

Title: Dynamics of Conventions: An Evolutionary Analysis

Author: Rogerio P. Andrade, University of Sao Paulo, Brazil

Abstract

This paper analyses the process of change of conventions. The concepts of routines, competition and innovation are used to integrate and develop some ideas of Schumpeter, Keynes, Hayek, Shackle and the so-called “evolutionary theory of economic change” (Nelson, Winter, Dosi etc.).

The starting point is to regard *routines* as the type of structures which firms resort to coordinate their activities. By being acted upon, routines facilitate problem solving, storage and communication of knowledge. Routines are the structures which assist the reproduction and learning of specific capabilities.

If routines are the structures which help to organise the functioning of firms in their specific environments, then innovation (a form of non-conventional behaviour), whose activation may render a given set of routines obsolete, brings as a consequence the need for adaptation to the new context changed by the emergence of novelty and increased uncertainty. In this sense, innovation, by bringing the unexpected, is de-stabilising.

The fact that innovation is introduced and some firms benefit from it in the form of “supernormal profits”, or improvement of relative positions, implies that in order to survive the rest are led to imitate their successful rivals. Thus, a consequence of successful innovation is asymmetries in the form of “innovational leads” and “adaptational lags”.

Innovations are the result *par excellence* of the actual and potential competitive struggle which firms are compelled to face with each other in their everyday operations. Firms check the suitability of their routines through the process of competition and may discover new ways of doing things, opening up the possibility of opportunities not yet known by their competitors.