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The SAGE Handbook of Organizational Institutionalism

2nd Edition

Edited by
Royston Greenwood,
Christine Oliver,
Thomas B. Lawrence
and Renate E. Meyer

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25

Institutional Theory and Entrepreneurship: Taking Stock and Moving Forward[1]

Robert J. David, Wesley D. Sine and Caroline Kaehr Serra

INTRODUCTION

Entrepreneurship, defined here in a general sense as the process of creating a new organization, contributes to both economic and social renewal. Yet, until recently, institutional theorists have not shown concerted interest in this phenomenon, and research on entrepreneurship has largely relied on theories rooted in psychology (e.g., cognition, personality) or economics (e.g., theory of the firm, resource-based view). Even sociological approaches to entrepreneurship have generally neglected institutional factors, emphasizing instead the role of social networks and population demographics. Over the last ten or so years, however, an institutional-theory approach to entrepreneurship has taken shape. This approach focuses on how institutions shape entrepreneurial opportunities and behaviors and on how actors leverage and build institutions to create new organizations. Attention is shifted away from the personal traits of 'heroic' entrepreneurs on the one hand, and from the (in)efficient functioning of markets on the other, towards how the institutional environment affects entrepreneurial organizations and how entrepreneurs act on their institutional environment. The premise of this approach is that institutional theory's emphasis on regulatory structures, normative expectations and cultural-cognitive beliefs (Scott, 1995) draws attention to important factors that have been neglected in the study of entrepreneurship.

The institutional-theory approach to entrepreneurship has its roots in Stinchcombe's (1965) discussion of the 'liability of newness' and the importance of legitimacy for new organizations, and the subsequent calls by organizational sociologists to complement the dominant focus on entrepreneurs' traits with attention to the environmental context in which entrepreneurs operate (Aldrich and Wiedenmayer, 1993; Aldrich and Fiol, 1994; Thornton, 1999). Early work suggested a number of institutional factors that could influence rates of organizational founding (Tucker et al., 1990; Aldrich and Wiedenmayer, 1993; Thornton, 1999), and highlighted the legitimacy challenges faced by entrepreneurs (DiMaggio, 1991; Aldrich and Fiol, 1994). Following these leads, scholars elaborated the institutional-theory approach to entrepreneurship by delineating a variety of institutional influences and legitimating processes, and suggesting fertile areas of inquiry (e.g., Hwang and Powell, 2005; Brandl and Bullinger, 2009; Sine and David, 2010; Tolbert et al., 2011). Empirically, evidence has accumulated on how institutions create entrepreneurial opportunity (e.g., Lounsbury et al., 2003; Sine and David, 2003; Hiatt et al., 2009; David, 2012); how institutions influence the kinds of organizations that are founded (e.g., Sine et al., 2005; Marquis and Lounsbury, 2007; Sine and Lee, 2009; Tolbert and Hiatt, 2010; Almandoz, 2012); and how entrepreneurs interact with their institutional environments (Lawrence and Phillips, 2004; Navis and Glynn, 2010; Jones et al., 2010; Tracey et al., 2011; David et al., 2013; Khaire, 2014). As Figure 25.1 illustrates, the number of published articles taking an institutional-theory perspective on the phenomenon of entrepreneurship shows an upward trend, with only two articles published in a sample of leading management journals in the decade 1990–1999, 14 published in the decade 2000–2009, and 13 published in the five years from 2010 to 2014.[2]

Despite the recent accumulation of research captured in Figure 25.1, this literature remains fragmented and incipient. In what follows, we take stock of the theoretical and empirical developments to date, and by doing so consolidate our knowledge. We clarify first that our focus is on entrepreneurship *as the creation of a new organization*, as opposed to other treatments that focus on opportunity detection and give little or no consideration to organizational creation (e.g., Kirzner, 1973; Casson, 1982). Rather than define entrepreneurship as the identification, evaluation and exploitation of future goods and services (e.g., Venkataraman, 1997; Shane and Venkataraman, 2000; Eckhardt and Shane, 2003; Shane, 2012), we follow Aldrich and Ruef (2006: 65) in conceptualizing entrepreneurship as 'activities that are intended to culminate in a viable organization' (see also Gartner, 1988; Thornton, 1999). In other words, we focus less on

