporate culture—a system of shared values, beliefs, and norms that shapes how employees think, behave, and interact.

Corporate culture is more than just the "personality" of an organization; it is a powerful driver of economic outcomes, including an organization's effectiveness and value creation. As Baldwin emphasized, the most successful firms are those that do not merely adopt external technologies but rather develop, refine, and enhance them within a culture that prioritizes innovation. This chapter explores how a strong corporate culture, with an emphasis on innovation, can serve as a catalyst for sustained creative output and competitive advantage.

Innovation is often seen as the lifeblood of successful organizations. Baldwin's research highlights that the firms that excel are those that embed innovation into their very DNA. These companies do not just adopt new technologies—they take them a step further by refining and improving upon them or by developing entirely new ones. Such capabilities are only possible within organizations that maintain a strict focus on innovation as a core element of their corporate culture.

Leadership plays a critical role in fostering an innovation-centric culture. Leaders who prioritize innovation set the tone for the entire organization, signaling to employees that creative thinking and risk-taking are valued and rewarded. They encourage a culture of openness, where ideas can be freely shared and explored without fear of failure.

Additionally, leaders can promote innovation by ensuring that resources—such as time, funding, and access to new technologies—are allocated to support creative initiatives. By championing innovation at the highest levels, leaders can inspire employees to embrace an innovative mindset and contribute to the firm's ongoing success.

To cultivate a culture of innovation, organizations must integrate this value into their socialization processes and management practices. As Martins and Terblanche convey, successful organizations achieve this by embedding innovation into their management processes and overall culture through two primary mechanisms. Socialization refers to the process by which individuals learn and internalize the norms, values, and behaviors that are expected within an organization. When innovation is a key component of the corporate culture, it is communicated and reinforced through socialization processes. New employees learn from the outset that creativity and experimentation are encouraged and that they are expected to contribute to the organization's innovative efforts.

Socialization processes can include formal training programs, mentoring relationships, and on-the-job experiences that expose employees to the organization's innovation norms. Through these interactions, employees come to understand that innovation is not just a buzzword but a deeply held value that guides the organization's operations and strategic direction.

An organization's basic values, assumptions, and beliefs are reflected in its structures, policies, and management practices. These elements are closely linked to the levels of creativity and innovation in the workplace. For instance, management practices that promote open communication, cross-functional collaboration, and flexibility are likely to foster a more innovative environment.

Policies that encourage risk-taking and tolerate failure as part of the innovation process can also contribute to a culture where creativity flourishes. Conversely, rigid hierarchies, strict adherence to established procedures, and punitive responses to failure can stifle innovation by discouraging employees from thinking outside the box or experimenting with new ideas.

By aligning management practices with the goal of fostering innovation, organizations can create an environment where employees feel empowered to innovate and where new ideas are continually generated, tested, and refined.

Corporate culture has far-reaching implications for an organization's performance, particularly in terms of innovation and value creation. O'Reilly and Chatman define corporate culture as "a set of norms and values that are widely shared and strongly held throughout the organization." This shared culture influences how employees approach their work, how they interact with one another, and how they respond to challenges.

A strong corporate culture that emphasizes innovation can significantly enhance organizational effectiveness. When employees are aligned with the organization's values and committed to its innovation goals, they are more likely to be engaged, motivated, and productive. This alignment leads to a more cohesive and focused organization, where efforts are directed toward achieving strategic objectives.

Moreover, a culture that values innovation can lead to better decision-making, as employees are encouraged to think critically and creatively about how to solve problems and capitalize on opportunities. This can result in more effective strategies, improved processes, and ultimately, a stronger competitive position in the market.

Corporate culture also plays a crucial role in value creation. Companies with a strong innovation-oriented culture are better positioned to develop unique products and services that meet customer needs and differentiate them from competitors. This differentiation can lead to increased market share, higher customer loyalty, and greater profitability. Furthermore, a culture that promotes continuous improvement can help organizations optimize their operations, reduce costs, and improve quality. These efficiencies translate into greater value for customers and shareholders alike.

As we focus on the role of corporate culture in enhancing innovation, it is important to define the culture dimensions that are most relevant to this goal. According to Deal and Kennedy and Schein, these dimensions include:

- Risk Orientation: The extent to which the organization encourages risk-taking and experimentation.
- Open Communication: The degree to which information is shared openly across all levels of the organization.

- Collaboration: The emphasis on teamwork and cross-functional cooperation.
- Flexibility: The organization's ability to adapt to changing circumstances and incorporate new ideas.
- Support for Creativity: The provision of resources, time, and encouragement for creative endeavors.

By focusing on these dimensions, organizations can create a culture that not only supports but actively drives innovation. When these cultural dimensions are aligned with the organization's strategic goals, they can lead to sustained creative output and long-term success.

Corporate culture is a powerful force that shapes an organization's ability to innovate and achieve long-term success. A culture that emphasizes innovation, supported by effective socialization processes and management practices, can serve as a catalyst for continuous improvement and value creation.

By embedding innovation into the very fabric of the organization, firms can develop the capabilities needed to refine existing technologies, create new ones, and stay ahead of the competition. Leaders play a crucial role in this process, setting the tone for innovation and ensuring that the necessary resources and support are in place.

Ultimately, the most successful organizations are those that recognize the strategic importance of innovation and work to cultivate a culture that consistently promotes and rewards creative thinking. By defining and reinforcing the cultural dimensions that support innovation, organizations can unlock their full potential and achieve sustained success in an ever-changing market.

Chapter III: A comparison between externally-incentivised and internally-incentivised innovation

Innovation is a multifaceted phenomenon that manifests in various forms, each with distinct magnitudes and impacts on industries, economies, and societies at large. The nature of innovation requires careful consideration in how it is measured, as the choice of measurement can significantly influence the interpretation of its relationship with competition, productivity, and economic growth.

It can be incentivized both internally within organizations and externally through various external factors. Internally incentivized innovation stems from initiatives and corporate cultures that promote creativity and employee engagement. This type of innovation typically emerges in companies that invest in a strong corporate culture, valuing their employees' ideas and fostering a work environment that stimulates experimentation and continuous learning.

On the other hand, externally incentivized innovation often results from government policies, public funding, or regulatory requirements that push companies to innovate in order to stay competitive or meet specific standards. These incentives can include grants, tax credits, fiscal advantages, and public-private partnerships aimed at stimulating specific areas of research and development.

