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Nobuaki Matsunaga
Editor

Innovation in Developing Countries

Lessons from Vietnam and Laos



 Springer

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Preface and Acknowledgements

It is frequently claimed that innovation is the key to economic development, particularly for developing countries. However, most of the books and papers are written about innovation in advanced countries. This book focuses on innovation in developing economies, examining what is innovation for, how to effectively innovate and what are the current conditions of innovation in developing countries. For the last question, we study two Asian developing economies, Vietnam and Laos.

The term ‘innovation’ has been used in a variety of meanings by different researchers, let alone by journalists, critics, business persons, etc. It can mislead or confuse, making our understanding and discussion less fruitful. We therefore start in Chap. 1 to clarify ‘innovation’ by introducing key innovation theories (by Schumpeter and by Drucker) as well as *the Oslo Manual*. Then, we summarise and examine innovations for poor countries in an attempt to answer the first two questions above: looking at inclusive, reverse and learning innovations.

It was quite difficult to know the real situation of innovation in poor countries until the World Bank published the report, *The Innovation Paradox* in 2017. This report made possible for us to understand it systematically. It also suggested an interesting paradox: developing countries conduct much less innovation than advanced ones, even though in the former there are vast potential returns to innovation. However, this report is not immune from many problems, which will be discussed later in this book.

In Chaps. 2, 3, and 4, we investigate the determinants of innovation and their effects on firm performance of manufacturing small- and medium-sized enterprises (SMEs) in Vietnam. The studies evaluate the impact of firm characteristics, networking, business environment and entrepreneurial human capital on product, process and organisational innovations. In particular, Chap. 2 employs panel data with 7399 observations from 2005 to 2015 for analysis, Chap. 3 employs primary data we collected in 2014, and Chap. 4 focuses on organisational innovations such as ISO9001 and the Japanese management system (Kaizen/5S). We also study microenterprises, which comprise a majority of enterprises in developing economies, particularly in Chaps. 2 and 5.

Chapter 5 examines the role of entrepreneurial human capital in promoting innovations and evaluates their effect on firm productivity (successful entrepreneurship) of manufacturing SMEs in Laos. These studies apply rich secondary data, primary data from self-conducted questionnaire surveys and the findings from comprehensive interviews with enterprise owners and/or managers from several field surveys for the analyses and discussions. Chapter 6 concludes with some remarks.

In short, we found one of the common factors driving innovation is human capital: higher education levels of entrepreneurs and workers tend to enhance innovations, but an entrepreneur's work experience appears to have a limited impact. The second common factor is social or networking capital: if a firm joins a business association or has many contacts with suppliers and/or customers, it is more likely to innovate. The third common factor is experience of innovation: if a firm conducted innovation in the past, the firm is currently more innovative.

This book is written mainly for researchers and students who are interested in innovation and entrepreneurship of manufacturing SMEs in developing countries. However, it may also benefit policymakers who want to promote these enterprises. This book is a partial result of our research for the last several years. We have visited many firms in Vietnam and Laos as a team, and interviewed firm owners/managers and conducted factory visits as well as collecting primary and secondary data for analysis. The research team consists of two Japanese, two Vietnamese and two Laotians. All of them wrote one chapter or more, solely or jointly in this book. As we recently added one team member in Cambodia and Myanmar each, we expect to write another book covering these countries in the near future.

The authors would like to express their gratitude to the enterprise owners and managers in Vietnam and Laos, particularly in Hanoi, Ho Chi Minh City and Vientiane, who extended their kind cooperation and spent a great amount of their business time with the research team and provided insightful answers and discussions. The kind cooperation and assistance of the SME Technical Assistance Center in Hanoi and Ho Chi Minh City is also appreciated.

The authors are grateful for the constructive comments and suggestions offered by the participants at several academic conferences, among others the 15th International Conference of the Japan Economic Policy Association, Hokkaido, October 2016; the 15th International Convention of the East Asian Economic Association, Bandung, November 2016; and 6th Asian SME Conference of the ACSB (Asia Council for Small Business), Tokyo, September 2018. Their comments and suggestions made our manuscripts richer and more thoughtful.

The authors are so fortunate to receive the benefit of constructive and considerate comments by Dr. John Thoburn (Emeritus Reader in Economics, School of International Development, University of East Anglia, and formerly Professor of Development Economics at Ritsumeikan Asia Pacific University, Japan). His kind comments made our manuscripts much richer and clearer. We sincerely express our appreciation to him.

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About This Book

The main focus of this book is innovation for developing economies: what is innovation for, what are the current conditions of innovation and how to effectively innovate in developing economies. It contains new insights and analyses of innovation based on intensive interviews as well as on primary and secondary data of manufacturing firms in developing countries, Vietnam and Laos in particular. Innovation requires something new. Integration of deep understanding of innovation and econometric analyses can be a ‘new combination’ for this book, which lends contrast to otherwise similar books in the field. This novelty may benefit policymakers as well as scholars and firms in poor countries. The book’s main points can be summarised as follows:

First, for most poor countries, ‘learning innovation’ is the key to economic growth rather than ‘leading-edge innovation’, which is more stressed in similar work on innovation. Second, an overwhelming majority of innovations currently used in poor countries are those first developed in advanced countries, so technology transfer and learning from the latter is a fundamental source of innovation in the former. Third, a surprisingly high proportion of firms (around 50%) reported that they introduced new or significantly improved products or processes in developing countries, and this high innovation rate is a blessing to be enhanced by government policies. Fourth, the common factors driving innovation of manufacturing firms in Vietnam and Laos are (1) human capital, (2) social capital and (3) experience of innovation. Fifth, the impact of innovation on firm performance is found to be mixed in these countries. Sixth, so far almost all studies on innovation have focused on product or process innovation, but more light should be shed on organisational innovation, which is one of our main focuses.

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