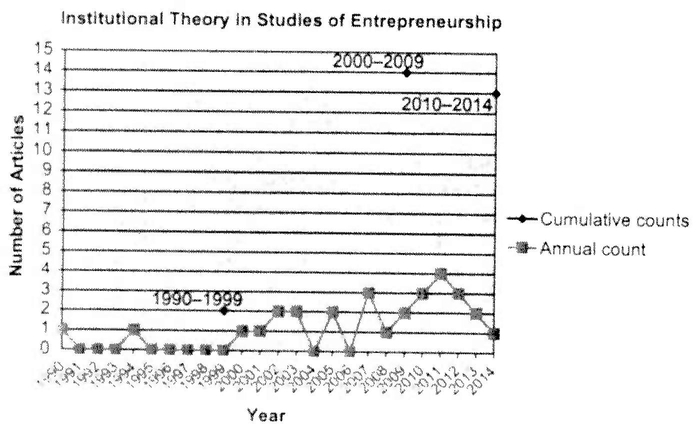

Figure 25.1 Number of articles taking an institutional-theory approach to entrepreneurship in four leading management journals

how entrepreneurs formulate a 'profitable conjecture about an opportunity' (Eckhardt and Shane, 2003: 339) and more on where opportunities for new organizations come from, why some opportunities lead to new organizations while others do not, and how institutions both enable and constrain the creation of new organizations. At the same time, we distinguish our conceptualization of entrepreneurship from that of 'institutional entrepreneurship', which generally refers to actions undertaken to change existing institutions (Greenwood et al., 2002; Maguire et al., 2004). While the two constructs overlap, they are distinct: some, but not all, institutional entrepreneurs create new organizations as part of their change efforts, and some, but not all, founders of new organizations engage in institutional change projects (David et al., 2013: 358).[3] Finally, we exclude from our analysis 'corporate entrepreneurship', or innovative activity within existing organizations (Burgelman, 1983; Sharma and Chrisman, 1999), as such activity does not entail starting a new organization *per se*.

After reviewing existing research within the perspective, we propose fruitful avenues for advancing the institutional approach to entrepreneurship, and conclude with a discussion of the promise of institutional theory as both a lens for studying entrepreneurship and as a toolkit that entrepreneurs can draw from.

THE INSTITUTIONAL-THEORY APPROACH TO ENTREPRENEURSHIP: ACCUMULATED KNOWLEDGE

Despite the relatively small size of the literature taking an institutional-theory approach to the study of entrepreneurship, papers vary widely in their focus. As explained above, our search of leading management journals returned 29 articles published since 1990 (all but two published since 2000). In addition, we searched for relevant articles in three specialized entrepreneurship journals (*Journal of Business Venturing*, *Entrepreneurship Theory and Practice* and *Strategic Entrepreneurship Journal*). We searched for the words ['institution*' OR 'legitimacy'] in the title, abstract and keywords using ABI/INFORM, and then read the abstracts and scanned the reference lists for use of institutional theory.[4] Finally, we identified a small number of papers (some unpublished or forthcoming) from conference programs or by using the reference lists of papers we read. In what follows, we distill the major themes that emerged from our reading of these articles. Our goal is not to review all findings or assess levels of support for the various relationships posited, and not all articles we read are included in our discussion below. Rather, our goal is to outline the major lines of inquiry present in the literature and highlight key findings under each theme.

Logics and Entrepreneurship

Early work on the relationship between institutions and entrepreneurship focused on institutional logics, or 'the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality' (Thornton and Ocasio, 1999: 804). The institutional logics perspective is well suited to the study of entrepreneurship, as it directs attention to the contradictions in the institutional environment that provide opportunities for entrepreneurship on the one hand, and to the strategic agency inherent in entrepreneurship on the other (Thornton et al., 2012). Drawing on the logics perspective, a number of empirical studies have shown that shifts in or clashes between logics are generative of entrepreneurship. For example, Sine and David (2003) found that logic change in the electric power generation sector had a mutually reinforcing relationship with entrepreneurship. For over 40 years, the 'natural monopoly' logic limited cognitive awareness and search processes for alternative means of electricity generation, and resulted in little entrepreneurial activity. Environmental jolts in the form of the oil crisis ultimately led to the erosion of this logic and to an avalanche of entrepreneurial activity, with more than 5,000 independent power firms founded. Entrepreneurial activity, in turn, reinforced the shift in logic.

Rather than focusing on logic change, as Sine and David (2003) did, Marquis and Lounsbury (2007) explored the presence of two competing logics and their effects on organizational foundings in the banking sector. They found that acquisitions of banks espousing a 'community logic' by banks espousing a 'national logic' led to increased foundings of banks following the former logic. In other words, entrepreneurship arose to resist the dominance of one banking logic over another. In subsequent research on the effects of interactions between logics on entrepreneurship, Jain and Sharma (2013) showed in their study of the Indian telephony sector that the evolution from a state-based to a market-friendly logic involved three 'provisional logics' that each resulted in unique industry dynamics. Specifically, the first provisional logic led to a so-called 'predatory' market that raised the costs of doing business and led to the exit of most newly entered ventures. The subsequent 'tangled' market logic was characterized by a limbo state with limited entrepreneurial growth before giving way to the final, 'supportive' market logic under which the institutional arrangements were sufficiently robust to reduce sector uncertainty and risk, thus facilitating entrepreneurial entry. In brief, extant research suggests that the logics present in a field importantly shape both the amount and the type of entrepreneurial activity within the field.