Internal vs External Innovation Comparison by Sector

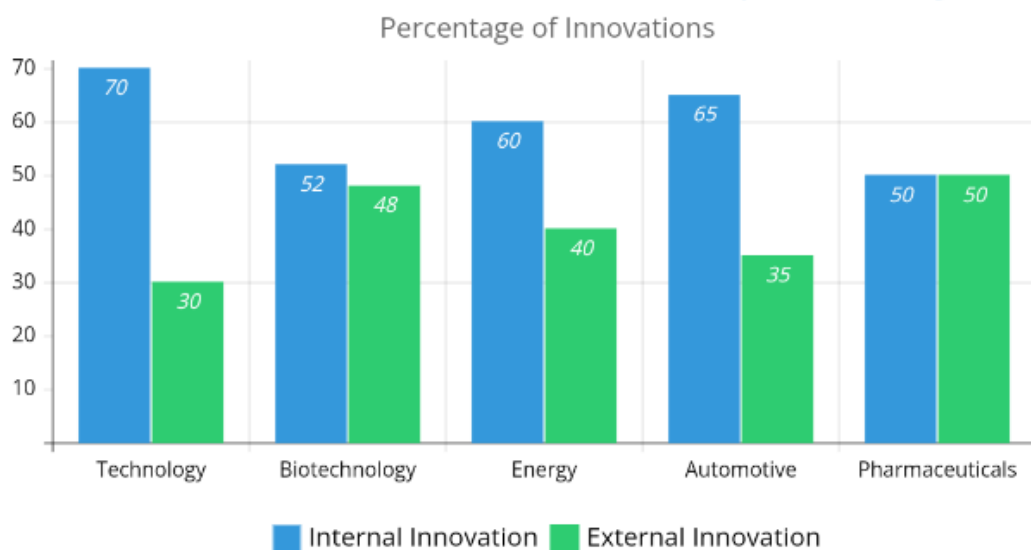


Image 1: Internal vs external innovation comparison by sector
Source: The 2015 EU Industrial R&D Investment Scoreboard.

In the context of modern organizations, understanding the differences between internally and externally incentivized innovation is crucial. Internally driven innovation tends to be sustainable in the long term because it is embedded in company processes and culture. Companies that adopt this approach often create internal ecosystems where innovation is viewed as a shared responsibility rather than an isolated activity. This leads to innovation that is deeply integrated into the business strategy and can quickly adapt to market changes.

In contrast, externally incentivized innovation can lead to rapid advancements, especially in response to temporary incentives such as funding calls or regulatory requirements. However, this type of innovation may be more volatile and less aligned with the company's long-term strategic vision. In some cases, companies may innovate solely to comply with regulations or access funds rather than responding to a genuine market need.

An example of externally incentivized innovation can be observed in the biotechnology sector, where many companies rely on public funding to support expensive research and development phases. These incentives are crucial for scientific progress but can also limit the direction of innovation to specific goals set by funders. For instance, biotech companies may focus their efforts on research areas that receive more grants, neglecting other potentially promising but less funded areas.

Below is a table showing hypothetical examples to help understand what has been said.

Sector	External incentive source	Innovation description
Biotechnology	Government grant	Development of a new vaccine
Energy	EU sustainability fund	Creation of advanced solar
Automotive	Private venture capital	Introduction of autonomous driving system
Pharmaceuticals	International health coalition	New drug for chronic disease management.

Table 1: Hypothetical examples of innovation drive by external incentives

Distribution of R&D Funds by Sector

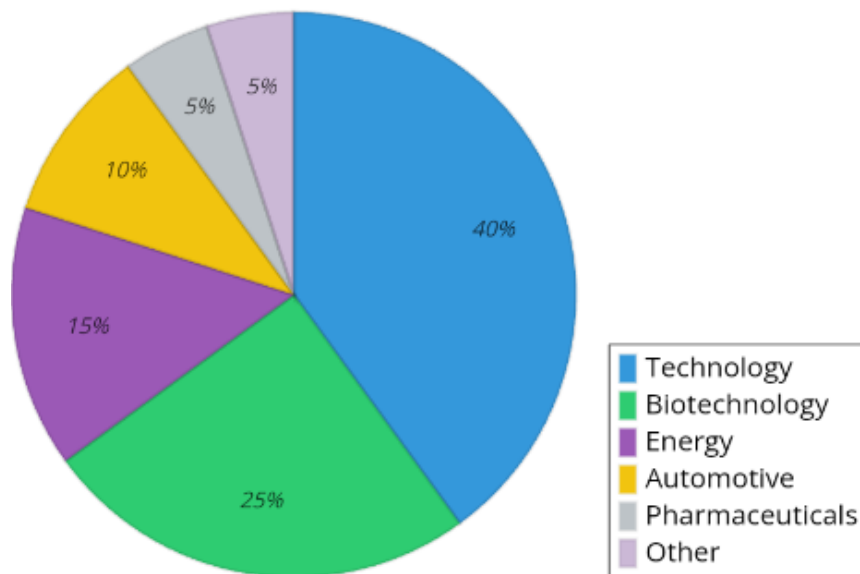


Image 2: Distribution Of R&D funds by sector

Source: The 2015 EU Industrial R&D Investment Scoreboard.

On the other hand, companies like 3M or Google are renowned for their corporate cultures that promote internally driven innovation. 3M, for example, has a long tradition of encouraging employees to spend part of their time on innovative projects outside of their daily responsibilities. This approach has led to the creation of iconic products like the Post-it, demonstrating the effectiveness of internally incentivized innovation.

Innovation can be measured across several dimensions, each providing a unique perspective on its processes and outcomes. Among the most recognized dimensions are knowledge, novelty, implementation, and value creation. These dimensions offer a comprehensive framework for understanding innovation beyond mere output, allowing for a deeper analysis of its origins, applications, and economic significance.

- **Knowledge:** This dimension focuses on the accumulation and application of knowledge within innovation processes. It encompasses the intellectual and technical resources that fuel innovation, such as research, development, and the dissemination of new ideas. Measuring knowledge involves assessing activities like research and development (R&D) expenditures, publications, and collaborations that contribute to the generation of new knowledge.

