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INSTITUTIONS AND ENTREPRENEURSHIP

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INTRODUCTION

How do institutions affect entrepreneurship? Conversely, how do entrepreneurs impact institutions? Institutional theory has long struggled to explain the action and agency inherent in entrepreneurship (DiMaggio, 1988; Barley & Tolbert, 1997). Contemporary institutionalist research in organization studies began with the question of how the institutional environment shapes the structures and behaviors of existing organizations. This research largely focused on how normative, regulative, and cognitive dimensions of the environment (Scott, 2008) constrain large, mature organizations and the circumstances that increase the adoption of new structures by such organizations (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Tolbert & Zucker, 1983). A subsequent wave of research in the institutional tradition focused on institutional change within mature organizational fields (see Dacin, Goodstein, & Scott, 2002). Some recent research has studied the actors – "institutional entrepreneurs" – that create new or transform existing institutions (e.g., Greenwood, Suddaby, & Hinings, 2002; Maguire, Hardy, & Lawrence, 2004). Much less attention, however, has been paid within the institutional-theory literature to *entrepreneurship*: the processes of founding and managing new organizations.

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While institutional theory has often ignored entrepreneurship, past research on entrepreneurship has often focused on the individual at the expense of understanding the important role that the broader context plays in shaping who decides to found an organization, the types of organizations that are founded, and their structures (Eckhardt & Shane, 2003; Aldrich & Ruef, 2006). Much of the traditional entrepreneurship literature focused on the personal characteristics of entrepreneurs, but largely overlooked the role of the environment. More recent work has taken into account how the availability of resources affects entrepreneurs. This work has conceptualized the environment as a set of technologies, resources, and shortages that entrepreneurs discover and exploit (Kirzner, 1973, 1997). However, this literature generally takes for granted the existence of entrepreneurs and opportunities and fails to account for the institutions that delineate appropriate resources, means, and categories of actors for engaging in entrepreneurship. Moreover, past research in entrepreneurship has typically overlooked the collective actors that facilitate new organizational foundings, such as industry associations, social movement organizations (SMOs), and certification organizations (Swaminathan & Wade, 2001). In essence most prior work on entrepreneurship has paid little attention to the social construction of entrepreneurship: how social norms, values, taken-for-granted beliefs, and explicit and implicit regulatory exigencies shape opportunities and affect whether or not individuals choose to engage in entrepreneurial activity.

As a result of this mutual neglect, the points of connection between the insights of institutional theory and the empirical phenomenon of entrepreneurship have often remained implicit rather than explicit. Recently, however, a number of scholars have begun to systematically explore the relationship between institutional theory and entrepreneurial activities (e.g., Hwang & Powell, 2005; Tolbert, David, & Sine, 2011). This edited volume is an attempt to further this growing stream of work. We believe that institutional theory provides the conceptual apparatus to understand the social construction of entrepreneurship: how entrepreneurs come to be entrepreneurs, how entrepreneurial opportunities are created, how such opportunities are evaluated and exploited, and how institutional environments are manipulated to support entrepreneurship. In our view, an institutional approach to entrepreneurship shifts attention away from the personal traits and backgrounds of individual entrepreneurs and toward how institutions shape entrepreneurial opportunities and actions; how entrepreneurs navigate their cognitive, normative, and regulatory environments; and how actors modify and build institutions to support new types of organizations.

In addressing such questions, this volume takes a distinctively sociological approach to entrepreneurship. The institutional perspective on organizations from sociology "emphasizes the ways in which action is structured and order made possible by shared systems of rules that both constrain the inclination and capacity of actors to optimize as well as privilege some groups whose interests are secured by prevailing rewards and sanctions" (DiMaggio & Powell, 1991, p. 11). Early institutional research in organizational sociology often presented dichotomies of rational action versus institutionalized behavior and of technical versus institutional environments (Scott & Meyer, 1983; Scott, 1987). Later research focused on how institutions constitute the menus from which choices are made (DiMaggio & Powell, 1991). Rather than "rational versus institutional," the emphasis shifted instead to the social construction of choice and behavior (David & Bitektine, 2009). In other words, the institutional perspective on organizations emphasizes how socially constructed environments shape organizational behaviors and outcomes. W. Richard Scott, a pioneer in this work, conceptualized the institutional environment as having regulative, normative, and cultural–cognitive pillars or dimensions (Scott, 2008). These three pillars elicit three related, but distinguishable bases of organizational legitimacy: regulatory, which emphasizes adherence to rules; normative, which stresses a moral basis for legitimacy; and cultural–cognitive, which points to the legitimacy that comes from conforming to taken-for-granted understandings, roles, or templates (Scott, 2008, p. 61; see also Suchman, 1995).

