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The role of the meso level in enabling economic evolution

In 2016 Mesopartner was commissioned by the BEAM Exchange to conduct research into what systemic change is and how it can be achieved in an economy. This assignment gave us an opportunity to delve deeper into three bodies of literature that we have been continuously exploring and drawing on in recent years:



- Evolutionary economics as it reflects the current understanding of how economies evolve and change

- New institutional economics because it specifically focuses on markets and how they emerge and work in a society shaped by formal and informal institutions

- Complexity theory and social change to reflect the general understanding of how social systems behave and change, and how we can describe and intervene in them.

What evolutionary and new institutional economics have in common is that they emphasise dynamics, uncertainty and bounded rationality – something that is not well captured by traditional neoclassical economic theory.

Economic change as evolutionary process

The economy is an evolutionary system. Its behaviour and change over time can be explained by the three co-evolving spaces of physical technologies, social technologies and business plans:

- **Physical technologies** are methods and processes for transforming matter, energy and information from one state into another in pursuit of a goal or goals; they enable people to create products and services that are worth trading.

- **Social technologies** are methods, designs and arrangements for organising people in pursuit of a goal or goals; they smooth the way for cooperation and trading of products and services. For example, the ability to organise people into hierarchies, such as companies or other organisations, is a social technology.

- **Business plans** or business strategies are developed by enterprises and other organisations that are competing for resources, acceptance and buy-in in the economy. Business plans play the critical role of melding physical and social technologies together under a strategy and then operationally expressing the resulting design in the real world.

Evolution is a general-purpose and extremely powerful recipe for finding innovative solutions to complex problems. Evolution is fuelled by a variety of options, from which it selects designs that are fit for purpose and then amplifies them so they become dominant in their local environment, with this environment constantly changing. In market economies, markets and organisations provide important selection mechanisms. Evolution is a pervasive learning algorithm that adapts to changing environments and accumulates knowledge over time.

Institutions shape the evolutionary path

Various kinds of formal and informal institution play a critical role in the evolution of the economy. They support the creation of variety, partly create the selection pressure, and allow resources to be shifted away from unfit to fit designs to amplify them. Institutions are “the rules of the game” both on the level of personal interactions and on the level of interactions among organisations, firms and



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government. As is the case with meso policy, not every institution takes the form of an organisation. Also, formal and informal rules, norms and conventions are part of the institutional landscape (essentially the meta level in the Systemic Competitiveness framework).

The ability of these institutions themselves to be sensitive to their evolutionary context, and to introduce or respond to variety in the system, particularly through meso policy and meso services, is critical for the economy. This sensitivity will lead to an increased number of development paths available to a society. The more options and the higher the incentives are for companies and organisations to experiment and engage in creative competition, the more competitive and resilient an economy becomes overall.

In many development contexts, institutions need to become more conducive to this evolutionary process and how they structure and enable it. Changing these institutions, however, is a difficult and long-term process. It is driven by changing dominant beliefs in a society.

Institutional change and complexity

Theories of how individuals and societies change, such as behavioural economics, cognitive science, social change theory, anthropology, etc., offer insights into how belief systems and with them informal and formal institutions change. They provide ideas of how change agents can support leaders and policy makers to shape a process of change leading to changes in beliefs and institutions. Understanding social change as a complex adaptive system allows us to draw from complexity sciences to

better understand change dynamics. They provide a powerful way of describing evolutionary dynamics and the dynamics of emergent institutional structures, as well as changes in the beliefs, attitudes and perceptions of economic actors that shape these institutions. The science and practice of complexity also provide important clues on how change agents can describe, engage in and shape the dynamics of complex systems.

Principles for change agents

From our research we defined the following set of principles for economic change. These principles are valid both for international development organisations and programmes, but also for meso organisations themselves to enable them to improve the evolutionary potential of their regional economy. They are:

1. **Shift from changing allocation to enabling evolution.** Refrain from designing solutions – shift to enabling self-discovery of what is possible from where the system is now.
2. **Shift from market failure to market fitness.** Markets are enablers of a decentralised search and discovery process to find ideas and solutions that work in a society.
3. **Strengthen variety by embracing diversity.** Variety strengthens the evolutionary process by providing ideas to choose from. The ability to create variety strengthens resilience.
4. **Create and maintain situational awareness.** Create and maintain a cognitive map that allows for joint sense making, and adapt strategy and operations based on insights.
5. **Manage the complicated and explore the complex.** Complicated can be managed, planned and sequenced; complex must be explored through learning and adjustment.

6. **Strengthen organisations that encourage and support self-discovery.** Local institutions must be enabled to better adapt to the specific context and capabilities. Development facilitators can support processes and enable learning and adaptation.
7. **Continuously link top-down and bottom-up development.** Working meso organisations combine expressed bottom-up demand with top-down strategies. Development facilitators can help to better connect and integrate top-down control and bottom-up demand.

Systemic change occurs when the range of economic opportunities of market actors is enhanced while the institutional landscape remains adaptable to respond to future challenges. A lot of changes to achieve this need to occur on the meso and meta levels. From a meta perspective, systemic change is best achieved when influential actors or networks of actors become aware of the evolutionary change process and their role in it. On the meso level, these actors need to be capable of engaging in, and collectively discovering and shaping the evolutionary potential of the economy. This process is most effective when it is done in a transparent and participatory way; ideally all levels of society should have access to this process.

Our research resulted in two publications: a more detailed technical paper and a shorter discussion paper. Both reports can be found at www.beamexchange.org. More details can be found in the publications section of this Annual Reflection.

Dr Shawn Cunningham (sc@mesopartner.com)
Marcus Jenal (mj@mesopartner.com)