- Novelty: Novelty refers to the uniqueness and originality of an innovation. It distinguishes between incremental improvements and groundbreaking inventions, highlighting the degree to which an innovation deviates from existing products, processes, or services. This dimension is crucial for identifying innovations that push the boundaries of what is possible and create entirely new market segments or industries.
- Implementation: Implementation captures the practical application and commercialization of innovations. It assesses how effectively new ideas or technologies are translated into marketable products or services. Successful implementation is critical for realizing the economic benefits of innovation, as it determines whether an innovation can gain traction in the market and achieve widespread adoption.
- Value creation: This dimension focuses on the economic impact of innovation, particularly in terms of value generation for firms, consumers, and the broader economy. Value creation can be measured through various indicators, such as revenue growth, market share expansion, productivity gains, and cost reductions. It reflects the tangible benefits that innovations bring to markets and societies.

An adequate measure of innovation should ideally capture these dimensions, providing a holistic view of the innovation process. This requires tools that can assess knowledge-based activities, the novelty of ideas, the success of implementation, and the overall value created by innovations in the marketplace.

Two of the most commonly used indicators to measure innovation are R&D expenditure and patent activity. These measures, while widely adopted, offer different perspectives on innovation and come with their own sets of challenges. R&D expenditure is an input-based measure that quantifies the resources allocated by firms, governments, or other entities toward research and development activities. It is often expressed as a proportion of total revenues, commonly known as R&D intensity, to account for differences in firm size.

However, there are several drawbacks to using R&D expenditure as a measure of innovation. Firstly, different businesses may have varying definitions of what constitutes R&D activities, leading to inconsistencies in measurement. For example, some companies may include training, software development, or asset acquisition as part of their R&D expenditure, while others may not. Additionally, external factors such as tax incentives, accounting practices, and market conditions

can influence how R&D expenditures are reported and allocated, further complicating the measurement process.

Moreover, R&D expenditure does not necessarily equate to successful innovation. High R&D spending does not guarantee that the resulting innovations will be commercially viable or impactful. This limitation underscores the need for complementary measures that can assess the outputs and outcomes of R&D activities.

Patent activity is an output-based measure that tracks the number of patents filed or granted to a firm or entity. Patents serve as a proxy for innovation outputs, indicating the generation of new inventions or technologies that have been legally protected. While patent activity provides a tangible indicator of innovation, it also presents several challenges.

One significant issue is the lack of differentiation between the intensity or quality of innovations. Not all patents represent groundbreaking innovations; some may be incremental improvements or even defensive patents used to block competitors rather than to introduce new products or services to the market. Additionally, patent activity may not fully capture the economic impact of innovation. For instance, some innovations may not be patented due to the costs and risks associated with disclosing sensitive information to competitors. Instead, firms might choose to keep their innovations as trade secrets, thereby avoiding the patenting process altogether. This choice can lead to an underestimation of innovation activity in sectors where trade secrets are prevalent.

The measurement of innovation is fraught with challenges that can impact the accuracy and reliability of innovation indicators. These challenges stem from the complex nature of innovation, the diversity of activities that constitute innovation, and the varying contexts in which innovation occurs. Innovation activities are highly heterogeneous, ranging from basic research to the commercialization of new products. This diversity makes it difficult to develop a one-size-fits-all measure of innovation. For example, R&D expenditure may capture the early stages of innovation, but it may not reflect the full spectrum of activities involved in bringing an innovation to market. Similarly, patent activity may highlight the output of certain types of innovations but may overlook others, such as process innovations or business model innovations, that are not typically patented.

The context in which innovation occurs can significantly influence its measurement. Factors such as industry characteristics, firm size, market conditions, and regulatory environments can all affect how innovation is measured and perceived. For instance, industries with high R&D intensity, such

as pharmaceuticals or technology, may show strong patent activity, while other sectors may innovate through non-patentable means, such as organizational changes or service improvements.

Moreover, the geographical context plays a role in innovation measurement. Countries with different levels of economic development, legal frameworks, and innovation ecosystems may exhibit varying patterns of R&D expenditure and patent activity. These differences make it challenging to compare innovation performance across countries or regions using standard indicators.

Existing measures of innovation, such as R&D expenditure and patent activity, have inherent limitations that can distort the assessment of innovation. For R&D expenditure, the inclusion or exclusion of certain activities, such as training or software development, can lead to inconsistencies in how innovation efforts are reported. Additionally, R&D expenditure does not account for the efficiency or effectiveness of innovation processes, meaning that high spending does not necessarily correlate with successful outcomes.

For patent activity, the limitations are equally significant. The use of patents as a measure of innovation may overemphasize the role of legal protection in innovation strategies while underestimating the importance of non-patentable innovations. Furthermore, patent activity may be influenced by strategic considerations, such as the use of defensive patents or the concentration of patents in certain jurisdictions to exploit favorable legal conditions.

Traditional indicators	New indicators
R&D Spending	Digital Adoption
Number of patents	Social impact
Number of products launched	Collaboration levels
Number of research papers	Customer feedback
Market share	Environmental impact

Table 2: Traditional and new innovation indicators
Source: The 2015 EU Industrial R&D Investment Scoreboard.

The challenges associated with measuring innovation have important implications for policymakers and economists, as sound measurement is crucial for understanding the dynamics of innovation and its contribution to economic goals such as productivity growth, competitiveness, and technological advancement. However, the limitations of existing measures necessitate a cautious approach to interpreting innovation indicators and drawing policy conclusions, urging policymakers to develop strategies that extend beyond financial incentives for R&D to include support for SMEs innovating through non-traditional methodologies, such as service innovation, digitalization, and the adoption of circular economy practices.