An institutional perspective on entrepreneurship then is one that examines how the regulative, normative, and cultural–cognitive dimensions of the environment shape entrepreneurial processes, such as identifying, creating, and exploiting opportunities, firm founding, initial growth, and exit. This translates to questions such as: Which institutional actors shape entrepreneurial activity and how can entrepreneurs access them? What organizational structures are taken for granted as necessary for obtaining certain types of resources and how do such structures become taken for granted? What drives changes in the norms that govern acceptable levels of risk versus reward across different eras (e.g., Laseter, Kirsch, & Goldfarb, 2007)? Institutions indeed constitute many of the barriers and opportunities faced by entrepreneurs, and while early institutional research emphasized conformity to existing institutional requirements as a prerequisite to acquiring organizational resources, recent work has paid greater attention to the role of entrepreneurs in both manipulating and modifying the institutional environment (e.g., Sine, David, & Mitsuhashi, 2007; Zott & Huy, 2007).

Below we describe in more detail how the dimensions of the institutional environment relate to entrepreneurship.

INSTITUTIONAL ENVIRONMENTS AND ENTREPRENEURSHIP

Cultural–Cognitive Dimension

This dimension of the institutional environment describes those ideologies, logics, or cognitive frames that are widely diffused and deeply embedded in a social setting. It captures the taken-for-granted assumptions about particular processes and organizational forms (Berger & Luckmann, 1966; Meyer & Rowan, 1977; Aldrich & Fiol, 1994). It includes general assumptions about how things are done. For example, the importance of business plans, their content, length, and organization, is taken for granted by many high-technology entrepreneurs and important constituents such as venture capitalists, potential employees, customers, and partners. Entrepreneurs trying to get support, financial or otherwise, for a potential new business will have limited success without a business plan despite the market potential of their venture. Moreover, this business plan needs to be congruent with widely accepted notions about what such a plan should look like. A business plan without critical elements such as several years of financial *proformas* and a break-even analysis would not even be considered by investors because it is assumed that a high-quality business plan includes these elements. Not including such analyses or including analyses that shows the business breaking even too soon (not sufficiently growth oriented) or too late (too risky) signals that the entrepreneur is not adequately knowledgeable or experienced. This is despite the fact that there is no evidence that such exercises are correlated with lower failure rates or that links particular levels of risk in a business plan to success.

The cultural–cognitive dimension is subtle and powerful (Suchman, 1995, p. 581) and underlies many of the challenges and opportunities facing entrepreneurs. It affects customer habits and what they see as valuable or value-less. For example, before 1970 in the United States, windy land was not viewed by most as a valuable commodity. Until the idea that wind-generated electricity had particular types of value associated with its means of production that a typical coal or oil generator did not (no emissions, clean energy), wind power was seen merely as a more expensive way to generate electricity. Once the beliefs of constituents about the pollution associated with coal and oil generators changed, windy land began to be viewed and treated as a valuable commodity (Sine & Lee, 2009).

Cultural–cognitive institutions also affect investors' evaluation of risk. Ventures that are new or incongruent with existing taken-for-granted models are often treated as being more risky. For example, in the 1970s and early 1980s despite its higher cost and potential for physical danger, nuclear power was seen by investors and legislators as a more attractive alternative power source than solar or wind. This occurred largely because the general production and business model of nuclear power was very similar to that of fossil fuel: they both used large centralized plants, both generated power using a commodity that could be mined and stored (as opposed to sunlight and wind), and both required large upfront expenses and could take advantage of similar tax structures. Also, nuclear power was largely initially advocated by the existing military–industrial complex. Businessmen representing large organizations with reputations were the key spokesmen. On the other hand, solar and wind were initially quite decentralized, more difficult to control, and advocated early on by hippies and environmentalists; these forms of energy thus received less attention from large investors (Hirsh, 1999).

Cultural–cognitive institutions thus shape the processes, structures, and information investors and consumers expect to see in a new venture. This creates great challenges for new ventures that are trying to promote new product categories or that are using new types of business models. By definition these ventures are considered, to some extent, not quite legitimate. Cultural–cognitive legitimacy in this sense is the extent to which a process or organization meets the taken-for-granted assumptions of a given constituency. Past theoretical work suggests that ventures face tremendous obstacles in assembling the resources necessary to commence operations; a lack of legitimacy makes a venture appear more risky and thus may impede its ability to attract top talent (at the price a new venture can afford), corporate partners, and investors. The legitimacy deficit of such ventures reduces their ability to acquire and organize the resources necessary to found a firm, and to produce and distribute a product or service (Hargadon & Douglas, 2001). Even firms that do manage to commence operations may still face great difficulty surviving because of their limited ability to attract resources (Aldrich & Ruef, 2006). The difficulty in founding a venture under such circumstances at times can be almost insurmountable, leading Aldrich and Fiol (1994) to describe such entrepreneurs as fools.

In sum, a measure of cultural–cognitive legitimacy is essential for entrepreneurs. Recent research has attempted to measure this dimension of legitimacy by investigating public discourse (Pollock & Rindova, 2003; Mezias, Lant, Mezias, & Miller, 2010). Another promising approach is to measure the cultural–cognitive legitimacy of an organizational form using *attempts* to found organizations. Because the founding process can take a great deal of time (in some cases 5 or more years) and many entrepreneurs attempting to found a venture are not successful, using only successful foundings (rather than attempts to found) as a measure of cultural–cognitive legitimacy results in temporal inaccuracy and underrepresentation (Sine, David, & Mitsuhashi, 2007). Moreover, to the extent that regional variables shape the relative success of founding attempts, successful foundings may be a more accurate measure of the ease of doing business regionally rather than of cultural–cognitive legitimacy.

Normative Dimension

This aspect of the institutional environment refers to the norms and values in a society and those actors that construct and enforce these norms and values. Norms and values include social definitions of what is "good" or "appropriate" and influence both the prevalence and evaluation of entrepreneurial processes and organizational forms. For example, some entrepreneurs may refuse to start a company that sells tobacco or pornography, or investors may discount power plants using "dirty" coal-fired technology (Sorkin, 2007) even if there is ample demand. At the same time, these investors may pay a premium for ventures that they perceive as increasing the social good such as power generators using "green" technology. To the extent that entrepreneurs' efforts are normatively legitimate, they will meet with less resistance and find more support for their efforts. Thus, the relative success of and resistance to entrepreneurs' efforts will be to some degree a function of the extent to which these efforts accord with widely held norms and values.

The normative dimension of the institutional environment also influences who will (and will not) become an entrepreneur. For example, career paths are a very important normative force that directly and indirectly influence entrepreneurial activity. Career paths (relatively stable, identifiable sequences of individuals' work experiences over time) affect the demographic distribution of individuals within sectors of activity (Lawrence & Tolbert, 2007) and the kinds of occupations that are considered prestigious and attractive. In some career paths, entrepreneurship is seen as a normatively positive activity and in others it is not. Career paths can also exclude individuals and groups from certain activities, for example, if their background does not match the expected trajectory. For instance, investors often look for particular types of experience in the founders of the organizations they support. Similarly, important resource suppliers to entrepreneurs such as venture capital firms have somewhat rigid expectations surrounding the career paths of potential hires. Thus, career paths can influence the makeup of organizations that play a key role in supporting new ventures. By shaping aspirations, training, experience, and possibilities, career paths to some degree shape the number of people who try to found firms, their legitimacy or illegitimacy as entrepreneurs, as well as the growth and survival rates of their ventures.

The normative dimension captures not only deeply held values and norms, but also those actors responsible for creating and enforcing such norms. Normative actors are of primary importance in facilitating and guiding entrepreneurial processes and shaping entrepreneurial outcomes, and this topic has begun to receive attention. For example, Buhr and Owen-Smith (2010) show how venture capital and law firms affect both the quantity and variety of entrepreneurs in a region. Scott (2010) elaborates on the core role that professions play in creating and maintaining the institutional contexts in which entrepreneurs operate. Below we list some of the key normative actors that can affect entrepreneurial processes and outcomes.

Industry and Professional Associations

Collective actors that are major sources of normative institutions, such as professional and trade associations, can have a large impact on both the founding and survival rates of entrepreneurial ventures. These organizations affect new ventures in several ways. First, through their rules of membership and informal sharing of information and prescriptions, they can shape how organizational structures and procedures are constructed and perceived by constituents. By selecting particular conference speakers, emphasizing certain topics in association publications, and disseminating information in other ways, such organizations often, intentionally or unintentionally, promote particular practices and forms of organization as "best," thereby creating form-specific normative support (Greenwood et al., 2002). Second, these collective bodies can provide a sense of legitimacy for new organizational forms because they are exterior to any one organization: they legitimate the organizational population and codify what it means to be a member of that population (David, Sine, & Haveman, 2010b). Third, they serve as a source of public information by spreading knowledge about the form (DiMaggio, 1991; Hiatt, 2010). Finally, professional associations are often directly involved in securing regulative support (or tolerance) of a particular organizational form (Hiatt, 2010). Empirically, Sine, Haveman, and Tolbert (2005) found that while the presence of an industry association in a state increased entrepreneurial foundings, it also narrowed the type of new ventures founded: once state industry associations emerged, foundings of more common organizations increased more rapidly than foundings of less common, riskier ventures.

Certification/Standards-Based Organizations

Certification organizations are also very important normative actors, and the past two decades have seen an increase in the number and importance of these organizations (Cashore, Auld, & Newsom, 2004; Bartley, 2007; Graffin & Ward, 2010). Similar to industrial and professional associations, these organizations codify and enforce standards and can thereby shape the structure of organizations. Certification organizations play especially important roles in new sectors. They can help diffuse knowledge about a new organizational form and help create consumer confidence in new types of product and service offerings. For example, certification organizations for organic food confirm the appropriateness of the category of "organic" to potential consumers (Lee, 2009). Certification organizations also evaluate the fit between organizations and particular categories such as green, socially responsible, etc. (Sine et al., 2007). These organizations play an essential role in instantiating the reality of a new form and demarcating its boundaries. Moreover, these types of organizations help maintain the legitimacy of a new form by removing imposters from the category and protecting the category from encroaching forms. Without such organizations, multiple competing claims about what a particular form is reduce the credibility of the form and its taken-for-grantedness. For example, the term "organic food" initially meant a multitude of things to a variety of people. Most people didn't seek out organic food because there was very little consensus about what it was and why it was normatively positive. The emergence of organic certification organizations helped clarify what the term organic meant, which organizations belonged (and didn't belong) in this category, and the benefits associated with the category. This led the way to market acceptance, as both retailers and consumers learned about the category and the value created by such organizations. Research by Lee, Sine, and Tolbert (2010) find that as membership in certification organizations increased, the founding rate of organic producers decreased, as did failure rates. Organic certification organizations, by defining and enforcing what it meant to be organic, increased the barriers to entry in this emergent sector. At the same time, these certification organizations provided customers with confidence about what the organic label meant and why organic products were more valuable than products produced using other agricultural processes.

Social Movement Organizations

SMOs are "loosely organized coalitions with the goal of contesting prominent social and cultural practices through sustained campaigns" (Weber, Heinze, & DeSoucey, 2008). SMOs proselytize their views of the good and the bad. Many individuals look to these organizations to help them identify practices, organizations, and even products that are congruent with their values. As a result, SMOs can have important impacts on emerging sectors. For example, the social movement for grass-fed beef motivated entrepreneurs to produce this product and increased their commitment in the face of obstacles because 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, p. 543). Electricity-generating organizations such as Energy Futures Holding Company often court environmental SMOs and create partnerships with them because such partnerships "demonstrate" to constituents that the firm is morally committed to a clean environment. SMOs can create opportunities while restricting others. For example, the Women's Christian Temperance Movement (WCTM) in the years 1880 to 1920 explicitly argued that alcoholic drinks were a root cause of many ills in society and bad for the body. The WCTM funded and propagated studies that attacked the use of alcohol. This SMO also organized a variety of collective activities aimed at making it difficult to make, sell, or buy alcohol. These included public protests and singing in front of taverns – tactics that were focused on shaming both patrons and retail outlets for alcoholic beverages. Through their effort, WCTU members created a normative climate that made it difficult for entrepreneurs to found organizations that produced or sold alcohol; at the same time, however, this same climate presented opportunities for substitute products and thus was born the soft drink (as opposed to "hard drink") industry (Hiatt, Sine, & Tolbert, 2009).

Religious Organizations

As Max Weber observed years ago, religious organizations are central to most societies and are purposed with helping their congregations distinguish between good and bad, and act appropriately. As with SMOs, the values and norms they promote affect how their adherents engage in economic activity (Weber, 1958). These organizations can also create a variety of opportunities. For example, pronouncements against practicing usury by Islamic clerics have led to a new market for Islamic banks. A movement by U.S. evangelical churches to invest in companies whose practices are compatible with their values has resulted in the emergence of a new category of mutual funds, the so-called funds for Christian investors that use church values as one of the criteria in choosing targets for investing. Washington and Patterson (2010) discuss the growth of mega-churches in the Unites States and how the popular writings of the leaders of these churches can influence the economic behavior of constituents. Attention to religious organizations from organizational theorists is scarce, however, and their influence on entrepreneurial behaviors and outcomes is ripe for study.

Regulative Dimension

The regulative dimension of the institutional environment is concerned with "rule setting, monitoring, and sanctioning activities" by powerful actors such as the state (Scott, 2008, p. 52). It includes the laws and administrative guidelines that constitute the basic rules governing market transactions and so provide sociopolitical legitimacy for organized action (Weiss, 1988; Lindberg, Campbell, & Hollingsworth 1991). Regulatory regimes may simply make certain types of entrepreneurship easier (Schneiberg & Bartley, 2001; Schneiberg, 2002). In cases where regulatory regimes are supportive of particular organizational forms, regulatory actors and civil servants at various bureaucratic levels may carry out their duties in ways that facilitate organizational activities. Sine et al. (2005) found that support from courts, regulatory bodies, and federal laws increased the entry rates of energy firms using nontraditional organizational forms. Ierfino (2010) found that once rules and regulations for wine-making in Ontario were codified into law, the local wine industry gained considerable legitimacy among consumers. Nasra and Dacin (2010) found that purposeful action by the government of Dubai resulted in an institutional framework favorable to entrepreneurship. And David (2010) described how the use of management consulting firms by U.S. governmental agencies during World War II raised the legitimacy of what was, at that time, a relatively new and little-known form of organization. Support from these agencies conferred both material resources and prestige, and encouraged the diffusion of the consulting form across other

sectors of society. In sum, support or even simply acknowledgment from powerful actors, whether subtle or direct, increases the prospects of an organizational form.

In contrast, in cases where regulatory environments are hostile to particular organizational activities, the result may be greater regulatory scrutiny and increased difficulty obtaining needed regulatory resources such as permits and licenses. For example, it is considerably more difficult for entrepreneurs to found retail banks or trust companies in Canada than it is in the United States (Horst & Tessler, 2008). Entrepreneurial doctors are also soon to face increased barriers to opening cosmetic surgery practices (Fidelman, 2010). Ultimately, hostile regulatory environments may punish certain organizational activities, deem them illegal, and drive particular types of organizations underground (outside of the legal framework) or to other regions (Wade, Swaminathan, & Saxon, 1998).

