

# Chapter 77

## A Review of Institutional Theory and Entrepreneurship

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**Abstract** Institutional theory is one of the major theories underpinning not only organization and management research, but also entrepreneurship studies. In this paper, we will review the existing literatures that employ institutional perspective to understand entrepreneurship and those applying entrepreneurial perspective to address the “paradox of embedded agency” which impedes the endogenous development of the institutional theory to understand the current status of the field and future research possibilities.

**Keywords** Institutional theory · Entrepreneurship · Institutional entrepreneurship

### 77.1 Introduction

Institutional theory has been applied in many domains ranging from institutional economics and political science to organization theory since the 1970s. Not until Shane and Foo’s works on franchising success appeared did the researchers realized its explanatory power in entrepreneurship research, which previously were based on the resource-based theory (RBV) of the firm that overlooks the impact of culture, legal environment, tradition and history to entrepreneurial success. Meanwhile, the institutional theory has been challenged with the “paradox of embedded agency” that is, the paradox of how actors enact changes to the context by which they, as actors, are shaped. Commonly, this paradox is addressed by researchers who identified institutional entrepreneurship and tried to explicate its underlying mechanism. This paper thus intends to answer these three questions: (1) Why and how could institutional theory be applied to entrepreneurial studies? (2)

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How does institutional entrepreneurship work? (3) What does the combination of institutional theory and entrepreneurship contribute to these two domains of research? We will first discuss the two core concepts underpinning the topic—institutions and entrepreneurship, and then we will conduct a literature review from selected papers published on top management journals and present three major research streams: (1) institutional environment and entrepreneurship; (2) legitimacy building and entrepreneurship; (3) institutional entrepreneurship. Afterwards, we will focus on institutional entrepreneurship with its precedents, consequences and underlying mechanisms. Finally, we will discuss the future research possibilities.

## 77.2 Core concepts

### 77.2.1 *Institutions*

Institutions are taken-for-granted rules, norms, and beliefs that justify social arrangements and behaviors. It is viewed as performance scripts for repeated activities, deviations from which are costly or regarded as illegitimate.

Organizations function in an institutional environment that implements some degree of pressures which are commonly known as “institutional pillars”: the regulative, which guides behaviors through sanction and conformity, usually in form of governmental legislation and industrial agreements and standards; the normative, which guides behaviors through by defining social appropriateness, represented in values and norms; and the cognitive, which guides behaviors through subjectively constructed frames and meaning that used to interpret the world (Scott 1995).

The fact that institutional arrangements provide continuity and stability is explained in different ways across different disciplines. From a institutional economics perspective, institutions economize on transaction costs by reducing uncertainty and mitigating opportunistic behaviors, Coase 1937; Williamson 1985. While sociologists emphasize how institutional arrangements grant legitimacy, a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate (Suchman 1995), research on cognitive processes takes institutions as shared cognitive frames that give meaning to inherently equivocal informational inputs by directing sense making processes (Gioia and Chittipeddi 1991).

Though institutional research focused on the isomorphic process brought about by institutional forces and the resilience of institutional prescriptions, there has been interest in how non-isomorphic change works to create, maintain, transform or disrupt institutions (Lawrence and Suddaby 2006).

### ***77.2.2 Entrepreneurship***

Entrepreneurship is the process of exploring the opportunities in the market place and arranging resources required to exploit these opportunities for long term gain. According to Schumpeter, entrepreneurship is the introduction of new technologies with creative destruction. From a sociological perspective, entrepreneurship is associated with deviations from some norm (Garud and Karnøe 2001), its novel ideas are not readily accepted by actors committed to existing institutional arrangements from which they derive vested interests. Cognitive sociology takes entrepreneurship as recombination of seemingly unrelated ideas from different knowledge domains (Koestler 1964). Anyway, entrepreneurship emerges with the liability of newness, matures with politics and ongoing negotiation, succeeds with legitimacy acquisition, in which some entrepreneurs choose to change and creation rather than conformity and obedience.

### ***77.2.3 Institutional Entrepreneurship***

The juxtaposing of institutional pressure of conformity and entrepreneurial forces to change asks for a coherent concept, institutional entrepreneurship, which offers comprehensive understanding of how and why certain new practices or new organizational forms come into being or certain well-established.