Performance of SMEs vs. Large Enterprises in Non-Traditional Innovation

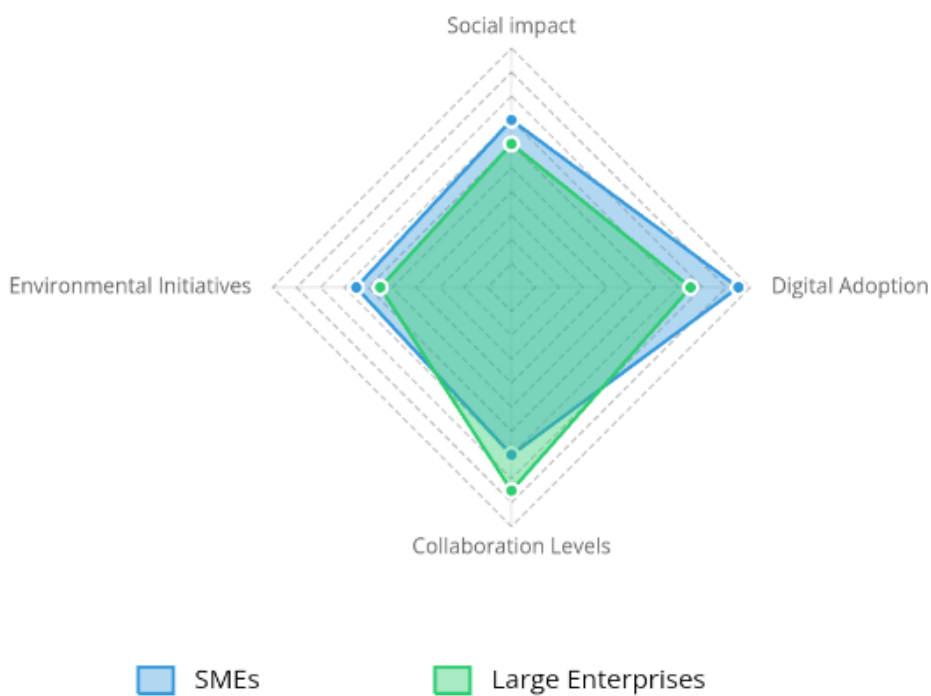


Image 3 :Performance of SMEs vs. large enterprises in non-traditional innovation
Source: The 2015 EU Industrial R&D Investment Scoreboard.

Policymakers play a key role in shaping the direction of innovation through regulations, incentives, and support programs. Accurate measurement of innovation is essential for designing policies that effectively promote innovation in desired areas, such as green technologies, digital transformation, or healthcare. However, if innovation is measured primarily through R&D expenditure or patent activity, there is a risk of overlooking other important forms of innovation that do not fit neatly into these categories.

For example, policies that focus solely on increasing R&D spending may favor large firms with established R&D departments while neglecting small and medium-sized enterprises (SMEs) that innovate through other means, such as process improvements or service innovations. Similarly, policies that incentivize patenting may encourage firms to prioritize patentable innovations over other valuable innovations that do not require legal protection.

Economists use innovation indicators to assess the impact of innovation on macroeconomic variables, such as productivity, growth, and employment. However, the limitations of existing measures can complicate this analysis. For instance, if R&D expenditure is used as a proxy for innovation, the analysis may overestimate the impact of innovation in industries where R&D spending is high but does not necessarily lead to successful outcomes. Conversely, the impact of innovation in industries that rely on non-patentable innovations may be underestimated.

To address these challenges, economists and policymakers need to adopt a more nuanced approach to measuring innovation. This could involve the development of new indicators that capture a broader range of innovation activities, the use of complementary measures to provide a more comprehensive view of innovation, and the consideration of context-specific factors that influence innovation performance. For economists, it becomes essential to integrate new innovation metrics into economic models. For example, considering open innovation and the social impact of innovations as relevant factors in assessing technological progress and economic growth. This more holistic approach allows for a more accurate understanding of the role of innovation in contemporary society.

Impact of innovation on economic outcomes

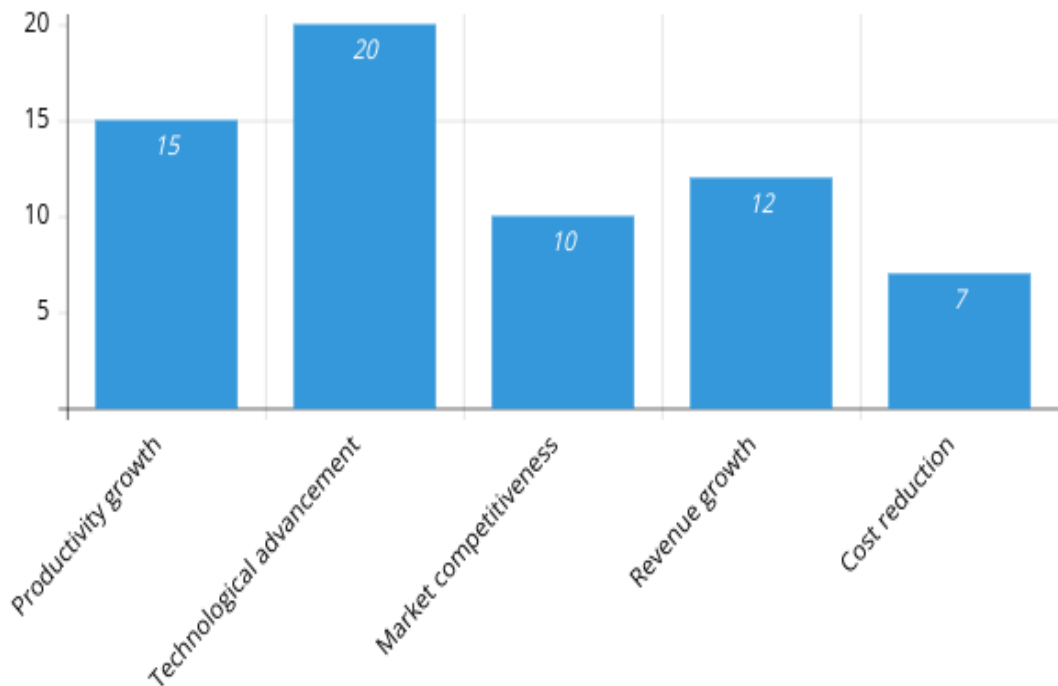


Image 4: Impact of innovation on economic outcomes

Source: The 2015 EU Industrial R&D Investment Scoreboard.

In conclusion, the interplay between internally and externally incentivized innovation underscores the multifaceted nature of innovation and its critical role in driving both immediate and long-term success for organizations. Internally driven innovation, rooted in a company's culture and long-term strategy, is essential for fostering a sustainable competitive advantage. It nurtures an environment where creativity is encouraged, employees are empowered, and continuous improvement is embedded in the business fabric.