Much work remains to be done on how the regulatory dimension of the environment affects entrepreneurship. We highlight three understudied areas. First, little is known about how regulations affect who becomes an entrepreneur. There is some anecdotal evidence that professionals with foreign accreditation are systematically excluded from practicing in host countries (e.g., Clay, 2010). Do these individuals – doctors, lawyers, architects, etc. in their countries of origin – start businesses in their adopted countries instead? Second, little is known about how regulation affects the distribution of entrepreneurial opportunity. It is possible that strong regulation in one area might spur entrepreneurial activity in another. The growth in the manufacturing sector in China is one example, but this issue is little studied within institutional theory. An extreme, and perhaps more interesting, example comes from British Columbia, where a thriving marijuana-growing industry exists. Stricter penalties in the neighboring United States for growing marijuana have essentially driven this lucrative activity north, to the extent that some estimates consider marijuana to be British Columbia's most valuable export to the United States (Dowd, 2007). Third, we still do not fully understand the legitimating impact of government policies and practices on entrepreneurship. Some of the research above suggests that government affiliations increase the legitimacy of particular types of activities, while others suggest it has limited impact (Hiatt et al., 2009). What are the unintended effects of restrictions on marijuana? Does it ultimately increase or decrease usage of other "legal" drugs such as alcohol and cigarettes? Research on entrepreneurship in hostile or fluctuating regulatory environments is needed to answer such questions.

ENTREPRENEURIAL ACTION AND THE INSTITUTIONAL ENVIRONMENT

Early research on institutional environments treated these environments as fixed or naturally evolving. The relationship between such environments and entrepreneurship was seen as impervious to purposeful action. For example, early work on new organizational forms by population ecologists (e.g., Carroll & Hannan, 2000) treated legitimacy as a natural process that simply occurred over time. As an organizational form became more prevalent, it naturally became viewed as more legitimate. The underlying processes and entrepreneurial activities that drove increased or decreased founding rates were largely overlooked (for an exception, see Baum & Oliver, 1992). To some extent, Berger and Luckmann's (1966) conceptualization of institutionalization also suggested a natural, ineluctable progression. From their perspective, activities that eventually become taken for granted start out as quite rational solutions to a particular problem; as such, their usage increases over time. However, at some point, the activities develop into a routine that takes on symbolic value. Diffusion and persistence become less dependent on the fit between the practice and the original problems. This is exemplified by Tolbert and Zucker's (1983) study of the adoption of civil service reforms. They found that initial adoption was significantly predicted by the need for reform; however, as the prevalence of the reform increased, the correlation between need and adoption weakened. Recent research also at times adopts this somewhat deterministic approach. For example, Hiatt et al. (2009) find that new ventures that are not isomorphic with prevalent social norms and values are doomed to fail. These theories have a Darwinian character to them: those organizations that best fit the environment survive.

In contrast to this natural-progression view of legitimation, proponents of a more action-oriented view suggest that the legitimation and institutionalization of a new organizational form can be strategically manipulated by entrepreneurial actions (Suchman, 1995; Barley & Tolbert, 1997). In this view, one of the key roles of an entrepreneur is to rationalize the new venture and its form, and to persuade various constituents to engage in creating, distributing, buying, and using its outputs (Rao, 1998; Zimmerman & Zeitz, 2002). Accordingly, recent research has begun to more explicitly focus on how entrepreneurs can strategically create an aura of acceptability around their ventures and in turn institutionalize new categories of practices, products, and organizations (Glynn & Navis, 2010). Entrepreneurs undertake various actions in order to make their organization appear to be

more congruent with existing taken-for-granted norms and values. These entrepreneurs use cultural symbols strategically to enhance their legitimacy and credibility. This can be done in several related ways, which we explain in the following sections.

Legitimating New Ventures

Constructing Understandable and Appropriate Social Accounts

Entrepreneurs must make their organizations comprehensible by creating coherent accounts that rationalize their existence and improve their comprehensibility (Lounsbury & Glynn, 2001). These stories furnish constituents with persuasive explanations for the organization and its endeavors (Wuthnow, Hunter, Bergesen, & Kurzweil, 1984) and help integrate new organizations into larger belief systems. Entrepreneurs can also adopt moral purposes that rationalize their activities. For example, early founders of alternative energy companies were not simply trying to find more efficient and profitable sources of energy, but instead were trying to "save the world" (Sine et al., 2005). David et al. (2010b), in a study of the emergence of the management consulting industry, theorized that entrepreneurs could increase the legitimacy of new forms of organization by presenting these forms as solutions to existing problems and as congruent with the values of the Progressive movement. Some management consulting pioneers, such as Arthur Little and James McKinsey, linked their work to existing institutions such as the academy, arguing the importance of using existing disciplinary knowledge and the "scientific" method to investigate and fix organizational problems (David et al., 2010b). Jones, Livne-Tarandach, and Balachandra (2010) explain how architectural firms gain legitimacy with clients by appealing to an existing professional logic that emphasizes aesthetics over commercial concerns. By creating accounts that are clear and consistent with externally legitimate institutions, entrepreneurs can increase the perceived appropriateness of their organizations and practices.