Thus come the term institutional entrepreneurship, which was initially introduced by DiMaggio (DiMaggio 1988) as a way to reintroduce actors' agency to neo-institutionalism who believed institutional change results from exogenous shocks that challenges existing arrangements. Eisenstadt (1980) first applied the notion of institutional entrepreneurship to characterize actors who serve as agents for institutional change by leveraging resources to create new institutions in which they see an opportunity to realize interest (DiMaggio 1988).

The "structure-agency" debate (or the paradox of embedded agency which refers to the problem of how and why actors shaped by institutional environments become motivated and enabled to promote change) also calls for answers to the underlying mechanism of institutional change. By combining structure and agency in some degree of mutually constitutive duality, Giddens's work on "structuration" and Bourdieu's notion of "habitus" are stating that structure is both the medium and outcome of action since agency is distributed within the structures (Garud et al. 2007).

## 77.3 Data and Method

This paper examines literatures selected from top journals on organizations, management and entrepreneurship, considering its cross-disciplinary characteristics, with a relatively high SSCI impact factor on institutional theory and entrepreneurship from 1990 to 2011. We searched EBSCO and JSTOR employing search terms *institutional theory*, *entrepreneurship*, *institutional entrepreneur*, or *institutional entrepreneurship* (Table 77.1).

Finally, 44 articles were identified and we highlighted three major research streams: the institutional environment and entrepreneurship, legitimacy building and entrepreneurship, and institutional entrepreneurship.

## 77.4 Findings

### 77.4.1 Institutional Environment and Entrepreneurship

Institutional environment both enables and constrains entrepreneurial opportunities. From transactional economics perspective, a well-established institution with more favorable market incentives and availability of capital could facilitate the creation of new ventures, while a weak and underdeveloped institutional environment tends to increase the transaction cost involved in entrepreneurship. More regulations from the government also result in more rules and procedural requirements that entrepreneurs should comply with, while lack of institutions aiming at protection for property rights in emerging economies renders ventures to building costly informal institutions such as managerial ties with key governmental officials (Bruton et al. 2010).

**Table 77.1** Journals selected for review

Top journals selected	SSCI impact factors (2008)	Articles
Academy of management journal (AMJ)	6.1	8
Academy of management review (AMR)	6.1	5
Administrative science quarterly (ASQ)	2.9	3
Entrepreneurial theory and practice (ETP)	1.7	15
Journal of business venturing (JBV)	2.1	7
Journal of international business studies (JIBS)	3.0	3
Organization science (OS)	2.6	2
Strategic management journal (SMJ)	3.3	1
Total	–	44

### ***77.4.2 Legitimacy Building and Entrepreneurship***

Entrepreneurs must engage in legitimate activities to prove its value, thus overcome the liabilities of newness and increase the prospects of survival. Different from established organizations who could gain legitimacy and access to key resources from stakeholders and society by past performance, new comers has limited or no record of trust-gaining performance with which to be judged.

Regarding to the three institutional pillars, three dimensions of legitimacy emerges. Regulative legitimacy confers new ventures rights of private ownership and industry existence. Normative evaluation of legitimacy concerns the congruence with professional standards and commercial conventions. Cognitive Legitimacy grants actors the acceptability by its cultural environment. Different institutional environments ask for distinctive legitimacy seeking and building strategies for start-ups and ventures, foreign alliance partners wishing to enter emerging economies like China, India and Latin America cannot ignore the value of understanding local approaches to management and cultures toward entrepreneurship (Bruton et al. 2010).

### ***77.4.3 Institutional Entrepreneur***

When entrepreneurs start a venture, they often face an environment where relatively little coordinated actions and well-established standards exist. No matter in emerging or mature field, institutions may still undergo development and are narrowly diffused. Chances are that entrepreneurs play the role of institutional entrepreneurs “who have an interest in encouraging particular institutional arrangements and who leverage resources to create new institutions or to transform” DiMaggio 1988; Bruton et al. 2010; Fligstein 1997. These entrepreneurial activities often occur in an organizational field where organizations and occupations whose boundaries, identities, and interactions are defined and stabilized by shared institutional logics created by them.

Literature review shows that the research into institutional entrepreneurship mainly focus on these aspects: (1) the determinants for institutional entrepreneurship; (2) the mechanisms of institutional entrepreneurship.

#### **77.4.3.1 The Determinants of Institutional Entrepreneurship**

First, two main categories of determinants that have so far received considerable attention are (1) field-level determinants, (2) individual-level determinants.