Externally incentivized innovation, often driven by regulatory demands, government policies, or market pressures, plays an equally vital role in enabling companies to respond swiftly to external challenges. These innovations can be pivotal in addressing urgent needs, such as compliance with new regulations or seizing emerging market opportunities, thereby allowing businesses to remain agile and competitive.

Yet, the reliance on external incentives alone is not without its risks. Companies must navigate the potential for misalignment between externally driven innovation initiatives and their strategic goals. To mitigate these risks, it is imperative that businesses integrate external incentives with a strong

internal innovation culture, ensuring that their innovation efforts contribute not only to regulatory compliance or short-term gains but also to their long-term vision and objectives.

The evolving nature of innovation metrics also highlights the need for more sophisticated approaches to measuring and supporting innovation. Traditional metrics, while useful, often fall short of capturing the full spectrum of innovative activity, particularly in today's rapidly changing digital landscape. New metrics that consider collaboration, digital adoption, and the broader societal impact of innovation offer a more comprehensive understanding of how innovation drives economic growth and societal advancement.

For policymakers, this expanded perspective on innovation necessitates a shift towards more nuanced and flexible policy frameworks. Beyond financial incentives for R&D, there is a growing need to support diverse forms of innovation, particularly in small and medium-sized enterprises (SMEs) and sectors that are critical to future economic resilience. This includes fostering service innovation, promoting digital transformation, and encouraging sustainable practices, all of which contribute to a more dynamic and adaptive economy.

Ultimately, the path to sustained innovation lies in balancing internal and external incentives, aligning them with a company's strategic vision while remaining responsive to external demands. By adopting a holistic approach, organizations can ensure that their innovation efforts are not only effective in the short term but also contribute to long-term growth, competitiveness, and societal well-being. This balanced approach will be essential for navigating the complexities of the 21st-century global market and ensuring that innovation remains a key driver of progress.

Chapter IV: Case study: Corporate innovation in ICT companies

Innovation, by its nature, is both a cause and an effect of constant change. It is the process through which new and often revolutionary ideas are introduced into existing contexts, thereby generating new dynamics and altering pre-existing ones. This transformative ability manifests in various areas, from the improvement of products and services to changes in social structures and economic dynamics. Historically, innovation has represented an ideal ladder, allowing humanity to ascend to higher levels of progress and evolution, step by step. Each innovation introduces a significant change, which can range from adapting existing technologies for new applications to creating entirely new markets. This capacity for adaptation and transformation is what makes innovation a pervasive process, capable of influencing every aspect of modern society. The introduction of new ideas or technologies can improve the quality of life, increase productivity and competitiveness, and stimulate economic growth.

The role of innovation in the social and economic context is of fundamental importance. Through the introduction of new ideas and technologies, innovation can improve operational efficiency, reduce costs, enhance the quality of products and services, and increase overall well-being. Moreover, innovation can create new jobs, increase access to essential goods and services, and contribute to the creation of a more equitable and sustainable society. Innovation has the power to transform industries and create new economic opportunities. For example, the introduction of digital technologies has revolutionized many sectors, from commerce to healthcare, from education to entertainment. This transformation has led to the creation of new business models and the birth of new enterprises, thereby contributing to economic growth and job creation. At the same time, innovation has the potential to improve people's quality of life by offering new solutions to existing problems and enhancing access to essential goods and services.

The deeper meaning of innovation lies in its ability to create value. This value can manifest in many forms: for society, through the introduction of products and services that improve people's lives; for companies, through increased competitiveness and economic sustainability; and for individuals, through personal and professional fulfillment. In other words, innovation is not only a means to achieve economic or technological advantages but also a way to contribute to the common good and social progress. The value created by innovation can be measured in terms of tangible benefits, such as increased profits or cost reduction, but also in terms of intangible benefits, such as improved

company reputation or increased customer satisfaction. For example, an innovation that improves the quality of a product can lead to increased sales and profits but can also help enhance the company's reputation and foster customer loyalty. Similarly, an innovation that reduces production costs can increase profit margins but can also make products more accessible to consumers, thereby contributing to social well-being.

It's important to note that innovation does not necessarily involve inventing something entirely new. Often, innovating means improving what already exists, making modifications or adaptations that make a product or process more efficient, more accessible, or more desirable. In this sense, innovation is a culture, an attitude that combines critical thinking with creativity to find new solutions to existing problems. Innovating means adopting a critical stance toward the status quo and having the courage to explore new possibilities. It also means being willing to take risks and experiment, knowing that not all innovations will succeed. However, it is precisely through this process of experimentation and learning that the most significant innovations can be achieved. Innovation also requires an open and flexible mindset, capable of adapting to changes and seizing emerging opportunities.

As highlighted in previous chapters, creativity is a key element of innovation. It represents the ability to generate new ideas, which is the foundation of the innovative process. Creativity means bringing something new into existence, something that does not yet exist in the market. However, for an idea to be truly innovative, it must present a non-negligible level of novelty; it is not enough for it to represent a small step forward in the technological evolution of a product. While creativity is the source of innovation, it is not innovation itself. Innovating means bringing ideas to life, concretely realizing creative thinking through new products or processes. For an idea to transform into innovation, it must be combined with skills and resources that ensure its practical realization and give it a certain level of utility.

Creativity is the engine that drives innovation. It allows us to see the world from new perspectives, to imagine solutions that have never been attempted before, and to break with existing conventions. Creativity is the spark that ignites the innovative process, turning ideas into reality. However, creativity alone is not enough to innovate. For an idea to become an innovation, it must be combined with technical skills and adequate resources to ensure its practical realization. For example, a new idea for a product may be very creative, but without the engineering skills to

develop it and the financial resources to bring it to market, it will remain just an idea. Similarly, a technological innovation may be very promising, but without an adequate marketing strategy and organizational support, it may never reach its full potential.

A fundamental aspect of innovation is its ability to solve problems and meet needs. This is important not only for the social relevance of innovation but also for its commercialization. In fact, for an innovation to be successful in the market, it must respond to a real consumer need or create a new need that did not exist before. An example of this approach is the technology-push innovation, which involves research and development, production, and marketing activities pushing a new product into the market without initially considering whether it will meet a specific need. This strategy starts with the "how" to then define the "what" and finally the "who." In this type of innovation, technological progress is of primary importance: it starts from scientific and engineering studies that give rise to a new technology, and only later is it considered how to place it in the market, if a market exists.