Building Coherent and Congruent Organizational Identities

Related theory suggests the importance of building organizational identity in the entrepreneurial process. As Glynn (2008, p. 426) described, the institutional environment provides the resources necessary for organizational identity-building by "supplying cognitive templates for both the form (grammar) and content (meanings; symbols) of organizational identities." In this volume, Glynn and Navis report how the leaders of two satellite radio ventures built their organizations' identities and, by extension, promoted the institutionalization of the nascent market category. Recent research has also emphasized the importance of regional identities (Khessina & Carroll, 2008; Romanelli & Khessina, 2005). There is, however, little research that examines how the congruence between regional and organizational identity affects entrepreneurial processes (Khessina & Romanelli, 2010). Croidieu and Monin (2010) address this issue and show that incongruence between strong regional identities and new practices promoted by entrepreneurs make it likely that such practices will fail in the wine industry. Building on work by Baron (2004), Croidieu and Monin identify three key attributes of identity – the extent to which regional identities are sharp, resonant, and authentic – and apply them to four case studies in an effort to build theory about how differences in regional identities affect the diffusion of new practices. Also making the link between regional and organizational identity, David, Boghossian, and Dacin (2010a) suggest that organizations can embody nationalist sentiments present in a region in their organizations to encourage consumers and regulators to support them. In sum, organizational and regional identity – and the relationship between them – affect founding processes, organizational survival rates, growth rates, and the diffusion of innovations. This is a relatively new area of research, and its connection to new venture processes and outcomes is critical.

Adopting Legitimate Structures and Procedures

As both Meyer and Rowan (1977) and DiMaggio and Powell (1983) theorized, legitimacy can come from incorporating structural characteristics and procedures that are taken for granted as necessary or that are prevalent among leading organizations in a field. Entrepreneurs can employ such a strategy when building their new organizations. This helps audiences see "the organization as valuable and worthy of support" (Suchman, 1995, p. 581). This might include the makeup of the founding team; position titles; human resource procedures; and compensation structures, size, and strategies. Experienced founders can clearly demarcate management positions in ways that capture taken-for-granted vital areas of venture expertise such as marketing, operations, and finance, and identify managers with common titles such as vice president of human resources or sales. This may occur even if the new venture has no sales force to manage. Conformity signals to experienced investors that the founders have a rudimentary understanding of business norms. Adopting taken-for-granted structures and processes sends the same signal to potential employees and helps

assuage doubts about their future in the organization. Zott and Huy (2007) in a qualitative study of new ventures found that potential constituents often used signals such as the prestige of the university where the entrepreneur received her/his education and how he/she dressed in their initial judgment of an entrepreneur. This is particularly important because of the uncertainty associated with joining a new venture.

Affiliating with High-Status Actors

Linking a proposed venture to high-status actors also sends a strong signal. Stuart, Hoang, and Hybels (1999) provide empirical evidence for this in their study of venture capital firms. They found that early funding by a high-status venture capital firm increased the ability of the new venture to attract other resources and increased their survival rate. Similarly, David et al. (2010b) found that the pioneering entrepreneurs in the management consulting industry actively linked their organizations with prestigious actors such as well-known industrialists and high-status universities. These entrepreneurs devoted much time and effort to cultivating these relationships and then leveraging them in their marketing propaganda.

Constructing Environments

Most of the work discussed above has focused on how entrepreneurs can conform to pre-existing institutions. The assumption is that institutions are rather stable and that entrepreneurs assess the institutional environment, find an opportunity, and try to exploit it. But institutions do change, and when they do they create opportunities for entrepreneurs (Hoffman, 1997; Schneiberg & Soule, 2005; Zald, Morrill, & Rao, 2005). Just as existing beliefs, norms, values, and habits resist change, evolving beliefs, norms, and values create opportunities for entrepreneurs to create products and services that instantiate these changes. For example, Sine and David (2003) found that changes in the institutional logic within the energy field created opportunities for entrepreneurs to found new types of energy production firms. Similarly, Hiatt et al. (2009) found that as the cognitive, normative, and regulative institutional structure that supported the production, sale, and consumption of alcohol were attacked and diminished by the WCTU between 1880 and 1920, this created a variety of new opportunities for entrepreneurs to create beverages that did not contain alcohol. This of course begs the question: to what extent can entrepreneurs initiate or facilitate institutional change to serve their own ends? Having discussed the impact of the institutional environment on entrepreneurial behavior and outcomes, we now consider how entrepreneurs – both individually and collectively – can influence the institutional environment.

