

Contents

Foreword.....	3
Introduction	5
Overview.....	7
Chapter 1 The innovation challenge.....	17
Chapter 2 High performance innovative companies.....	31
Chapter 3 Technology innovation.....	51
Chapter 4 National innovation assets.....	69
Chapter 5 Innovation policies across Government.....	79
Chapter 6 Regional innovation.....	97
Chapter 7 Global links	113
Action plan.....	127
Annex.....	135
Glossary of terms.....	141
Steering Committee Members.....	145



Foreword

The creativity and inventiveness of our people is our country's greatest asset and has always underpinned the UK's economic success. But in an increasingly global world, our ability to invent, design and manufacture the goods and services that people want is more vital to our future prosperity than ever.

Innovation, the exploitation of new ideas, is absolutely essential to safeguard and deliver high-quality jobs, successful businesses, better products and services for our consumers, and new, more environmentally friendly processes. There are many British companies who have risen to this challenge and reaped the rewards for their vision. Those British-based manufacturing industries that have invested heavily in Research and Development (R&D) have, in recent years, competed successfully in the global economy and have grown faster than the economy as a whole.

But this is, by no means, the whole picture. We do have world-beating companies but also have too few of them. Too many of our firms have failed to put enough emphasis on R&D and developing skills.

We have been working hard to put this right. Over the last six years, the Government has put the right foundations

in place through a huge investment in our nation's science base, the platform of macro-economic stability and support for enterprise, skills and knowledge at the centre of our policy making.

We now need to go further. The challenge – set out in this important report – is to create the conditions where all our firms put innovation at the centre of their strategies for the future. Government can't do this alone. We need to work with industry, trade unions, employees and consumers. But Government does have a key role. So I have asked the Secretary of State for Trade and Industry to chair a Ministerial team to lead the innovation agenda across the whole of Government and drive forward the implementation of this report.

We want the UK to be a key knowledge hub in the global economy, with a reputation not only for world-class scientific and technological discovery but also for turning that knowledge into new and profitable products and services. This report sets out the next steps we are taking to turn that vision into a reality.

Rt. Hon. Tony Blair, Prime Minister



Introduction

A year ago I was asked by the Secretary of State for Trade and Industry, Patricia Hewitt, to review the Government's policies which impact on innovation. She saw the need to raise our level of productivity and position ourselves to compete effectively against the low-wage, newly-emerging economies and this means that a step change is required in our rate of innovation. This report of our work has been produced in close partnership with industry, the Trade Unions and our university and research institutes, who are in the best position to know how we can compete in global markets.

If we are to be able to compete successfully against the most dynamic industrial economies in the world, it is not enough to open up our markets to competition, though this is an essential first step. It is also necessary for the Government to provide the significant range of public goods which are necessary for a knowledge-driven economy to create competitive advantage, such as a strong science and technology base, incentives for knowledge transfer and business Research and Development (R&D), and high standards of education at all levels. Only in this way can we provide opportunities for all those who want to innovate and create new businesses, whatever their jobs and in whatever region of the country they work.

We have already put in place many of the foundation stones of a successful knowledge economy, and the case studies in the report show what can be done by innovative and dynamic companies, large and small. But in the fast-moving world in which we live, we need to constantly benchmark ourselves against the best, learn from other countries, and increase the effectiveness of our policies.

As Patricia Hewitt has made clear, our vision is that we should be a key hub in the global knowledge economy. This means that the UK should be a country famed not only for its outstanding record of discovery but also for innovation, a country that invests heavily in business R&D and education and skills, and exports high-tech goods and services to the world. We also want to be a country with strong science and technological links with the best research around the world, so that we can stay always at the leading edge. Finally, we should be a country to which talented entrepreneurs and world-class companies come from around the world to do research and set up high-tech companies, attracted by the quality of our research, by the strong links between universities, research institutes and industry, by geographic clusters of high-tech companies, by their ability to raise finance, particularly venture capital, and by our quality of life.

A handwritten signature in black ink, which appears to read 'Sainsbury' followed by a stylized flourish.

Lord Sainsbury, Minister for Science and Innovation