### *Field-level determinants*

External pressures and crises are identified by Child et al. Greenwood et al. (2002), Greenwood et al. Child et al. (2007), Fligstein Bruton et al. (2010) as field-level determinants for institutional entrepreneurship. Based on the literature on institutional change, Greenwood et al. Child et al. (2007) suggest that external pressures in the form of social upheaval, technological disruption, competitive discontinuities, or regulatory changes might result in institutional entrepreneurship by disrupting existing standard of actions and behaviors. Meanwhile, political pressures resulting from changes in power and interests may also motivate individuals to reconsider the status quo of the existing institutional arrangement (Oliver 1992).

Another important field-level determinant is organizational field characteristics, such as the structure of the field (e.g., heterogeneity, institutionalization) and the position of the organizations (e.g., central, peripheral) within that field (Greenwood and Hinings 1996; Greenwood and Suddaby 2006; Maguire et al. 2004). Seo and Creed (2002) pinpoint the importance of institutional contradictions that cause institutional incompatibilities and drive embedded agents to act collectively as institutional entrepreneurs. Beckert (1999) suggests that strategic action takes place in relatively highly institutionalized organizational fields, but Fligstein (1997) proposes that it might be caused by uncertainty in the field.

### *Individual-level determinants*

Actors' social position and specific characteristics are the main enabling factors to institutional entrepreneurship at individual level. Social position might influence both actors' perception of the field (Dorado 2005) and their access to the resources needed (Lawrence 1999). Central members are confined and contextualized by the institutions of the field which prevents them from recognizing alternative practices, while peripheral organizations are less integrated with institutionalized practices and standards and prompt to make change (Oliver 1992). Dorado (2005) defines actors' social position as "the position in the structure of social networks." Maguire et al. (2004) study the institutional entrepreneurship in the field of HIV/AIDS treatment advocacy in Canada and suggest that institutional entrepreneurs' "subject positions" provide both legitimacy in the eyes of diverse stakeholders and the ability to bridge those stakeholders, thus guarantees access to necessary resources.

Actors' specific characteristics are a determinant less studied but also contributing to institutional entrepreneurship. Mutch (2007) suggests that institutional entrepreneurs are able to take autonomous reflexive stance at troubling matters, while Fligstein, 1997; 2001 labels them as skilled actors whose "skilled social actions revolve around finding and maintaining a collective identity of a certain social group and effort to meet their interests."

### 77.4.3.2 The Mechanisms of Institutional Entrepreneurship

Three major tactics are employed by actors in the organizational field to complete the institutional entrepreneurship process: (1) Framing; (2) Resources mobilization; (3) Theorization.

#### *Framing*

Institutional entrepreneurs tend to depict their preferred institutional arrangement as appealing to the widest possible audience by generating discourse and texts. According to (Leca et al. 2006), such framing strategy includes two steps: specification and justification. Specification works on exposing existing contradictory institutional logics and diagnosis of the organizational failures while justification proposes the suggested plans as superior to the previous arrangements, which makes a reason for de-legitimizing. Rao (1998) found that framing had a powerful legitimizing effect in the establishment of consumer watchdog associations.

#### *Resources mobilization*

Tangible resources such as financial assets can be utilized to bypass the sanctions exposed by existing institutional arrangements and authorities and make up the loss of being illegitimate, Child et al. 2007; Greenwood and Suddaby 2006. Intangible assets such as social capital, legitimacy and formal authority are mobilized to make cooperation and collective action based on political tactics. Garud et al. (2002) show how Sun Microsystems was able to persuade systems assemblers, software firms, and computer manufacturers to form an alliance to confront Microsoft's Windows by collectively devising common technological standards. Levy and Scully (2007) utilize Machiavelli's conception of power to depict institutional entrepreneur as a "Modern Prince" who acts as an organizer and agent of a collective group, often leaders of social movements and alter, shape the material and organizational contested field they operate in.

### 77.4.3.3 Theorization

Theorization is the practice of developing abstract categories and items into chains of cause and effect with which the institutions are organized and diffused. There are regulative and normative theorization with the former constitutes legal articles that establish and exert mandatory new rules and practices, and the latter works through professionalization of certain field, which includes the development of certification contests (Rao 1994), the establishment of standards (Garud et al. 2002) and the enforcement of professional associations (Child et al. 2007).

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