Any serious discussion of entrepreneurship needs to address the nature and origin of entrepreneurial opportunity and the role of entrepreneurs in creating this opportunity (Shane & Venkataraman, 2000). While many of the major forces that drive entrepreneurial opportunities, such as demography, culture, fashion, social trends, war, etc., are typically beyond the control of any one entrepreneur (Aldrich, 2010), there is scope for entrepreneurial action. As Scott argues in this volume, there has been little attention paid to the normative environment and how entrepreneurs, by working with and transforming the normative environment, can institutionalize new categories of organizations. The normative environment authorizes, rationalizes, and may even demand the activities of the organization. Normative structures and actors reify the appropriateness of a particular form. However, changing and embedding new organizational forms into the normative environment – that is, creating a sense of appropriateness and necessity – is no easy task and may defy the efforts of any single entrepreneur, requiring collective action. As Berger and Luckmann (1966) argued, activities that are taken for granted have an external feel: they are integrated into the larger environment and cognitively separate from the individuals who created them. We discuss in this section some of the activities that entrepreneurs engage in to change the institutional environment in light of the difficulties of doing so.

Theorization: Strang and Meyer (1993) explain that the first step to institutionalization is to create rationales that link a proposed new form or practice with a problem and to rationalize a causal linkage. This includes the cultural work of constructing and propagating a new problem–solution set. The likelihood of success of such an exercise is quite dependent on framing, that is, creating rationales that are to some extent aligned with existing or emerging beliefs and values. Innovation in these activities is most likely to be an exercise of cultural architecture – in other words, the repackaging of existing ideas from different domains. However, merely creating a good story on paper is not likely to create substantive opportunities for entrepreneurs. The ideas must be widely propagated and integrated into existing normative and regulative structures.

Integrating: Universe maintenance mechanisms of existing institutional orders are designed to protect existing institutions from competition (Berger & Luckmann, 1966). To the extent that new organizations or types of organizations are not integrated with existing norms, values, and regulations, they are at best likely to be dismissed as spurious and unimportant and at worst explicitly attacked by existing normative and regulative actors. The ultimate purpose of integration is to achieve a sense of taken-for-grantedness. This can be achieved through the integration of novel practices and ideas into existing regulatory and normative regimes, regimes governed by such actors as industry associations, certification organizations, and governmental agencies.

Exteriorizing: Berger and Luckmann (1966) argue that, ultimately, for a new set of ideas to be taken for granted, they must be experienced as exterior, that is, as part of the natural order. While integration with existing normative actors and regulators is important, these organizations may not explicitly promote the interests of an emerging sector. Ultimately, exteriority is achieved by creating *new* normative actors and regulatory regimes whose purpose is to propagate and maintain the new institution. Exteriority can be attained when normative and regulative actors are created to promote the new sector (through educational programs and lobbying efforts), regulate its membership (through certification programs, governmental regulation, and industry associations), facilitate its continuity and growth (through training programs and industry conferences), and rationalize its purposes. This embeds within the broader institutional environment organizations that act to facilitate and perpetuate the new ideas, products, and processes promoted by a set of entrepreneurs. In this way, constituents experience the underlying logic of any given product or service as a natural part of the environment. For example, wind energy is a "good" idea and a "good" investment because it is classified by the government as an environmentally benign "alternative energy," environmental groups promote its environmental benefits, the American Wind Energy Association testifies as to its economic efficiency, and universities train engineers to install and operate such facilities. Wind energy is no longer the lonely idea of a few crazy entrepreneurs, but instead is now one of the many options power companies can choose from to comply with state mandates for green energy. Such normative changes are not necessarily natural processes and need conscious efforts by entrepreneurs to embed their new emergent industry into the broader institutional environment.

Through theorizing, integrating, and creating exteriority, entrepreneurs (individually or more likely collectively) can modify organizational fields and create self-sustaining categories of new products and services. Past research in entrepreneurship and institutional theory has largely overlooked the important role that entrepreneurs can play in creating a sense of taken-for-grantedness. Yet Berger and Luckmann (1966) clearly imply that the mechanisms underlying institutionalization processes are themselves socially constructed and can be both created and manipulated. Garud, Gehman, & Karnøe (2010) and Glynn and Navis (2010) provide rich analyses of the role of entrepreneurs in such processes in the nuclear power and satellite radio fields, respectively.

Where Do We Go from Here: Additional Opportunities for Entrepreneurship Research

In this introductory chapter, we have argued the importance of understanding how institutions shape entrepreneurial processes and outcomes, and conversely, how entrepreneurs might act on their institutional environments. We have outlined several recent institutional approaches to entrepreneurship and some possible areas for building on these. The theme throughout this chapter and volume is that the institutional environment has a strong impact on entrepreneurship activities and outcomes. But the institutional environment does not just shape how and when existing entrepreneurs recognize and exploit opportunities. We also argue that the *existence* of entrepreneurs and opportunities should be the object of study. Past research in entrepreneurship has largely treated the existence of opportunities, cultural norms and values, and entrepreneurs as given, taking for granted their presence as a natural fact rather than a dependent variable of interest (Kirzner, 1973, 1997; Shane, 2003). Despite some recent work in this area, we still understand very little about how the institutional environment both creates and is created by the entrepreneur. This interactive process clearly affects why, how, and where people engage in entrepreneurial activities. We sketch some possible lines of inquiry here.

