
Public Policy and Governance

Public policy and governance are important shapers of innovation performance. From direct funding of education and R&D to various regulatory frameworks, public policy and governance have a significant impact on innovation activities. A full-fledged innovation policy is expected to cover a wide breadth of traditional policy domains, well beyond a narrow focus on research, to include education, tax, industry, private finance, competition, environment, among others.

A variety of rationales for policy intervention can offset various types of “failures” that characterise innovation systems. Market failures, such as appropriability problems and information asymmetries, are the most widely accepted rationale for policy intervention. In the last few decades, other rationales have emerged, including system failures, capability and resource failures, and directionality failures. While these rationales are all deserving of policy consideration, the risks of government failures always need to be taken into account before pursuing a course of policy intervention.

Following determination of policy rationales is formulation of policy objectives and from these policy instruments. Given the breadth of innovation policy, the instrument toolbox is wide. Instruments can be classified in a number of ways, including their mechanisms of action (e.g. regulation, economic incentive, etc.), the rationales or objectives they are meant to serve, and their target group. Such classifications have their limits, however, and tend to miss the important issue of policy design, which leads to much variety in the ways seemingly similar instruments are actually implemented.

Much of this variety has its roots in the context of the national, regional or sectoral innovation system being targeted, each requiring different policy designs that must take into account a unique set of public policy and governance arrangements that have evolved over time and been shaped by history. This process must consider the sorts of ideas that shape policy agendas, the administrative capabilities of government officials to formulate and oversee policy, and the openness of policy arenas. Similarly, institutional governance arrangements are diverse, with different means of coordination in different countries. Finally, the existing policy landscape—in terms of the policy mix of expectations, rationales, objectives and instruments already in place—is unique to each setting and will have consequences for the choice and design of new policies.

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