When adopting a technology-push strategy, it is important to consider two types of innovation: continuous and discontinuous. Continuous innovation involves making incremental improvements to an existing product or process. These improvements can result from market feedback, new technologies, or changes in production conditions or materials used. Discontinuous innovation, on the other hand, is a radical innovation that gives rise to new technological paradigms, creating new products or even new markets. This type of innovation is represented by a succession of S-curves, where each curve represents a potentially disruptive innovation. It is beneficial for these innovations to be launched before the previous innovation reaches its maturity phase, to avoid the natural decline in user base that occurs in the subsequent decline phase.

The product performance lifecycle can be graphically represented with S-curves. The more "vertical" the S-curve, the greater the continuous innovation on that product during the development phase. These innovations can manifest as corrective actions or improvements resulting from market feedback. As shown in the graph, discontinuous innovation is represented by a succession of S-curves. Each curve represents a potentially disruptive innovation. This type of innovation is particularly relevant because it allows a company to always have something new to offer the market. In this way, the company can retain first adopters and remain attractive even to the so-called "laggards," those more skeptical potential customers.

In the literature on innovation, various types of innovation strategies can be found, each with its own characteristics and applications. For example, the "market-pull" innovation strategy is based on identifying unmet needs in the market and developing new products or services to address these needs. This strategy starts with the "who" (i.e., who has the need), then defines the "what" (the product or service), and finally the "how" (the development process). These distinctions are important because they help us understand that there isn't just one path to innovation, but multiple approaches that can be adopted depending on the context and specific goals. Adopting these classifications helps to understand the different types of innovation. Moreover, it's crucial to always remember that the concepts of innovation must be considered in relative terms. Their meaning, in fact, changes depending on the context in which they are applied, as well as the time frame of reference.

Innovation never occurs in a vacuum; it is always influenced by the context in which it develops. This context can include a variety of factors, such as the availability of resources, organizational culture, market structure, government regulations, and social and economic trends. Understanding these factors and how they influence the innovation process is fundamental to developing effective strategies and maximizing the potential success of innovation. For example, a technological innovation might succeed in a market with strong demand for new technologies, but it could fail in a market where consumers are more conservative or where significant regulatory barriers exist. Similarly, an innovation that requires significant investments in research and development might be more successful in a context where there are government incentives for innovation, compared to a context where such incentives are absent.

Today, innovation is increasingly seen as a means to achieve sustainability goals, not only in terms of environmental sustainability but also economic and social. Innovation can help create more sustainable products and processes, reducing the use of natural resources, minimizing waste and pollution, and promoting responsible production and consumption practices. At the same time, innovation can contribute to creating a more equitable and inclusive economy by creating jobs, increasing access to essential goods and services, and improving people's quality of life. In this sense, innovation is not only a means to gain competitive advantages but also a way to contribute to the common good and social progress. In conclusion, innovation is a complex and multidimensional process that involves creating value by transforming creative ideas into practical solutions. It is a

driver of change that can lead to significant benefits at both the organizational and societal levels. The key to successful innovation lies in the ability to combine creativity, skills, and resources to effectively meet consumer and market needs.

The importance of organizational culture as a determining factor for innovation is a topic that has gained increasing attention in management studies and business practices. In particular, in large companies in the information and communication technology (ICT) sector, an organizational culture that supports innovation can make the difference between success and failure in an extremely competitive and rapidly evolving market. The following aims to explore the characteristics of organizational culture that facilitate innovation and those that hinder it, based on an empirical study conducted on three large ICT companies.

As we already know, organizational culture refers to the set of values, beliefs, norms, and practices that characterize how an organization operates and how its members interact with each other and with the external environment. It is a key element that influences every aspect of business operations, from internal communication to change management, and even the ability to innovate. In ICT companies, which operate in a sector where technological change is rapid and innovations are constantly required to remain competitive, a culture that promotes innovation is particularly crucial. A work environment that encourages creativity, out-of-the-box thinking, and experimentation can stimulate innovation and lead to the development of new products, services, or processes that give the company a competitive advantage. Conversely, a rigid, bureaucratic, and risk-averse corporate culture can stifle creativity and prevent the development of innovative ideas.

The study presented here, conducted by March-Chorda and Moser, focuses on identifying the characteristics of organizational culture that facilitate innovation and those that inhibit it, within the context of large ICT companies with corporate structures distributed between headquarters and branches. Specifically, the study seeks to answer two fundamental research questions:

1. RQ1: What values, behaviors, and other characteristics associated with an innovation culture, considered contributive to long-term success, are present in the branches of large ICT corporations?
2. RQ2: What are the most common obstacles encountered by the branches of large ICT corporations in their efforts to implement an innovation culture?

To answer these questions, a case study was conducted on three large ICT companies, with a particular focus on Capgemini, one of the leading global IT services and consulting companies.

From these research questions, two main hypotheses were developed:

1. H1: In large ICT companies with headquarters and branches, it is expected that the presence of the following innovation-triggering factors will be high in the branches:

- Freedom from constraints for employees.
- Participative and informal meetings.
- Open and outward-looking management, willing to consider external ideas.
- Emphasis on face-to-face communication with minimal bureaucracy.
- Creative interaction among all employees.
- Flexibility in response to changing needs.

2. H2: In large ICT companies with headquarters and branches, it is expected that the presence of the following innovation obstacles will be low in the branches:

- Rigid departmental separation and functional specialization.
- Hierarchical and bureaucratic organization.
- Long decision-making chains leading to slow processes.
- Limited individual freedom.
- Risk aversion.
- Numerous established rules and procedures.
- Formal reporting standards.

The study uses a descriptive approach based on qualitative data obtained through first-person interviews and questionnaires. A case study methodology was adopted, with separate interviews conducted with executives from three large ICT companies, using the same set of questions to ensure consistency in results. Additional data were collected from other respondents located at the headquarters or a larger branch. The questionnaire was developed based on a thorough review of existing literature on organizational cultures and innovation cultures. The variables identified in the

literature review were used to formulate the questionnaire questions, ensuring a clear understanding of each company's attitude toward innovation and the likely effectiveness of its innovation culture.

