Innovation drivers within an operating context of institutional voids

Policy brief DFID/Tilburg University research: *'Enabling Innovation and Productivity Growth in Low Income Countries' (EIP-LIC)'.*
http://www.tilburguniversity.edu/dfid-innovation-and-growth/

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A growing stream of research has highlighted the importance of the institutional context on innovation and entrepreneurship. Formal institutions provide a policy and regulatory framework for economic development, which includes governmental innovation policies such as intellectual property rights and "legally sanctioned" patent laws, amongst others.

However, low income countries (LICs) are often characterised by 'institutional voids', the absence of such formal regulatory institutions. Against this background, it is critical to understand how entrepreneurs continue to engage in innovation by working with a range of informal institutions. Several strands of literature focus on understanding these institutions, which are classified as either normative or cognitive. Normative institutions are "morally governed" value systems and preferences, giving a prescriptive, obligatory dimension to social life, while cognitive institutions are recognisable, accepted habits, i.e. "how we do things around here." Both perform functions that structure and regulate human interaction in the innovation process, providing predictability and stability, and disseminating (technical) information.

In the framework of a DFID-funded research project entitled *'Enabling Innovation and Productivity Growth in Low Income Countries (EIP-LIC)*', a team of researchers from Tilburg University, Ahmedabad University and the University of New Hampshire investigated how entrepreneurs of small and medium-sized businesses in India work within a context of institutional voids. The qualitative research (case studies) explored how informal institutional mechanisms take over the functions of formal regulatory institutions. The original working paper is entitled 'Emerging Economies, Institutional Voids, and Innovation Drivers: A Study in India' (2017)[1] by Jaap Voeten, Abrar Ali Saiyed and Dev K. Dutta.

Research approach and findings

The team conducted a series of in-depth qualitative interviews with entrepreneurs in the manufacturing sector in Gujarat State in India in 2016. Based on analysis of the case studies, five key institutional voids are identified that entrepreneurs must bridge: (i) the absence of explicit and formal innovation policy frameworks and governance directions; (ii) the absence of technical support and interaction with formal science and technology organisations; (iii) the absence of trusted governance institutions, with regard to administrative issues, registration, patents and taxation, amongst others; (iv) the absence of the social and economic safety net provided by regulatory institutions, and (v) the absence of formal credit institutions for innovation financing.

[1] The paper is accessible at the project's website (http://www.tilburguniversity.edu/dfid-innovation-and-growth)

Policy implications

Innovation policy makers should acknowledge and address the presence of regulatory institutional voids, and the response of entrepreneurs, who take recourse to a range of normative and cognitive institutions to support their innovation efforts. Entrepreneurs do demonstrate a careful, proactive approach in developing and implementing the firm's innovation imperatives and engage in short-term incremental technology adoption/ adaptation and related management practices. The entrepreneurs apply family and personal reference frameworks and local cultural values, and mirror international quality standards to fill the regulatory institutional void with regard to their innovation ambitions, motivation and learning process.

Informal information sharing about new technologies with trusted business partners, professional and personal network contacts, and the internal labour force replaces the knowledge provision of formal science and technology organisations. Behaving independently while avoiding government interactions and keeping innovations hidden replaces trust in a government that is facilitating and supporting SMEs in terms of legal, tax and administrative issues.

Concluding informal settlement arrangements to overcome temporary financial constraints with business partners or personal contacts replaces the social security systems of regulative institutions.

Innovation policy makers in government are often aware that their policies do not reach small and medium business owners and managers on the scale they plan. The acknowledgment of the existence of institutional voids will help them to take a more holistic approach, instead of developing only formal science technology and innovation (STI) policies based on the innovation systems concept, more applicable in advanced countries. One original approach is to complement the informal institutional framework with a formal institutions, instead of overruling them. One example is the formal acknowledgement in inclusion of family ties in the innovation policies.

Another more regular avenue is to address institutional weaknesses such as the absence of long term governance directions, interaction with formal science and technology organisations, trusted governance institutions, and social and economic safety nets.

This policy brief is the product of a research project funded by the British Department for International Development (DFID) entitled 'Enabling Innovation and Productivity Growth in Low Income Countries' (EIP-LIC). The project is implemented by Tilburg University (The Netherlands) and explores SME-level innovation in Low Income Countries (LICs) and factors that contribute to or limit its diffusion. Data collection and research collaborations took place in 10 African and Asian countries (Bangladesh, Ethiopia, Ghana, India, Indonesia, Kenya, Tanzania, South Africa, Uganda and Vietnam). The policy implications of this research are presented in a series of policy briefs, targeted at a broad audience of policy makers within governments, business and development agencies with a view to quantifying research outcomes and promoting evidence-based policy making.