



Recipe VII: The Funnel Model

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10 RECIPES FOR ANALYTICAL SUCCESS

## VII The Funnel Model

### *Ingredients*

- ✓ *General business environment*
- ✓ *Clusters*
- ✓ *Firms and entrepreneurship*
- ✓ *Policy*

As a way of framing and understanding the various levels of interaction between firms and nations, we have developed what we call the Funnel Model. We are interested in why firms based in particular regions and clusters develop sustainable competitive advantages, i.e. competitiveness and innovativeness, while others do not.

The funnel includes three main levels:

1. The national business environment (you can also do this analysis at the regional level)
2. Clusters (consisting of several proximate and related industries), and
3. Firms







Figure 3. The Funnel Model: Entrepreneurship and New Strategies

*Your own notes:*

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constructive role to improve the workings of the cluster or the larger regional environment. Typical objectives of such initiatives include upgrading human resources; expansion of the cluster, stimulating new firm formation and attracting new firms to the cluster; business development; and commercial collaboration such as joint export initiatives or coordinated purchasing to increase purchasing power. Other objectives include upgrading technology and improving the overall business environment, including initiating dialogue on new regulations and upgrading the infrastructure.

Combining the two sets of forces, both evolutionary and constructive, we can gain a better understanding of how clusters develop and whether they will increase in dynamism and size or if they will go into decline (Figure 5). The understanding of cluster dynamics in turn holds the key to understanding the success of incumbent firms.

We know from our research that cluster dynamics are highly complex, and are best understood as a combination of evolutionary and constructive forces. However, constructors must be aware that the evolutionary forces are strong, and political vision can often remain merely in the realm of fantasy. A great deal of humility is recommended as cluster constructors roll up their sleeves (see also Recipe VI on bridging cluster gaps).