Constructing Entrepreneurial Actors

For most people engaged in starting a new venture, the act of entrepreneurship is not part of their profession; in fact, professional norms may have a strong impact on whether or not people engage in entrepreneurial activity (Patterson & Sine, 2008). For some professions, engaging in entrepreneurship is against the norm and in others it is viewed as heroic. Similarly, in some cultures, entrepreneurship may be highly esteemed and taken for granted as a normatively positive job. In others, it is seen as something done only when no other alternative exists. We believe that entrepreneurial behavior is driven largely by normative, cultural–cognitive, and regulative forces. This perspective suggests that the entrepreneur is an instantiation of the institutional environment. Future research needs to explore how the

institutional environment shapes individual decisions to take risks and engage in entrepreneurship (Lee & Sine, 2007). Similarly, it may be the case that some combinations of normative, regulative, and cultural–cognitive environments are more effective at motivating entrepreneurial activity, but at the same time these entrepreneurs have a lower success rate. Future research might examine links between factors that motivate entrepreneurial activity and the correlation between these factors and success.

Constructing Opportunities

In our view, the construction of entrepreneurial opportunities deserves more attention. We argue that the existence, recognition, and exploitation of entrepreneurial opportunities are predominantly social phenomena. Past research suggests a mimetic quality to entrepreneurial activity, that is, a process of herd behavior as exemplified by the gold rush of 1849, the California wind energy rush of the 1980s, and the rush of entrepreneurs into the internet sector in the late 1990s. This contradicts a common stereotype of entrepreneurs as highly innovative actors. Instead, the most common new venture is simply the replication of existing business models, not very innovative, and most of these ventures never grow (Shane, 2008). We know little about the conditions and rationales that motivate individuals to take entrepreneurial risk. We know even less about how collective responses to such conditions vary across cultures and sectors. Similarly, as suggested in this essay, we believe that the social conditions deemed as entrepreneurial opportunities are shaped by a host of factors including social movements, cultural changes, technology changes, and normative and regulatory shifts. Understanding the dynamics of both incremental and radical institutional changes on opportunity creation is an important and understudied topic in entrepreneurship research.

INSTITUTIONS AND ENTREPRENEURSHIP: CONTRIBUTIONS IN THIS VOLUME

In this introduction we have reviewed how institutional environments affect entrepreneurial processes and outcomes, and conversely how entrepreneurs modify institutions in the pursuit of their goals. The chapters we have assembled in this volume focus largely on the normative and cultural–cognitive dimensions of the institutional environment, but a few also consider the regulative dimension. Dick Scott starts off the volume by arguing that the important role played by the professions in entrepreneurship processes and outcomes is largely overlooked. He then details this relationship and calls for more work that examines the link between the professions and entrepreneurship and that ultimately connects entrepreneurship to wider cultural and societal processes. Four chapters then build on this general theme and help us to better understand the institutional embeddedness of entrepreneurial activity. In their chapter, Garud et al. investigate the origins and meanings of categories (such as "nuclear technology" and "emission free") and the associations between them, thereby emphasizing that entrepreneurship is deeply embedded in "socio-material structures" that are continually changing. Buhr and Owen-Smith highlight further the embeddedness of entrepreneurship with their findings that the network of relationships between the institutions of law and finance shapes regional innovation and entrepreneurial activity. Ingram, Luo, & Eshun (2010) examine the origins of a key supporting institution for entrepreneurship, business incubators, and thereby remind us of the important and active role of the state in entrepreneurship. Finally, Tolbert and Hiatt (2010) examine how institutional conditions affect important entrepreneurial events such as the founding, structuring, and failure of new ventures. These chapters significantly contribute to helping us understand the relationship between the institutional context and entrepreneurship.

The next four chapters focus more specifically on the cognitive dimension of institutions and on the legitimacy (or illegitimacy) of entrepreneurial activities. Jones et al. explain how professional service firms can rhetorically invoke institutional logics to gain legitimacy with clients. Mezias et al. explore how cognitive and sociopolitical legitimacy barriers are overcome in new industries. Glynn and Navis analyze the pronouncements, accounts, and explanations of entrepreneurs as they strive to build new meanings and identities for their nascent organizations and market. Finally, Croidieu and Monin explicate how entrepreneurial innovations *failed* to diffuse because they violated extant identity-based institutions. These four chapters suggest new and interesting directions for research on entrepreneurship, directions that emphasize cognitive and cultural institutional elements and that investigate the opportunities and constraints these present for entrepreneurs.

Howard Aldrich concludes the volume by extolling institutional theory's role in understanding the context of entrepreneurial activities, but questioning its ability to explain entrepreneurship's microfoundations. Aldrich presents an ambitious research agenda for those scholars wishing to study entrepreneurship from an institutional-theory perspective, and challenges us

to be more precise with our terms, to acknowledge the multilevel nature of entrepreneurial processes, and to avoid the trap of studying only success. With much theoretical and empirical progress already made, some of it by the authors in this volume, Aldrich reminds us of how much remains to be done.

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