At a more micro level of analysis, research also shows that the logics subscribed to by entrepreneurs and their key stakeholders affect both entrepreneurial behavior and outcomes. Almandoz (2012) found that banks with founding teams embedded in a community logic were more likely to be successfully established than those with founding teams subscribing to a financial logic. Most recently, Pahnke, Katila and Eisenhardt (2015) found that the institutional logics of different types of funding partners influence the type of innovations produced by new ventures. Specifically, venture capitalists, corporate venture capitalists and government agencies take different approaches to the relationships they have with the firms they fund, and these relationships affect the likelihood of commercial (vs. technical) innovation produced by these funded firms. This suggests that the choice among types of funding partners may have unanticipated effects on entrepreneurial firms beyond the financial resources gained through the relationship. In sum therefore, institutional logics affect not only the types of organizations that are founded, but also their behaviors and outcomes.

Social Movements and Entrepreneurship

There is an extensive literature within sociology on social movements, dating from the foundational work of Zald and Ash (1966) and McCarthy and Zald (1977). While definitions vary, central to all perspectives is that social movements are 'change-oriented struggles' involving collective action that challenges the status quo (McAdam et al., 1996: 21; King and Pearce, 2010: 251). Early work focused on 'shared grievances' and 'generalized beliefs' about the causes and possible means to reduce grievances, whereas later work adopted a 'resource mobilization' perspective that focuses on the variety and sources of resources mobilized by social movements (McCarthy and Zald, 1977). This literature has taught us much about how movements mobilize resources, organize and recruit participants, and maintain activist

energy (Lounsbury et al., 2003: 74). More recently, scholars have explored the intersection of social movement theory and organization theory, particularly institutional theory (Davis et al., 2005; Schneiberg and Lounsbury, Chapter 11 this volume).

Whereas one line of research at this intersection conceives of social movements as threats to existing organizations and examines how organizations respond to these threats (e.g., King and Soule, 2007; King, 2008; Waldron et al., 2013; Hiatt et al., 2015), a smaller body of research sees social movements as generative of entrepreneurship and new market categories. A core line of argument is that social movements provide collective action frames and facilitate resource mobilization by entrepreneurs (Swaminathan and Wade, 2001; Lounsbury et al., 2003). Two related mechanisms have emerged as particularly salient: increased motivation to participate and persist in entrepreneurship, and a freeing of resources for its pursuit. For example, Weber et al. (2008) showed how the social movement for grass-fed meat and dairy products motivated entrepreneurs to produce these products and increase their commitment to the category, even in the face of obstacles. These entrepreneurs 'obtained emotional energy from connecting their work to a sense of self and moral values' represented by the movement (Weber et al., 2008: 543). Hiatt and colleagues (2009) described how the temperance movement in the United States at once deinstitutionalized breweries, created demand for a new category of 'soft' drinks, and increased the availability of resources for entrepreneurs in the nascent category. Sine and Lee (2009) showed how the environmentalism movement mobilized members *and* non-members of the movement to support the emerging wind power sector. Emphasizing the motivational potential of social movements, David, Sine and Haveman (2013) explained how the Progressive movement's valorization of efficiency and scientific logic provided a source of inspiration and cultural material for entrepreneurs in the nascent management consulting field.

Recent work has pointed to a complex and nuanced relationship between social movements and entrepreneurship. Taking a co-evolutionary perspective on the relationship between social movements and the nascent wind power sector, Pacheco, York and Hargrave (2014) showed how generalist social movement organizations initially spurred sector growth by advocating institutional change; this growth then led to the emergence of specialized, technology-focused social movement organizations that further leveraged distinct knowledge, capabilities and strategies to provide support for the sector, thus fueling its continued growth. Recent research has also highlighted the role of social movements in shaping the identity of emerging market categories and influencing audiences' expectations. For instance, Hiatt and Carlos (2016) showed how the US biodiesel industry developed an agrarian identity due to the actions of farmer activists who carefully crafted market narratives of biodiesel made from virgin seed oils. Boghossian and David (2016) described how market intermediaries such as retailers and critics projected a 'patriot' identity onto artisan cheese producers in Quebec and in doing so linked them to the Quebec nationalist movement. Lee, Hiatt and Lounsbury (2016) showed how the legitimacy-seeking behaviors of the organic food movement actually *diluted* the initial collective identity and founding ethos of the original category members by emphasizing the product over the producer. Collective identities can also arise in response to social movements rather than flow from them. Hiatt and Park (2016) found that social movements opposing emerging markets significantly affected the degree to which wood pellet entrepreneurs worked together to promote a coherent collective identity, a key factor in audience recognition and market legitimation.

In sum, existing research suggests that social movements can promote shared notions of which kinds of organizations are desirable. This can motivate entrepreneurs who are sympathetic to the values of a given movement, persuade consumers to accept certain products and services as valuable (thus creating market opportunities that even non-sympathizing entrepreneurs may pursue), and affect policies and create infrastructures that facilitate certain entrepreneurial activities (Tolbert et al., 2011). Social movements can also play an important role in the formation (and sometimes erosion) of a collective identity for emerging market categories, by supporting (or sometimes opposing) these new categories.

Regulatory Institutions and Entrepreneurship

Until recently, few studies have explored how regulatory institutions affect entrepreneurship, specifically who becomes an entrepreneur, the distribution of entrepreneurial opportunities and the legitimating impact of government policies and practices on entrepreneurship (Sine and David, 2010). An initial finding is that laws directly permitting or supporting an activity can spur entrepreneurship. Sine and colleagues (2005) showed that a law requiring electric utilities to purchase and distribute power from independent power plants in the heavily regulated US power industry increased founding of independent power plants, especially those using novel technologies. Dowell and David (2011) found that the number of private liquor stores in Alberta increased dramatically in the wake of an abrupt regulatory change. Whereas prior to 1993 only state-run liquor stores were permitted, deregulation allowed private stores to open. Interestingly, founders of private liquor stores followed the location patterns of the government-run stores, suggesting that entrepreneurs rely on institutionalized templates to deal with the inherent uncertainty of the founding process. Surprisingly, however, following this template conferred no survival advantage to private liquor stores (Dowell and David, 2011).

Regulation can also be generative of entrepreneurship indirectly. Specifically, legal institutions can promote supportive conditions that foster business creation. Kim, Lee and Reynolds (2012) showed how policies that protect individuals against economic risk can spur entrepreneurial action in highly coordinated economies by orienting economic activity toward a system of highly skilled and productive labor. Kim and Li (2014) found that in emerging economies, however, individuals may be discouraged from taking entrepreneurial action because of the difficulties in accessing legal protections efficiently even when these exist. Kim and Li (2014) also examined the moderating role of generalized social trust and argued that generalized trust between strangers exerts positive moderating effects on the direct relationship between legal protections and entrepreneurship. Further explicating the complex relationship between regulatory institutions and entrepreneurship, Thébaud (2015) investigated how regulatory policies fuel gender differences in entrepreneurship by creating gender-differentiated incentives to start a business. In contexts where institutional arrangements (e.g., publicly funded childcare, paid family leave) mitigate work–family conflict, Thébaud found that women are less likely than men to opt for business ownership as a 'fallback' employment strategy. As a result, women in these contexts are relatively less well represented among entrepreneurs as a whole, but comparatively better represented among entrepreneurs in riskier, high-growth sectors.

Another line of research investigates regulatory regimes surrounding financial markets. Using data from Japan, Eberhart, Eisenhardt and Eesley (2013) studied the complex effects of IPO (initial public offering) regulatory reform. Specifically, they found that lowering the barriers to 'successful' entrepreneurial exit by lowering IPO requirements makes IPOs more likely, attracts more capital investment in subsequent ventures (in some industries), and improves some venture performance. These reforms may also pull investment away from other sectors and help elite founders to launch high-performing firms; but, they can also damage the performance of firms founded by 'average' entrepreneurs. In related work, Eberhart and colleagues (2016) found that relaxing bankruptcy laws not only increases the number of bankruptcies, but also amplifies the entry of elite individuals into entrepreneurship and the performance of new firms, particularly by creating a greater proportion of exceptionally fast-growing firms. In other words, lowering failure barriers reduces the risks of starting firms, risks that would otherwise 'push' away elite individuals who have other career choices. In sum, these authors extend the institutional perspective on entrepreneurship to the closing of a firm's 'entrepreneurial life' and show that institutions that condition the exit of a firm have material effects on who founds new firms, the amount invested in new firms, the kinds of firms that receive investments and their subsequent performance (Eberhart et al., 2013: 34).

Recent research investigates the relationship between regulatory context and entrepreneurship in the informal economy.[5] De Castro, Khavul and Bruton (2014) found that entrepreneurs' decisions to formally register their firms depended not only on cost–benefit considerations but also on the normative environment. Entrepreneurs decided to operate informally (i.e., not register their business) for fear of being perceived as outliers among their communities of practice. The decision to not register their business was further reinforced by the fact that penalties for failing to do so were remote and that collaboration with formal organizations such as banks was still possible. In fact, it appears that in the absence of a belief in the enforcement powers of the central government, the normative institutional context plays a stronger role in influencing entrepreneurial behavior than the regulatory context. Lee and Hung (2014) examined the reciprocal relationship between nascent Chinese entrepreneurs active in the mobile telephone sector and the regulatory regime. Given that the Chinese state had exclusive license control over mobile telephony until 2007, entrepreneurial activity in that sector was considered informal – that is, illegal (i.e., outside of formal institutions) yet legitimate (i.e., accepted by certain social groups). Based on three kinds of strategic actions – framing to appeal to the public, aggregating to foster support based on collective action and bridging to offer alternative rules and practices – Chinese entrepreneurs brought about regulatory change that not only increased the legitimacy of their activities but also their legal standing (Lee and Hung, 2014). Entrepreneurship can thus bring about changes in the regulatory environment that represent a first step in the transition from informal to formal economy.

