Futures 42 (2010) 295–303

Contents lists available at ScienceDirect

Futures

journal homepage: www.elsevier.com/locate/futures

Foresight in economic development policy: Shaping the institutional context for entrepreneurial innovation

Ken Colwell [a,b,*], V.K. Narayanan [b]

[a] *University of Miami School of Business Administration, Coral Gables, FL, USA*
[b] *LeBow College of Business, Drexel University, Philadelphia, PA, USA*

ARTICLE INFO

Article history:
Available online 4 February 2010

ABSTRACT

In this paper we take issue with the standard economic prescription for a "one size fits all" approach to economic development policies. We first argue that the entrepreneur exists in a much broader institutional context than current economic models of entrepreneurship consider. We then develop a definition of entrepreneurship as a special case of foresight—we argue that entrepreneurs are individuals who enact a unique vision of the future, and show how this view of entrepreneurial action leads to a new view of the basis of competitive advantage for startup firms. We then use this definition of entrepreneurship and the expanded view of institutional context to develop a model of entrepreneurial policies that takes the state of economic development and the unique historical context of the country into account. We close by discussing the implications of the model for policy makers and scenario planners in the domain of economic and institutional development.

> "There are two economic systems in the West. Several nations – including the U.S., Canada and the U.K. – have a private-ownership system marked by great openness to the implementation of new commercial ideas coming from entrepreneurs, and by a pluralism of views among the financiers who select the ideas to nurture by providing the capital and incentives necessary for their development, . . . The other system – in Western Continental Europe – though also based on private ownership, has been modified by the introduction of institutions aimed at protecting the interests of "stakeholders" and "social partners." The system's institutions include big employer confederations, big unions and monopolistic banks."
> Edmund Phelps, In a *Wall Street Journal* editorial published the day after he won the 2006 Nobel Prize for economics [1, p. A14].

1. Introduction

There can be no question that entrepreneurship is key to a country's economic development. In fact, Schumpeter [2] suggested that entrepreneurial activity is the only way that economic value is created. Most policy makers want to encourage innovation and entrepreneurial activity, but it is difficult to fully appreciate the full impact of policies designed to transform a system as complex as a nation's economy. For example, it seems doubtful that, as Phelps seems to imply in the quote above, policy makers in Western Continental Europe are deliberately trying to introduce institutions that stifle entrepreneurial activity, even if that has been the effect of their policies (a point we will debate in Section 3.2 of this article). Furthermore, even the most fervent advocate of free markets would surely argue for some restriction on the actions of

* Corresponding author. Tel.: +1 305 284 8588.
E-mail addresses: kcolwell@miami.edu (K. Colwell), vkn22@drexel.edu (V.K. Narayanan).

0016-3287/$ – see front matter
doi:10.1016/j.futures.2009.11.015

enterprising and ambitious entrepreneurs. This delicate balance of simultaneously encouraging and constraining entrepreneurial activity requires a special kind of foresight that takes the entire institutional context in which the entrepreneur operates into account. Although public policy is naturally future-oriented, policy makers do not necessarily take the social context of their policies into account [3]. Furthermore, those engaged in public policy foresight must recognize that desirable future states cannot be predicted with any certainty [4].

The majority of academic work in this area to date has been undertaken by researchers with a macro-economic perspective, such as Phelps in the introductory quote. In this article, we approach economic development policy from a different perspective. Building on earlier works that have highlighted the role of institutions in the applicability of strategy models [5], and the need for scenario planning to embrace the institutional environment [6], we argue that to stimulate entrepreneurship globally requires a strong focus on designing appropriate institutional contexts. By examining the nature of the context in which the entrepreneur operates, we hope to shed some light on the appropriate public policies for encouraging productive entrepreneurial activity in different economic systems. Specifically, we argue that the current state of the country's economic development as well as its unique history and culture have crucial roles in determining the best policies to shape institutional context for future entrepreneurial success.

The scheme of the paper is as follows. We first describe what we mean by an institutional context, taking care to distinguish our model of the entrepreneurial context from the narrower economic model that focuses solely on constraining formal institutions. We then develop a definition of entrepreneurship from a cognitive perspective, and show how this view of entrepreneurial action leads to a new view of the basis of competitive advantage for startup firms. The remainder of the paper shows the public policy implications of our model, paying particular attention to a view of entrepreneurial policy based on the country's unique historical context and current state of economic development rather than any overarching political philosophy. We close by suggesting some implications of our model for scenario planners as well as policy makers.

2. The nature of entrepreneurship: context and action

2.1. The institutional context of entrepreneurial activity

When Phelps discusses institutions [1] and culture [7], he clearly has a model of an organizational field in mind. DiMaggio and Powell [8] defined an organizational field as ''those organizations, that, in the aggregate, constitute a recognizable area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products'' (p. 148). Thus, organizational fields are communities of interacting organizational populations (i.e. groups of like organizational forms) that exchange resources with one another [9].

In particular, a new venture community is a group of organizational populations that assemble temporarily to provide critical startup resources such as capital, intellectual property and knowledge to a specific technological domain. Although each member of the community may have specific individual goals, there is a collective intent to ensure the success of the community. It is through the success of the community that individual success is achieved.

The central organizational population in a new venture community is the startup firms themselves. A startup firm is created when an individual entrepreneur perceives an opportunity and begins the process of gathering the resources needed to exploit it profitably. In a sense, startup firms can be considered a product of the community as well as a participant in it, since the firms are formed as part of the collective action of the community. Another key organizational population in the new venture community is established companies. These firms frequently invest in startups or form R&D alliances with them for a variety of strategic, marketing and financial reasons [10]. Universities are a key source of technology and other intellectual property that startup firms seek to commercialize as well as trained human resources for them to hire. Governments are major participants in this community as well. Besides providing technology and other intellectual property themselves in the form of state-sponsored research labs, governments are the major provider of financial resources for startup firms while their products are still in the R&D stage. It is very difficult for startup firms to attract venture funding during this phase of their development, but many qualify for government grants and loans. Governments also regulate the new venture community, and are the source of the laws and rules that govern the community.

There are several other populations that play critical roles in a new venture community. These populations include investors such as venture capital firms and other private investors, regional economic development agencies and professional associations. Venture capital firms (VC's) are private equity investment partnerships that invest in startup firms. VC's provide critical financial capital to startups at the pre-commercial phase of product development. They also may provide other critical resources such as institutional knowledge and introductions to other key resource providers [11]. Economic development groups are government or non-profit entities whose mission is to bring business to a particular geographic region. They sponsor conferences, make presentations at industry trade shows and perform other outreach activities to promote their area and persuade businesses to locate their operations there. Professional associations include non-profit trade associations, conference organizers, and other support or administrative professionals including lawyers, accountants, consultants and headhunters. All of these organizational institutions have a vested interest in the success of the field and work hard to ensure its legitimacy as well as their role in it. Table 1 provides a summary of the members of the new venture community.

Although Table 1 lists all of the critical actors in the new venture community, we believe that defining an organizational field solely by the organizational populations that comprise it is too narrow to be useful as an explanatory construct. A more