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Innovative Entrepreneurship as a Collaborative Effort: An Institutional Framework

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Innovative Entrepreneurship as a Collaborative Effort: An Institutional Framework

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ABSTRACT

We demonstrate how successful entrepreneurship depends on a collaborative innovation bloc (CIB), a system of innovation that evolves spontaneously and within which activity takes place through time. A CIB consists of six pools of economic skills from which people are drawn or recruited to form part of a collaborative team, which is necessary for innovation-based venturing to flourish. The six pools include entrepreneurs, inventors, early- and later-stage financiers, key personnel, and customers. We show how the application of the CIB perspective can help make institutional and evolutionary economics more concrete, relevant, and persuasive, especially regarding institutional prescriptions. Generally, we envision an institutional framework that improves the antifragility of CIBs and the economic system as a whole, thus enabling individual CIBs and the broader economic system to thrive when faced with adversity.

Keywords: institutional economics; evolutionary economics; antifragility; entrepreneurship; innovation; institutions.

Introduction

At the time of writing in the fall of 2020, the world is in an economic recession, the severity of which remains unknown. While few economies are expected to emerge unscathed, we believe that the theory of the collaborative innovation bloc (CIB) can serve as a guide to help countries recover from or even navigate tumultuous times by harnessing their citizens’ entrepreneurial potential. In Schumpeterian terms, innovation is the creation of new combinations, generally of (old and new) knowledge, resulting in a new product, a new method of production, the opening of a new market, the conquest of a new source of supply, or the carrying out of a new organization of industry (OECD, 2010; Schumpeter, 1934 [1911], p. 66). A CIB, in turn, is an emergent system of innovation within which a host of individuals contribute a variety of complementary skills and resources while undertaking commercial activity. As such, it is a spontaneous order.

At the heart of our analysis is the notion that the entrepreneurial process that causes the market order to evolve is inherently collaborative: To pursue their innovative projects, entrepreneurs engage in cooperation with other actors, whose complementary skills drastically
increase the probability that an innovation-based venture will be successful. The actors are drawn from several skill pools, which together form what we call the collaborative innovation bloc. Entrepreneurs are essential for the emergence of such blocs and the evolution of existing blocs. However, while people can fulfill more than one role in the bloc, no one can fulfill all roles. Hence, these roles are ideal types, or functions, fulfilled in the market through collaborative action.

In searching for and attracting the skills they perceive necessary to realize their projects, entrepreneurs continually create new collaborative teams. The competition between these teams will bring about an evolution of the collaborative innovation bloc and ultimately result in innovation and economic growth. This perspective strengthens our understanding of how innovations come about in a modern market order and how the institutional underpinnings of that order should evolve (or change) in order for the economy to achieve more innovation and prosperity.

Spontaneous orders emerge under any politico-economic regime but will differ substantially depending on the characteristics of the regime, with the Soviet Union in the 1950s and contemporary North Korea at one extreme and Silicon Valley, Hong Kong, and Switzerland at the other. Why do orders vary so much across countries, industries, and over time, and why are some spontaneous orders more value-enhancing than others? The CIB perspective is well equipped to answer this question in a manner that puts it squarely in the fruitful intersection between institutional economics and evolutionary economics (Hodgson and Stoelhorst, 2014).

The CIB perspective places innovative entrepreneurship at the forefront of new business development and long-term wealth creation, a focus that is highly relevant, given that innovation has been estimated to account for more than nine-tenths of the increase in GDP per capita since 1870 (Baumol, 2010). While the CIB theory’s roots can be traced to the works of earlier Swedish economists (see, e.g., Eliasson, 1996; Erixon, 2011), it also shares features with the more recent literature on entrepreneurial ecosystems (Stam, 2013) and the national system
of entrepreneurship approach (Acs et al., 2014). Our reintroduction and reformulation of the CIB perspective (Elert and Henrekson, 2019a) ushered in a debate involving several entrepreneurship scholars (Bylund, 2019; Elert and Henrekson, 2019b; Foss et al., 2019; Lucas, 2019).

Our book coauthored with Mark Sanders (Elert et al., 2019a) used the CIB perspective to analyze how the European Union and its member states could best be reformed to move toward becoming an entrepreneurial society. In a recent contribution focusing on Sweden (Elert and Henrekson, 2020), we show how the CIB perspective can help make institutional and evolutionary economics more concrete and relevant, especially regarding policy prescriptions, which, in our view, should strive for antifragility against economic shocks and black swans, i.e., large events that are unexpected and highly consequential (Taleb, 2007, 2012).

The way countries respond, adapt, and cope with the economic repercussions of the crisis caused by the 2020–21 Covid-19 pandemic will, in no small measure, depend on the degree to which their institutional systems give rise to well-functioning CIBs. According to Taleb (2012, pp. 54–55), innovation often “emerges from initial situations of necessity, in ways that go far beyond such necessity – the excess energy released from overreaction to setbacks is what innovates!”

The present monograph takes this insight to heart. It is an attempt to synthesize our previous work, to draw conclusions, and to look ahead. Putting the spotlight on actors’ interactions in innovation blocs improves our understanding of how and why entrepreneurial plans are formulated and revised over time. By highlighting in detail the functions necessary for an efficient CIB to emerge, we make institutional prescriptions considerably more concrete. Generally, we envision an institutional framework that improves the antifragility of CIBs and the economic

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1While these perspectives offer valuable insights, they rarely make a clear distinction between actors and institutions, and they conflate conditions with outcomes (Braunerhjelm and Henrekson, 2016, p. 101).

2To be sure, there is some debate on whether the Covid-19 pandemic is better described as a gray rhino – a “highly obvious, highly probable, but still neglected” danger (Wucker, 2016); the creator of this term notes that most black swans occur when gray rhinos are neglected.
system as a whole, thus enabling individual CIBs and the broader economic system to thrive when faced with adversity.

The remainder of this essay is organized as follows. In Section 2, we discuss how and when collaborations occur in the market order and identify entrepreneurship as an inherently collaborative function. In Section 3, we describe the collaborative innovation bloc and each of its components: entrepreneurs, inventors, early- and later-stage-financiers, key personnel, and customers. In Section 4, we identify the most important critical areas affecting CIBs, thus demonstrating the usefulness of this perspective for understanding when innovation comes (and does not come) about. Founded on actors’ conditions on the ground, the analysis shows how the innovation bloc can be used systematically to identify the institutional framework that needs to be present and the institutional bottlenecks that stand in the way for innovative entrepreneurship and its subsequent scale-up. The last section discusses the key takeaways and limitations of the perspective before highlighting fruitful avenues for future research.
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