Academic Institutions and Entrepreneurship

For the present purposes, we refer to academic entrepreneurship as the creation of a firm with the objective to commercially exploit an innovation or body of expertise developed in a university setting (Shane, 2004; Perkmann et al., 2013). This is a distinct mode of commercializing academic knowledge, for example as compared to licensing inventions to existing firms. While a large literature has applied traditional economic theories of entrepreneurship (i.e., focusing on resources, incentives) to academic entrepreneurship (Rothaermel et al., 2007), a small number of recent papers have taken an institutional-theory approach to this endeavor. The core insight of these papers is that norms at different levels of analysis have a strong effect on academic entrepreneurship. In her case study of Stanford University, Colyvas (2007) found that norms of the academy shaped the uses of resources and the conditions of their appropriation, while in turn, the currency of industrial science prompted the rethinking of academic norms. In fact, she found that the norms and rewards of science define the very meaning and uses of revenues and resources (Colyvas, 2007: 471). Ultimately, Colyvas described an institutionalization process of technology transfer (the codification of standard, enforceable policies) that reflected the selective retention of some features of early models and the demise of others. She concluded that 'Stanford's celebrated model was neither the result of purposeful design, nor driven solely by pecuniary goals on the part of key individuals' (Colyvas, 2007: 474).

Stuart and Ding (2006) studied the predictors of entrepreneurship among academic scientists, noting that 'whereas in the early years of biotechnology the scientists who participated in private ventures risked the disapproval of their peers, those who do so today typically act without concern for adverse professional consequence' (p. 98). Adopting a normative approach, they found that faculty members were more likely to become entrepreneurs – to found or join advisory boards of for-profit biomedical firms – when they worked in university departments that employed other scientists who had previously ventured into the commercial sector. Patterson, Carlos and Sine (2015) found that university spin-out rates, or foundings of new firms, were higher among universities having a technology transfer office (TTO), and that university norms and prestige played an important role in explaining which universities were more likely to be early adopters of TTOs. At the field level of analysis, Agung (2014) explores normative differences across academic fields, and finds that the relationship between research 'appliedness' and start-up establishment likelihood changes across academic fields: some academic fields exhibit a positive relationship between scientists' research appliedness and start-up formations, whereas others show, surprisingly, a negative relationship. While clearly nascent, the literature on academic entrepreneurship from an institutional-theory perspective suggests that the number and type of firms founded out of a university setting depends on the normative institutional environment.

Legitimacy Work and Entrepreneurship

The largest body of research within the institutional-theory perspective on entrepreneurship deals with the legitimating activities undertaken by entrepreneurs. While institutional theorists generally reject notions of charismatic, hyper-muscular entrepreneurs, they do not deny the role of agency in building legitimacy – including for new ventures (Lounsbury and Crumley, 2007; Barley, 2008). Legitimacy, or 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, beliefs, and definitions' (Suchman, 1995: 574), is essential for new venture viability. Work on new venture legitimation often takes a discursive approach, and examines the rhetoric and 'stories' told by entrepreneurs in their attempts to legitimate their activities. An early instantiation of this approach is Lounsbury and Glynn's (2001: 545) elaboration of 'cultural entrepreneurship' as the 'process of storytelling that mediates between extant stocks of entrepreneurial resources and subsequent capital acquisition and wealth creation'. Building on the notion of cultural entrepreneurship, Martens, Jennings and Jennings (2007) studied initial public offering prospectuses in the high-tech sector and found that entrepreneurs' narratives helped build clear identities for their firms, thereby facilitating resource acquisition. However, Drori, Honig and Shaeffer (2009) found that the identity created through such (early) narratives may also constrain an organization's ability to adapt its business model in light of environmental change. In their study of a multimedia dotcom start-up, they showed how an initial 'aesthetic script' became institutionalized and constrained the firm from adapting to new business practices that became requisite as the Internet evolved. Expressing a similar cautionary note, Garud, Schildt and Lant (2014) found that the very expectations created through 'projective stories' to gain venture legitimacy can also serve as the source of future disappointments (due, for example, to environmental jolts), resulting in lower venture legitimacy.

Subsequent research in this stream has focused on the field level of analysis and has examined the role of discourse in the legitimation of new *market categories* as fertile areas of entrepreneurial activity. A new market category arises when 'substantial collective agreement' exists about the meaning of the category label among the audiences who use it (Kennedy et al., 2010).[6] Category labels provide a means of describing the core features or underlying concept of the category, as well as its 'shared identity' (Navis and Glynn, 2010: 441). Organizational theorists emphasize that new market categories do not emerge on their own, but rather require the mobilization of economic, cultural and socio-political resources (Weber et al., 2008). In their research on the emergence of satellite radio as a new market category, Glynn and Navis (2010; see also Navis and Glynn 2010) analyzed the public statements of executives from start-up firms XM and Sirius, and found these statements helped construct a distinctive identity for new ventures, and, in the process, lent credibility to the nascent market category. Importantly, this 'institutional leadership' activity was more pronounced in the emergence stage of the category, whereas statements of a more firm-specific nature increased as the category moved from emergence to growth. Further in this tradition, Wry, Lounsbury and Glynn (2011: 449) argued 'that legitimacy is more likely to be achieved when members [of an entrepreneurial group] articulate a clear defining collective identity story that identifies the group's orienting purpose and core practices'. This involves telling stories that emphasize the similarities among entrepreneurial group members and their core practices, and theorizing the value and distinctiveness of the identity relative to other collective identities. Finally, in their study of the emergence of the nanotechnology field, Grodal and Granqvist (2014) focused on the affective content of entrepreneurial discourse, and found that in the early stages of the field's emergence affective discourses 'inspire and stimulate participation' in the category; importantly, the effect of these discourses in stimulating field emergence 'does not only depend on legitimate claims, but also on emotionally activating claims' (p. 163).

Legitimacy work goes beyond discursive activity, however, and encompasses a range of other symbolic actions. For example, Delmar and Shane (2004) found that two symbolic actions help new ventures to gain legitimacy: the establishment of a legal entity, as this constitutes a visible adherence to legal norms and thus underlines the founder's intentions, and the completion of a business plan, as this signals that the venture has an envisioned future. Another symbolic action is explained in Rao's (2004) work on the emergence of the American automobile industry. Car enthusiasts organized so called 'demonstration events' (i.e., reliability contests) as a means of demonstrating that the car was a reliable means of transportation, thus conferring legitimacy to entrepreneurs' endeavor of founding an organization in this emerging industry. In their study of symbolic management by entrepreneurs in Britain, Zott and Huy (2007) identified a variety of symbols that entrepreneurs deployed and that facilitated their acquisition of resources: business school degrees, fashionably decorated front offices and impressive buildings, dress codes and 'name dropping' of prestigious stakeholders. Sine and colleagues (2007) showed how entrepreneurs in the independent electric power industry worked to create a certification that raised the confidence of resource holders in the entrepreneurs' activities; importantly, the certification was entirely symbolic, and provided no new information to stakeholders that was not otherwise available at little or no cost.

David et al. (2013) identified a number of symbolic elements deployed by entrepreneurs in the early management consulting industry, such as ties to prestigious universities and scientific associations. Finally, Khaire (2014: 50) found that entrepreneurs in the emergent high-end fashion industry in India incorporated traditional textiles and clothing styles to signal that their activities were consistent with 'ancient skills and traditions', thereby increasing acceptance among a population skeptical of elitist fashion.

Finally, it is important to note that legitimacy work often takes place collectively and involves the construction of formal or informal associations of entrepreneurs. For example, Granovetter and McGuire (1998: 154) described how the National Electric Light Association (NELA) and the Association of Edison Illuminating Companies (AEIC) helped define the boundaries of the emerging independent electricity industry by denouncing city-owned electric firms, excluding them from their meetings, and organizing boycotts against this competing form. Similarly, David et al. (2013) explained how early management consulting entrepreneurs banded together to found the Association of Consulting Management Engineers (ACME) in 1929, and through this association defined their 'professional' model of consulting in a way that mimicked established (i.e., legitimate) professions and mounted scathing attacks against alternative forms of management consulting.

FUTURE RESEARCH OPPORTUNITIES

As our review above suggests, knowledge has begun to accumulate about the relationship between institutions and entrepreneurship. Much remains to be learned, however, and we point here to three areas of inquiry that we believe to be particularly promising.

First, while we have gained insight into how regulatory change can influence entrepreneurship, there is ample scope for research on how entrepreneurs, particularly those in new market categories, influence regulation in ways that further their interests. Entrepreneurs must often overcome regulatory barriers or otherwise obtain political support for their activities (e.g., Sine and David, 2003). This process is important because the way a market category is regulated – whether by a patchwork of local regulations, national or international standards, national legislation, etc. – can have a profound effect on consumer confidence, category meaning, innovation and ultimately the growth and survival of the category (Lee, 2009; Gurses and Ozcan, 2015; Lee et al., 2016). Yet, most research on regulatory capture, or organizational activities to influence regulation, has been conducted in the context of established firms and industries (e.g., Hillman et al., 2004; Bonardi et al., 2006; Ahuja and Yayavaram, 2011; Hiatt and Park, 2013). We know far less about the attempts of entrepreneurs – here, the creators of new organizations – to shape the regulatory regimes of new market categories. One need look no further than the regulatory struggles present in the 'sharing economy' for rich examples: how these new markets are regulated will determine new venture success and even survival. Another promising line of inquiry would be to explore how entrepreneurs in new market categories influence the development of standards and certifications for their products or activities. This question is complicated by the fact that such regulatory regimes would likely advantage some entrepreneurs over others within the category, making regulatory capture contentious and collective action difficult.

The question of regulatory capture is further complicated in nascent markets inspired by social movements. While the research we reviewed above suggests that movements can spawn markets, the goals and values of

movements are often imperfectly instantiated in the corresponding markets (McInerney, 2014). Struggles over regulatory capture (e.g., instituting a set of standards) can be expected not only between entrepreneurs in nascent markets, but also between entrepreneurs and other social movement actors who may object to profiting from the movement. How will such struggles play out, and what implications do they have for the category? Further, how is the emergent regulatory regime of movement-inspired markets affected by the 'mix' of entrepreneurs in the market? As a category grows and attracts entrepreneurs with looser connections to the social movement, we might expect conflict over how strongly the goals and values of the social movement should be reflected in market regulation. Such contests are important to understand, as a dissociation between a movement's values and the regulation of a nascent market can lead to a decline in consumer and producer commitment, migration from the market, and even the rise of counter-movements promoting alternative market categories.

A second promising area of research on how institutions affect entrepreneurship lies within the informal economy. The Organization for Economic Co-operation and Development (OECD) concluded that in 2009 about half of the world's workers (1.8 billion people) were working in the informal economy, and that by 2020, this will rise to two-thirds of the world's workers (Neuwirth, 2011). Yet, our theories about the formal economy are often not readily applicable to the informal economy (Godfrey, 2011; Hiatt and Sine, 2014). In particular, we know little about entrepreneurship in the informal economy (Webb et al., 2009). How do regulatory, normative and cultural-cognitive institutions (and changes in them) affect informal entrepreneurship? Here again, recent studies such as the work of Lee and Hung (2014) point to the importance of regulatory capture as part of entrepreneurs' attempts to enhance the legitimacy and legal standing of their activities. Another important question is how do institutions (or lack thereof) shape an entrepreneur's decision to exploit an opportunity formally versus informally? Recent findings suggest considering formality versus informality along a multidimensional continuum rather than as a binary system (De Castro et al., 2014). Further, might there be certain opportunities that could only be exploited by those operating within the informal sector? Could certain contexts be seen as arenas for only formal activity, other contexts with opportunities that could be exploited formally or informally, and yet others where one could only exploit them informally? In brief, there are avenues for future research on both the explanans (X) and explained (Y) side of theory. On the explanans (X) side of theory, we know little about how different regulative, normative and cultural-cognitive institutions shape informal entrepreneurship. On the explained (Y) side of theory, we need to understand both general variation in informal entrepreneurship across contexts, as well as who in a given context engages in it and how.[7]

Third, we point to the promise of studying how collective identities are formed in new market categories. While a small body of research has shed light on identity formation at the organizational level (e.g., Gioia et al., 2010; Ashforth et al., 2011; Glynn and Watkiss, 2012; Kroezen and Heugens, 2012; for a review, see Gioia et al., 2013) we know less about how identity is formed at higher levels of analysis. Only a handful of studies have analyzed how a collective identity emerges for entrepreneurial organizations that form a new market category (Weber et al., 2008; Khaire and Wadwhani, 2010; Navis and Glynn, 2010; Wry et al., 2011; Boghossian and David, 2016). These studies have revealed the important role that discourse plays in forming a collective identity, particularly a discourse that establishes the distinctiveness of the nascent category. We suggest two ways in which this stream of research can be extended. First, research on collective identity formation should go beyond its current focus on discourse. What other cultural symbols can be deployed in the construction of a collective identity for a new market category? How do struggles over the collective identity of a new market category unfold? And, related to our suggestion above about regulatory capture, how might emergent collective identities for nascent market categories be instantiated in laws, regulations and standards?

Finally, we encourage more attention to place as a basis for collective identity. The importance of place is suggested by a number of organizational scholars. Romanelli and Khessina (2005: 344) argued that regions may come to have a 'regional industrial identity' that 'arises from the shared understandings of residents and external audiences about the suitability of a region for particular kinds of business activity'. Marquis and Battilana (2009) unpacked the market, regulative, social and cultural mechanisms that result in the enduring influence of local communities on organizations (see also Lounsbury, 2007; Greenwood et al., 2010; Howard-Grenville et al., 2013; Dalpiaz et al., 2015). Yet, we know little about how place provides cultural material for the collective identity of nascent market categories (i.e., beyond the effects of local resource endowments and social networks that have dominated considerations of geography in entrepreneurship studies). Place is invested with its own meaning and reflects collective histories, memories and identities (Gieryn, 2000; Zukin, 2011). The 'emotional, sentimental bonds between people and place' serve as a 'wellspring of identity' in the same way as do race, class and gender (Thomas and Meyer, 1984; Gieryn, 2000: 481). How then might the shared identity associated with place – or regional collective identity – become embedded in the collective identities of new market categories? Do regional collective identities serve a legitimating function for new market categories, and if so, for which constituents and under what conditions? And might new organizations or market categories embodying a regional collective identity reinforce that identity? These are just some of the questions that await future research on institutions and entrepreneurship.[8]

CONCLUSION: INSTITUTIONAL THEORY AS A LENS AND A TOOLKIT

The study of entrepreneurship is part of institutional theory's larger struggle to explain change, and in particular the role of agency in change (Dacin et al., 2002; David and Bitekine, 2009). While our discussion above suggests the fruitfulness of studying entrepreneurship through an institutional-theory lens, this approach is not without tension. Entrepreneurship is fundamentally about change – creating a new organization or even a new kind of organization – whereas early statements of neo-institutional theory emphasized constraint over change (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Indeed, from the viewpoint of any individual entrepreneur the institutional environment seems immutable. It would seem imprudent, therefore, for future research to depict institutions as easily transformed, leveraged, or circumvented by entrepreneurs in pursuit of their interests, and doing so would in fact bestow the 'hyper-muscularity' to entrepreneurs that the institutional approach sought to avoid in the first place (Aldrich, 2011). Instead, the institutional approach to entrepreneurship might be most useful in helping us understand where opportunities come from (as opposed to how entrepreneurs 'discover' them), why some contexts produce more entrepreneurs than others, why certain types of organizations arise in some places but not others, and how entrepreneurs can 'build' institutions into their organizations (Selznick, 1957). While the research reviewed above has made strides in addressing these questions, the avenues for future research that we propose present fruitful opportunities to extend our knowledge further.

Finally, it is important to consider what institutional theory might offer to entrepreneurs and policy-makers. If theories rooted in economics direct entrepreneurs to look for information asymmetries, clusters of available resources and disruptive technologies, what more might institutional theory tell them? For one, it might help them understand where to look. For instance, research reviewed above suggests that institutional change provides a context rich in entrepreneurial opportunity, and that regulatory changes are an important instance of institutional change. But institutional change happens in other ways; for example, 'institutional collisions' (Leatherbee and Eesley, 2015) in which groups subscribing to different normative systems meet in time and space may provide other, perhaps less apparent, kinds of opportunity for entrepreneurship. Second, research within the institutional-theory perspective directs entrepreneurs to pay as much attention to 'symbolic value' as they do to traditional notions of 'economic value'. While providing a solid economic 'value proposition' is central to any new organization, incorporating cultural elements with little obvious economic value may be critical to entrepreneurial success or even survival. This, moreover, may well be true at the category level, not only at the organizational level. And third, institutional theory might help entrepreneurs to better understand the nature of the constraints they face. Often overconfident and focused on 'building a better mousetrap', entrepreneurs may lose sight of why doing so might not be enough. With its deep, multidimensional understanding of the environment in which entrepreneurs operate, institutional theory can help entrepreneurs to more fully contextualize their activities.

Notes

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2 The journals are *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly* and *Organization Science*. We used the database ABI/INFORM Complete for the period 1990 to the present, with the search string [all(entrepreneur*) AND all(institution* OR legitima*) AND pub(academy of management journal OR academy of management review OR administrative science quarterly OR organization science)], where the search term 'all' refers to 'anywhere except full text' (thus title, abstract, and keywords). We then went through each of the 65 articles retrieved (in October, 2015) to assess relevance to new organization creation and the use of institutional theory in the sense meant here, resulting in 29 articles. The goal was not to capture comprehensively all articles within the perspective, but to get a sense of the trend in number of publications over time.

3 As David et al. (2013) pointed out, an important instance of overlap between entrepreneurship and institutional entrepreneurship occurs in cases of new organizational forms that are the subject of an institutionalization project.

4 We clarify that we restricted our focus to organizational institutionalism. As Scott (1995) explained, there are other institutionalisms in other disciplines (e.g., political science, economics, law), but we limit our consideration here to institutional theory within organization studies.

5 Defined most simply, the informal economy consists of those economic activities that produce legal products, but the sales of which are unrecorded (Nichter and Goldmark, 2009). Other definitions, such as that of Webb et al. (2009: 492), include legitimate yet illegal activities.

6 We note that the emergence of new market categories need not necessarily require the founding of new organizations, but often does.

7 We thank Ryan Coles for contributing ideas to this paragraph.

8 We thank Johnny Boghossian for contributing to the ideas in this paragraph.

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