Capgemini is a global leader in IT services and consulting, founded in 1967 in France. With over 90,000 employees in more than 30 countries and a revenue of over 8.7 billion euros in 2008, Capgemini offers services in four main areas: consulting, outsourcing, technology, and local professional services. The company is known for its open and collaborative approach, staff training and development, and a constant focus on innovation. Capgemini stands out for a management model that emphasizes openness and collaboration, allowing employees to work closely with clients to develop tailored solutions.

The company places significant emphasis on return on investment for shareholders, promoting sustainable long-term growth. Moreover, staff training and development are considered crucial to ensure that clients and partners work with highly qualified professionals. This emphasis on innovation is also reflected in Capgemini's corporate strategy, which aims to develop and implement innovations to ensure sustainable growth in the long term. However, despite this commitment, the study results suggest that there are significant cultural differences between the company's various branches, which can negatively affect its overall ability to innovate.

The data collected from Capgemini's branches in Spain highlight some significant divergences in the perceptions of executives regarding the innovation culture at their respective locations. Information was gathered from two senior executives from two different Capgemini branches in Spain: the Director of the Valencia branch and the Vice President of Innovation and Alliances at the Spanish headquarters in Madrid. While the Director in Valencia perceives the management as open and outward-looking, with a strong inclination to encourage innovation, the executive in Madrid expressed a contrary view, describing a more rigid culture less inclined to experiment with new ideas. This suggests that despite its efforts to promote innovation, Capgemini might be constrained by significant cultural differences between its branches.

The questionnaire results were divided into several groups of questions, each designed to assess a specific aspect of Capgemini's organizational culture (Fig. 1). The question groups included:

- Group 1: Innovation Values.
- Group 2: Management Behaviors.
- Group 3: Communication Practices.
- Group 4: Organizational Structure.
- Group 5: Freedom and Flexibility.
- Group 6: Idea Management.
- Group 7: Valuing People.
- Group 8: Collaboration and Team Building.

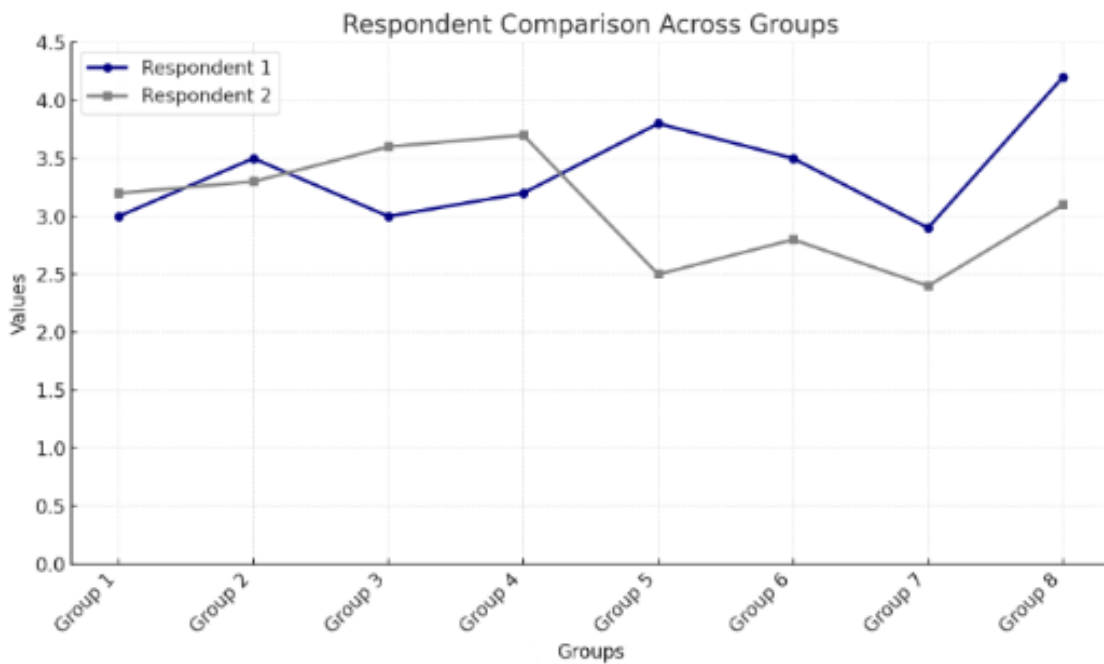


Image 5. Results of Capgemini at the branch level.

The results revealed that the average scores from the responses of the two executives were quite similar for the first four groups of questions, indicating a neutral or slightly positive stance towards pro-innovation statements. However, the responses to the questions in Groups 5, 6, 7, and 8 showed significant differences, suggesting divergent behaviors between Capgemini's branches. For example, Group 5 questions, which focused on leadership management and orientation, revealed a split between the two branches. The Valencia Director agreed that management was outward-looking and open to new ideas, while the Madrid executive disagreed. This indicates that the Valencia branch maintains a more open and innovative approach compared to the Madrid headquarters, which appears more traditional and conservative. The Group 6 questions, which dealt with employees' freedom to carry out their activities flexibly and allocate time to develop new

ideas, showed the highest level of disagreement. The Valencia executive believes Capgemini allows employees some freedom, while the Madrid executive expressed a negative view on this aspect.

The study's results suggest that despite Capgemini's efforts to promote an innovation culture, significant barriers must be overcome. Cultural differences between the various branches indicate a lack of consistency in the company's organizational culture, which could limit its ability to innovate effectively on a global scale. To promote a more consistent innovation culture, Capgemini may need to address the cultural differences among its branches and work to create an environment that uniformly supports creativity and experimentation. This could include initiatives such as innovation management training programs, promoting inter-branch exchanges of ideas and best practices, and creating internal networks to facilitate collaboration and knowledge sharing.

Capgemini's case illustrates how cultural differences within the same company can impact the ability to innovate, with some branches showing a more open and flexible approach while others are more conservative and less inclined to experiment. However, the study also highlights that a rigid and bureaucratic structure does not necessarily prevent innovation. For example, both Analog Devices and Capgemini have shown significant success in developing and launching innovations despite a high level of bureaucracy and hierarchical behaviors in their branch-level organizational structures. This suggests that, contrary to common belief, a rigid organization may not negatively impact these companies' ability to innovate.

Another point of interest is the management implications. Both the literature review and the findings of this study emphasize several behaviors that lead to an innovation-oriented culture. Being outward-looking, open-minded, and willing to consider external ideas, along with encouraging employee creativity and monitoring business practices to identify where innovative processes or procedures are needed, are crucial. Finally, the study underscores the importance of the role of senior executives in promoting and maintaining an innovation culture. They must hold frequent meetings to openly discuss and debate employees' ideas. If the company culture makes employees hesitant to question established practices and procedures, the company's ability to innovate effectively will likely be reduced.

Conclusion

Innovation is a critical driver of economic growth, competitiveness, and technological progress, but its development and sustainability are complex processes influenced by multiple factors. This thesis has explored the intricate dynamics of innovation from both macroeconomic and microeconomic perspectives, examining how governments, corporations, and various forms of incentives contribute to the innovation ecosystem. Through a comprehensive review of government policies, corporate culture, and the distinction between externally- and internally-incentivized innovation, this study has sought to provide a holistic understanding of the forces shaping innovation today. Additionally, the case study of innovation in the Information and Communications Technology sector has illuminated the challenges and opportunities facing companies in one of the most rapidly evolving industries.

The thesis has identified several key factors that are essential for fostering innovation, beginning with the role of government policies. As explored in Chapter I, governments play a pivotal role in promoting innovation by establishing an environment conducive to research and development through incentives such as tax breaks, grants, and subsidies. Governments can also create the necessary infrastructure and legal frameworks (such as intellectual property protection and regulatory standards) that encourage firms to take risks and invest in new technologies. However, the research also highlighted the limitations and potential downsides of excessive government intervention, such as the risk of market distortions or inefficiencies when subsidies are misallocated or when bureaucratic hurdles inhibit flexibility.

The second major finding pertains to the role of corporate culture in generating innovation, as discussed in Chapter II. The study revealed that internal corporate environments are crucial for nurturing innovation, particularly when firms cultivate a culture of creativity, risk-taking, and collaboration. This chapter examined the importance of leadership and organizational structures that encourage open communication and the free exchange of ideas, allowing employees to contribute to innovative processes without fear of failure. Moreover, the research underscored the importance of diversity in fostering innovation. Firms that promote diversity in terms of employee backgrounds, perspectives, and skills are often better positioned to generate breakthrough ideas. By creating a culture that values diverse viewpoints and encourages constructive dissent, companies can tap into a

broader range of creative solutions and avoid the pitfalls of groupthink. However, corporate culture alone is not sufficient to guarantee innovation. Leadership must be intentional in fostering an environment where innovation can thrive, ensuring that resources, time, and support are allocated to innovative projects.

The third key finding, explored in Chapter III, involves the comparison between externally-incentivized and internally-incentivized innovation. Externally-incentivized innovation is often driven by market pressures, competition, or government incentives, while internally-incentivized innovation is propelled by intrinsic factors such as a company's long-term vision, employee motivation, or organizational values. The research found that both approaches have their merits, but the effectiveness of each depends on the context in which it is applied. Externally-incentivized innovation can be highly effective in industries characterized by fast-paced competition, where companies are compelled to innovate to survive or gain market share. However, it can also lead to short-term thinking, where firms prioritize incremental improvements or quick fixes to meet external demands, potentially sacrificing long-term innovation goals. On the other hand, internally-incentivized innovation is often more sustainable and aligned with a company's strategic vision. Firms that foster innovation as a core part of their mission tend to produce more radical and disruptive innovations. However, this approach requires strong leadership, commitment, and a culture that supports long-term investment in innovative ideas, which can be difficult to maintain in the face of external pressures.

The case study of corporate innovation in the ICT sector, presented in Chapter IV, provided concrete examples of how innovation plays out in one of the most dynamic and competitive industries. ICT companies like Microsoft, IBM, and Huawei have continually reinvented themselves by adopting new technologies and responding to shifting market demands. This sector's rapid pace of change—driven by advancements in artificial intelligence (AI), cloud computing, cybersecurity, and data analytics—demands that companies maintain a relentless focus on innovation.

The research found that ICT firms face unique challenges in their innovation efforts, including the need to balance speed and quality, manage technological complexity, and navigate evolving regulatory environments. Moreover, the ICT industry is characterized by high levels of collaboration, with companies often partnering with academic institutions, governments, and other

firms to drive innovation forward. This collaborative approach has proven effective in pooling resources, sharing knowledge, and accelerating the pace of technological breakthroughs. However, the case study also revealed that government regulations, particularly in areas such as data privacy, cybersecurity, and intellectual property, play a critical role in shaping the innovation strategies of ICT firms. Companies must navigate these regulatory landscapes carefully, balancing the need for innovation with compliance and risk management. This dynamic highlights the interconnectedness of government policy and corporate innovation, where regulatory frameworks can either enable or hinder technological progress.

The findings of this thesis carry important implications for both policymakers and corporate leaders seeking to foster innovation in their respective domains. For governments, the research underscores the need for well-designed policies that not only provide financial incentives for innovation but also create the necessary infrastructure, legal protections, and market conditions for innovation to thrive. Governments must also strike a balance between intervention and allowing the private sector the freedom to experiment and innovate without excessive constraints. For corporate leaders, the research highlights the critical role of internal culture in driving innovation. Creating a work environment that encourages creativity, risk-taking, and collaboration is essential for sustaining long-term innovation. Leaders must also recognize the value of both external and internal incentives and seek to balance short-term market demands with long-term innovation goals. The importance of diversity, both in terms of personnel and ideas, cannot be overstated. Companies that embrace diverse perspectives are better positioned to generate groundbreaking innovations that can transform industries and markets.

As we look toward the future, several trends are likely to shape the innovation landscape in the coming decades. First, the rise of artificial intelligence and machine learning is expected to revolutionize industries across the board, creating new opportunities for innovation while also presenting significant ethical and regulatory challenges. Second, the increasing importance of sustainability and green technologies will drive innovation in areas such as renewable energy, circular economies, and environmentally friendly products and processes. Governments and corporations alike will need to invest heavily in these areas to address the pressing global challenges of climate change and resource depletion. Finally, the digital transformation of industries will continue to accelerate, with technologies such as blockchain, the Internet of Things and quantum computing reshaping traditional business models. In this rapidly evolving landscape, the

ability to innovate will be more crucial than ever, and those companies and governments that can foster and sustain innovation will be best positioned to succeed in the global economy.

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