Chapter 3
Institutional Entrepreneurship, Trust, and Regulatory Capture in the Digital Economy

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ABSTRACT

In regard to the problem of the new markets' opening and their regulation, some scholars have introduced the concept of "institutional entrepreneur" in economic literature. This new definition of entrepreneur is important to highlight, albeit in informal and descriptive terms, the existence of functional relationships between activities typical of private market competition and those more specifically, of the public sector. Even if this new economic character can provide an interesting key to understanding what can really happen in the narrow zone that separates the public and private markets, it does not consider some conceptual components that are not minor for the purposes of complete characterization. For example, those of reciprocity, trust and capture that put the actions of the entrepreneur in a continuum defined by more or less virtuous (or legal) behaviors. From this point of view this chapter examines these aspects within the digital economic framework.

INTRODUCTION

In these recent decades, several economic policies to promote knowledge economy, i.e. the digital economy, have been implemented. Following Bukht and Heeks (2017), the 'digital economy' should be defined as "that part of economic output derived solely or primarily from digital technologies with a business model based on digital goods or services". The digital economy is therefore broader than simply the digital sector, becoming intertwined with the traditional economy. The widest scope – use of ICTs in all economic fields – is referred to as the digitalised economy. The transformation of an economy in a digital economy concerns particularly the adoption and diffusion of innovations (new technologies)

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and requires actions from public and private actors with different interests, influences, and levels of power. As underlined by Sotarauta and Pulkkinen (2011), this challenge implies the formulation of new institutions or the transformation of existing ones to capture the constantly evolving global knowledge economy. Innovation as the engine of knowledge-based development and institutional change process is deeply intertwined and the theory of institutional entrepreneurship may support the analysis of the relationship among several agents, such as individuals, groups of individuals or organizations (Wang and Swanson, 2007; Battilana et al., 2009; Kaplan and Murray, 2010; Tassabehji et al., 2016).

This literature suggests that even if formal and informal institutional arrangements constrain actors' actions and shape their decision-making process, the actors are able to shape their institutional environment and the constrains imposed by it. The institutional entrepreneurship literature focuses on how an entrepreneur may create institutional change in spite of being constrained by the existing institutional arrangements (Jolly et al. 2016). So far, the agents are configured by their institutional environment even if they try to reshape it, for instance, by influencing policy and regulatory decision-making processes. Beyond the entrepreneur, as actors should be considered labour unions, political action committees, environmental and public interest groups, trade associations, ad-hoc associations, lobbyists, foundations and think tanks which are involved in shaping their institutional context. In terms of innovation, institutional entrepreneurs are not only those who pursue a market for new products and services, but also actors interested in other institutional aspects of the new technology, e.g., standards, capability certification, and best practices (Wang and Swanson, 2007).

Thus, an institutional entrepreneur should be described as those individuals who put an effort into establishing and reorganizing property rights and other institutional structures to exploit economic opportunities that are not feasible within the institutional status quo (Pacheco et al., 2010). Institutional entrepreneurs influence the transformation of institutions to capture economic value (Dean & McMullen, 2007; North, 1990; North & Thomas, 1970). They are able to recognize the obsolescence of institutions, design new institutional arrangements, and engage in a variety of strategies to implement institutional change (DiMaggio, 1988) and new technologies in the private sector (Wang and Swanson, 2007) as well as in the public sector (Tassabehji et al., 2016). In fact, new IT does not emerge spontaneously after a latency period, but it needs an institutional entrepreneur to somehow launch it.

These entrepreneurs are calculative agents because they influence the changing of institutions when it is economically desirable to do so. Thus, profit-seeking behaviour provides the engine for institutional change (La Croix & Roumasset, 1990). New institutions arise when the benefits that entrepreneurs can accrue from these arrangements exceed the costs of their implementation and enforcement (Alston et al., 1999; Anderson & Hill, 1975; Demsetz, 1967; North & Thomas, 1970).

The focus of institutional entrepreneurs on institutional changes mainly regards three different aspects: informal or socially embedded (codes of conduct), formal (property rights and government policies), and governance institutions (e.g., contracts, enforcement mechanisms). However, innovation and technological change can also drive entrepreneurs to establish new institutional regimes and this is particularly true for the digital economy, where the opportunities depend on the distribution of knowledge within society (Dew, Sarasvathy, & Venkataraman, 2004). In the digital economy, knowledge is localized, dispersed, and private (idiosyncratic), so that only some individuals are more able to recognize entrepreneurial opportunities with respect to others. Obviously, opportunities are only to those in possession of the relevant knowledge. Individuals with specific knowledge, acquired through either work experience or education, are more likely to respond to opportunities in similar applications (Shane, 2000).