

Örjan Sölvell On Strategy & Competitiveness 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

- ·Legacy and culture
- · Geopolitical position
- General institutions and legal framework
- · Macroeconomic environment and policy
- Microeconomic environment and policy

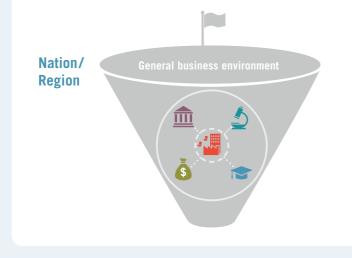
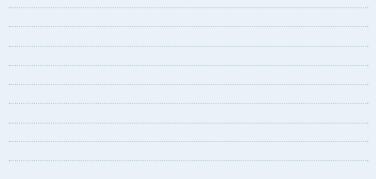


Figure 1. The General Business Environment in a Nation

Your own notes:



If we start at the center of the funnel, we have clusters. Clusters are a part of the microeconomic business environment of a region and are shaped by certain almost-deterministic forces (blue arrow in figure) related to the overall history and culture of a nation/region, the geographical (geopolitical) circumstances (access to waterways, how affluent neighboring nations are etc.), general institutions and regulations, and the overall micro- and macroeconomic environment. All clusters within a nation are affected by things such as the exchange rate, ideological position of the government, and historical and geographical circumstances of the nation or region.

If we take the analysis of the funnel one step further, one must distinguish between different clusters within a nation or region. Thus, within the same national or regional context, we have a range of clusters ranging from highly dynamic and competitive ones to more static and uncompetitive ones. In line with this, we expect to see more competitive firms on the right side and less competitive firms on the left side in the model.

Clusters are also shaped on a bottom-up basis, from entrepreneurial action and firms implementing new strategies and business models. Such activities are not coordinated but part of the normal market mechanism – the "invisible hand" is at work. However, as a result of these actions, the larger cluster environment will either develop or decline. Decisions to invest long-term will help to build the cluster, whereas decisions to leave the region will push the cluster towards decline, and resources will slowly merge to other areas of the economy or become idle.

The *evolution* of clusters thus emanates from both *deterministic* forces and *voluntaristic* forces. In addition to this, we have the *constructive*, more conscious forces, which will impact the development and competitiveness of the cluster. One type of constructive force emanates from policy implementing deliberate efforts to improve the microeconomic business environment of a region. Other constructive forces emanate from initiatives from actors within the cluster, including civic leaders from private firms, organizations and academia (see figure below). Local leaders behind cluster initiatives take on a

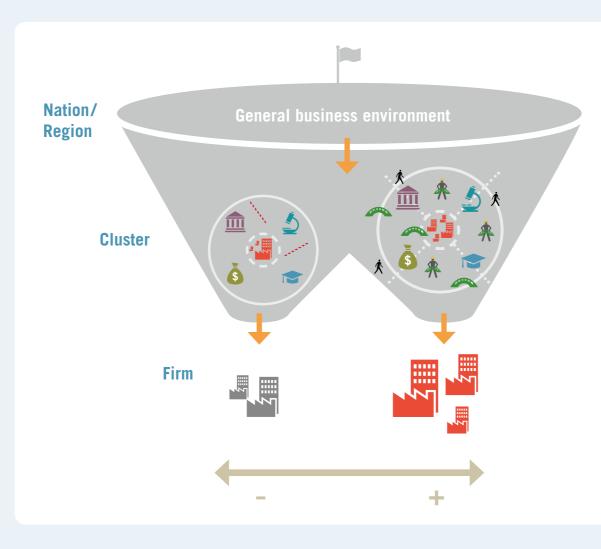


Figure 2. Three Levels of Analysis

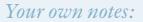
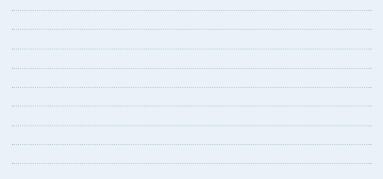




Figure 3. The Funnel Model: Entrepreneurship and New Strategies

Your own notes:



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).

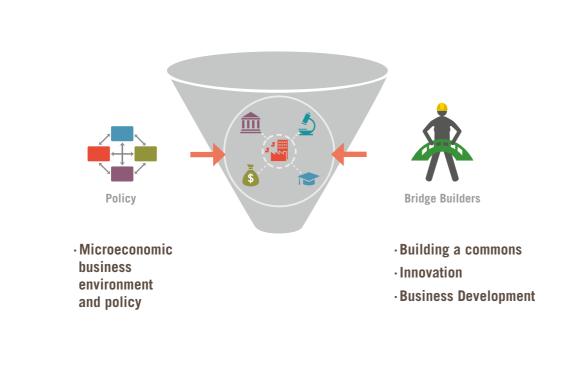


Figure 4. The Funnel Model: Constructive Forces Shaping the Cluster

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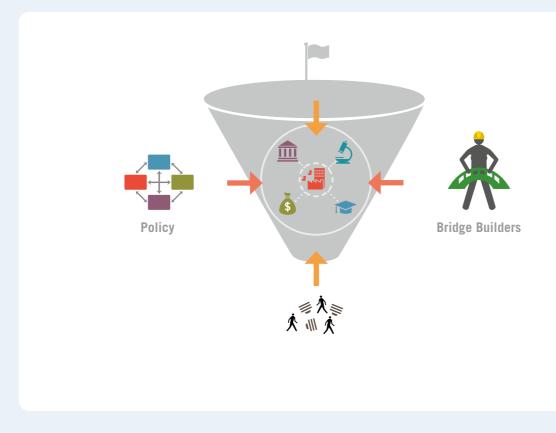


Figure 5. Clusters: Where Evolutionary and Constructive Forces Meet

Your own notes: