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# Institutional Theory and Entrepreneurship: Where Are We Now and Where Do We Need to Move in the Future?

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**Institutional theory is an increasingly utilized theoretical lens for entrepreneurship research. However, while institutional theory has proven highly useful, its use has reached a point that there is a need to establish a clearer understanding of its wide-ranging application to entrepreneurship research. Therefore, we will initially review the existing entrepreneurship literature that employs institutional theory to both understand the current status of the field, its current shortcomings, and where we need to move in the future. We then summarize and discuss the articles in this special issue and how they contribute to this process of advancing institutional theory and its application in entrepreneurship research.**

## Introduction

Institutional theory has proven to be a popular theoretical foundation for exploring a wide variety of topics in different domains ranging from institutional economics and political science to organization theory (DiMaggio & Powell, 1991). The application of institutional theory has proven to be especially helpful to entrepreneurial research. Beginning with Shane and Foo's (1999) exploration of franchising success, institutional theory is playing a major role in helping to explain the forces that shape entrepreneurial success, apart from organizational (or entrepreneurial) resources (Ahlstrom & Bruton, 2002; Peng, 2006). While Shane and Foo's work focused on domestic U.S. franchising, institutional theory, as suggested by Hoskisson, Eden, Lau, and Wright (2000), has also proven to be particularly powerful in examining international related topics. This introductory article to the special issue will initially seek to review the existing entrepreneurship literature that employs institutional theory in order to understand the current status of the field, its current shortcomings, and where we need to move in the future.

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Historically, the resource-based theory of the firm (Barney, 1991) has been one of the key theories in entrepreneurship because access to resources is central to the success of a new venture (Bhide, 2000). While resources are certainly vital, it has increasingly become clear that issues such as culture, legal environment, tradition and history in an industry, and economic incentives all can impact an industry and, in turn, entrepreneurial success (Baumol, Litan, & Schramm, 2009). Institutional theory provides a theoretical lens through which researchers can identify and examine these issues. However, while institutional theory has proven highly useful in entrepreneurship, its use has reached a point that suggests a need to establish a clearer understanding of its wide-ranging implications for entrepreneurship research. As a result, this special issue of *Entrepreneurship Theory and Practice* focuses on institutional theory and its application to entrepreneurship. The goal is to expand the theoretical foundations for the theory and to highlight the innovative insights that can come from institutional theory by reviewing the current use of the theory in entrepreneurship. We will conclude the article by establishing where we need to move in the future and by summarizing and discussing the articles in this special issue and how they contribute to this process.

## Foundations of Institutional Theory

Institutional theory is traditionally concerned with how various groups and organizations better secure their positions and legitimacy by conforming to the rules and norms of the institutional environment (Meyer & Rowan, 1991; Scott, 2007). The term "institution" broadly refers to the formal rule sets (North, 1990), *ex ante* agreements (Bonchek & Shepsle, 1996), less formal shared interaction sequences (Jepperson, 1991), and taken-for-granted assumptions (Meyer & Rowan) that organizations and individuals are expected to follow. These are derived from rules such as regulatory structures, governmental agencies, laws, courts, professions, and scripts and other societal and cultural practices that exert conformance pressures (DiMaggio & Powell, 1983, 1991). These institutions create expectations that determine appropriate actions for organizations (Meyer & Rowan), and also form the logic by which laws, rules, and taken-for-granted behavioral expectations appear natural and abiding (Zucker, 1977). Institutions define therefore what is appropriate in an objective sense, and thus render other actions unacceptable or even beyond consideration (DiMaggio & Powell, 1991).

Institutional theory is thus concerned with regulatory, social, and cultural influences that promote survival and legitimacy of an organization rather than focusing solely on efficiency-seeking behavior (Roy, 1997). These institutional forces are identified in multiple works from sociology (DiMaggio & Powell, 1983, 1991; Roy) and organizational theory (Meyer & Rowan, 1991) to political science (Bonchek & Shepsle, 1996), and economics (North, 1990). These are collected and summarized by Scott (2007) in his well-known formulation of three categories of institutional forces. The regulative pillar derives most directly from studies in economies and thus represents a rational actor model of behavior, based on sanctions and conformity. Institutions guide behavior by means of the rules of the game, monitoring, and enforcement (North). These regulative components stem primarily from governmental legislation and industrial agreements and standards. These rules provide guidelines for new entrepreneurial organizations and can lead to organizations complying with laws and also individual compliance with laws or may require a reaction if there is a lack of law or regulation in the entrepreneurial firm's region.

The second institutional pillar is the normative one, which represents models of organizational and individual behavior based on obligatory dimensions of social, professional, and organizational interaction. Institutions guide behavior by defining what is appropriate or expected in various social and commercial situations. Normative systems are typically composed of values (*what* is preferred or considered proper) and norms (*how* things are to be done, consistent with those values) that further establish consciously followed ground rules to which people conform (Scott, 2007). Normative institutions therefore exert influence because of a social obligation to comply, rooted in social necessity or what an organization or individual should be doing (March & Olsen, 1989). Some societies have norms that facilitate and promote entrepreneurship and its financing while some other societies discourage it by making it difficult (though not illegal), often unknowingly (Baumol et al., 2009; Soto, 2000).

Finally, the cognitive pillar summarized by Scott (2007) and derived heavily from the recent cognitive turn in social science (DiMaggio & Powell, 1991) represents models of individual behavior based on subjectively and (often gradually) constructed rules and meanings that limit appropriate beliefs and actions. The cognitive pillar may operate more at the individual level in terms of culture and language (Carroll, 1964; Scott), and other taken-for-grantedness and preconscious behavior that people barely think about (DiMaggio & Powell; Meyer & Rowan, 1991). This pillar is increasingly important to entrepreneurship research in terms of how societies accept entrepreneurs, inculcate values, and even create a cultural milieu whereby entrepreneurship is accepted and encouraged (Bosma, Acs, Autio, Coduras, & Levie, 2009; Harrison, 2008; Li, 2009).

A main reason for the increasing standing of the institutional perspective in entrepreneurship research lies with the dissatisfaction with theories that venerate efficiency but downplay social forces as motives of organizational action (Barley & Tolbert, 1997). The institutional perspective directs attention to the rules, norms, and beliefs that influence organizations and their members, which can vary widely across countries and cultures (Fang, 2010; Scott, 2007). Such structures, processes, and mindsets that become taken for granted are either not subjected to scrutiny at all, or are scrutinized and judged as suitable, appropriate, and taken for granted (Jepperson, 1991). We can, therefore, understand entrepreneurship research and practice more fully by finding out what was institutionalized, that is, which activities, beliefs, and attitudes have come to acquire taken-for-granted or rule-like status (and which ones have not), thus in turn enabling and constraining entrepreneurship in the environment in question (Bruton & Ahlstrom, 2003).

## Entrepreneurial Articles Employing Institutional Theory

What is the current state of institutional theory in entrepreneurship research? The greatest impact on much of the academic profession arguably comes from high-quality journals (Judge, Cable, Colbert, & Rynes, 2007). However, there are a number of different opinions regarding which journals should be on a list of high-quality journals. For example, the *Financial Times,* in its ranking of business schools, employs a list of 40 top business journals. Thirteen of these 40 journals are related to the domain of management, several of which are entrepreneurship and international business related. The University of Texas–Dallas (UTD) has a widely cited system that ranks business schools and departments by research productivity using 24 journals of which six are related to management. Trieschmann, Dennis, Northcraft, and Nieme (2000) in research relying on the top journals in management were even more conservative and utilized only five top journals related to management. While these sources of journal quality are not the only sources, if we compare these three lists of journals, there are five journals that are on every list—*Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Journal of International Business Studies,* and *Strategic Management*

Table 1

Journals Included in Review and Views on Their Quality

| | SSCI Impact Factor (2008) | Financial Times | UTD research | Trieschmann, Dennis, Northcraft, and Nieme (2000) |
|---|---|---|---|---|
| Academy of Management Journal (AMJ) | 6.1 | X | X | X |
| Academy of Management Review (AMR) | 6.1 | X | X | X |
| Administrative Science Quarterly (ASQ) | 2.9 | X | X | X |
| Entrepreneurship Theory and Practice (ETP) | 1.7 | X | — | — |
| Journal of Applied Psychology (JAP) | 3.6 | X | — | — |
| Journal of Business Venturing (JBV) | 2.1 | X | — | — |
| Journal of International Business Studies (JIBS) | 3.0 | X | X | X |
| Organization Science (OS) | 2.6 | X | X | — |
| Strategic Management Journal (SMJ) | 3.3 | X | X | X |

*Note:* Journals marked with an X were classified as a "quality journal" in this ranking.
SSCI, Social Sciences Citation Index; UTD, University of Texas–Dallas.

*Journal*. One other journal, *Organization Science*, is on two of these three lists. All six of these journals have comparably high impact factors based on the Social Sciences Citation Index (SSCI).

Thus, these journals could easily be viewed as high-quality journals and were, therefore, selected as the foundation for the review of the entrepreneurship literature. The *Journal of Applied Psychology (JAP)* is a leading journal often cited in organizational behavior and as a result was also included in this article even though it only appears on the journal list of the *Financial Times*. In addition, the two most widely cited entrepreneurship journals were included in this review—*Entrepreneurship Theory and Practice (ETP)*, and *Journal of Business Venturing (JBV)*. It should be noted that *JAP, ETP,* and *JBV* are all on the *Financial Times* list of top journals with all having a citation impact factor above or near 2.0 (a widely used cut-off for journal quality in the management domain). All journals were reviewed for articles on entrepreneurship employing institutional theory for the years 1990–2009. This same list of journals was employed by Bruton, Ahlstrom, and Oblój (2008) in their review of entrepreneurship in emerging economies. Table 1 summarizes the rationale for the journals examined.

In conducting this review, we wanted to ensure that we identified all articles in the journals that gave primary employ to institutional theory. However, authors are not always consistent in how they phrase their theoretical foundation. Therefore, we did a broad search in the electronic search engine Business Search Complete (EBSCO) employing both the search terms *institutions* and *institutional*. In non-entrepreneurship focused journals (*AMJ, AMR, ASQ, JAP, JIBS, OS, SMJ*), we also introduced the terms *entrepreneurial* and *entrepreneurs* into the search requirements. One of the entrepreneurship journals, *JBV*, was not in the EBSCO search engine. Therefore, *JBV* necessitated a slightly different type of search. Specifically, we searched Science Direct for key words, title, and abstract for institutional theory. We searched over the time period of January 1999 through November 2009, identifying a total of 80 articles.

Each article was then reviewed separately by each author for its relevance to entrepreneurship and the use of institutional theory as a foundation. This in-depth examination

Table 2

Articles Identified for Review, by Journal

| | Articles identified | Articles dropped | Total articles in review |
|---|---|---|---|
| Academy of Management Journal (AMJ) | 10 | 2 | 8 |
| Academy of Management Review (AMR) | 9 | 4 | 5 |
| Administrative Science Quarterly (ASQ) | 8 | 5 | 3 |
| Entrepreneurship Theory and Practice (ETP) | 30 | 15 | 15 |
| Journal of Applied Psychology (JAP) | 0 | 0 | 0 |
| Journal of Business Venturing (JBV) | 10 | 3 | 7 |
| Journal of International Business Studies (JIBS) | 4 | 1 | 3 |
| Organization Science (OS) | 3 | 1 | 2 |
| Strategic Management Journal (SMJ) | 6 | 5 | 1 |
| Totals | 80 | 36 | 44 |

led us to eliminate 36 articles from this review, yielding a final sample of 46 articles. To increase the validity of the research, we then contacted three leading scholars in entrepreneurship and asked them to review the list of articles generated and to identify any articles that we might have missed. They identified no additional articles for inclusion in our set. These 46 articles represent only approximately 1% of the articles published in all of these journals over this time period, although in the two leading entrepreneurship journals, *ETP* and *JBV*, institutional theory provides the theoretical foundation for approximately 3% of the articles examined. While the authors acknowledge any single article may inadvertently be missed using this approach, the authors believe that such overlooked articles will be minimal and the general state of this research stream was accurately ascertained. Table 2 summarizes the articles identified in each journal.

## Highlights of Existing Research

The initial review of Table 2 highlighted several issues. First, a considerable number of articles were dropped from the initial review. The initial identification of articles was admittedly broad. However, the initial reading of the articles demonstrated that there is a large amount of research in which authors discuss institutions and entrepreneurship, particularly in international settings, but do not rely on institutional theory to any large extent. Authors typically wanted to indicate that some result was surprising and is an outcome of the study venue. However, they do not have a theoretical reason for this belief that the institutional setting has an impact. Instead, they describe these settings and ascribe particular results to them. For example, DeCercq and Dakhli writing in *JBV* in 2009 talk of institutional context in 39 countries; these different institutional contexts and their potential impact are primarily discussed in nontheoretical terms. Thus, institutions and their impact are discussed but not in terms of institutional theory. Such an approach taken by authors represented the most common reason for an article being dropped from this review.

It was also observed by the authors that an increasing number of articles are employing institutional theory in recent years. While institutional theory has been employed since 1999 in entrepreneurship research, its use has particularly grown in recent years. The connection of these works to institutional theory is not always clear. Godwin, Stevens, and Brenner (2006) cite institutional theory as a foundation for their article but only lightly utilize it, preferring to focus more on networking. Thus, while the theory has become more popular, its application is not always clear or directly relevant to the research.

## Entrepreneurship and Institutional Theory

In examining the literature, three major streams of research became evident—institutional setting, legitimacy, and institutional entrepreneurship. In addition, three major shortcomings became clear—reliance on single perspective of institutional theory, reliance on the examination of culture, and examining single countries. We will next discuss each of these issues in turn.

## Stream 1—The Institutional Setting and Entrepreneurship

That entrepreneurs are both constrained and enabled by the institutions in their environment has been widely acknowledged in the literature (Bruton & Ahlstrom, 2003; Scott, 2007). The factors that have been widely acknowledged are that for new organizations, the institutional environment defines and limits entrepreneurial opportunities, and thus affects the rate and size of new venture creation (Aldrich, 1990; Gnyawali & Fogel, 1994; Hwang & Powell, 2005). Other institutional factors in the external environment that impact entrepreneurial development are favorable market incentives and the availability of capital (Foster, 1986). Inadequate institutional development can complicate new venture development (Baumol et al., 2009) while a more developed institutional environment with overly restrictive regulation can hamper firm's founding (Soto, 2000).

The institutional factors impacting entrepreneurial efforts include the direct action of governments in constructing and maintaining an environment supportive of entrepreneurship as well as societal norms toward entrepreneurship. Specifically, the level of entrepreneurship that develops in a society is directly related to the society's regulations and policies governing the allocation of rewards (Baumol et al., 2009). Governments can ensure markets function efficiently by removing conditions that create entry barriers, market imperfections, and unnecessarily stifling regulation. For example, a hostile external environment may impede the level of capital investment, place fiscal and regulatory barriers, and dissuade the rise of the entrepreneurial spirit that is characteristic of certain cultures. Broadman and colleagues (Broadman et al., 2004) found that economic growth in the emerging economies of Eastern Europe was impeded by the absence of effective market-based institutions to protect property rights and to ensure fair competition. Frustrated by the ineffective legal enforcement of contracts and property rights, private entrepreneurs in such environments depend profoundly on informal norms for security (Ahlstrom, Bruton, & Lui, 2000) and actively seek to design alternative governance structures and contractual arrangements (Peng, 2006). Informal ties and relational governance fill in the "institutional voids" resulting from an inadequate formal institutional infrastructure (Khanna & Palepu, 1997). Though these informal institutions such as building connections with key government officials and other managerial ties (Peng; Peng & Luo, 2000) can be very helpful, these can also be costly to firms and may hinder new venture development (Huang, 2008; Rajan & Zingales, 1998).

Entrepreneurs are discouraged from starting ventures if there are no formal institutional structures (or substitute informal ones). They can also be discouraged if they are forced to comply with too many rules and procedural requirements, are expected to report to an array of institutions, and have to spend substantial time and money in fulfilling documentation requirements (Soto, 2000). For example, it recently required 97 days at significant cost to start a new business in Russia and even longer in several sub-Saharan African countries (Soto). A more business-favorable institutional environment, however, will ease such barriers and encourage entrepreneurial potential (Baumol et al., 2009). In the United States, it only takes 4 days, while in Hong Kong, business registration usually takes less time than that (Timmons & Spinelli, 2004). Thus, the institutional environment exerts a powerful influence not only on entrepreneurial entry rates, but also on the resulting trajectories of entrepreneurial initiatives. The potent impact of the institutional environment for unlocking entrepreneurship prompted Aldrich and Waldinger (1990) to remark that not just the task environment was important but also the institutional environment, which could drive or impede entrepreneurship in a country. Ahlstrom and colleagues (Ahlstrom, Young, & Nair, 2003) added that the institutional environment can promulgate unproductive behavior in the form of detrimental institutional entrepreneurship (cf. Rajan & Zingales, 1998).

## Stream 2—Legitimacy and Entrepreneurship

Institutional theory has also formed a foundation of understanding about how entrepreneurs not only create new products and services, but how they must also seek legitimacy for their new ventures (Ahlstrom & Bruton, 2001). A venture must prove its value by demonstrating that it engages in legitimate activities. The term *legitimacy* commonly refers to the right to exist and perform an activity in a certain way (Suchman, 1995).

The institutional environment helps to determine the process of gaining cognitive and moral legitimacy, which is critical for entrepreneurial organizations to overcome the liabilities of newness (Stinchcombe, 1965) and to increase their survival prospects (Ahlstrom & Bruton, 2001; Freeman, Carroll, & Hannan, 1983). Entrepreneurial organizations and their members need to behave in a desirable or appropriate manner within a socially constructed system or face sanctions for deviating from the accepted norms (Schein, 2009; Suchman, 1995). This constrains the range of strategic options and the degree of individual agency available to the new venture (Ahlstrom & Bruton, 2002; Roy, 1997).

Researchers have historically viewed the legitimacy of firms in an industry from a macro level where the industry both seeks and is impacted by sociopolitical and cognitive approval from society and its institutions (Aldrich & Fiol, 1994). When the founders of any new venture seek legitimacy for their activities (and those of their industry), the social context in which they operate encourages different strategies to establish or build legitimacy (Aldrich & Fiol). Ultimately, legitimacy confers the right to exist on an individual organization and its activities (e.g., Stillman, 1974). It is important that entrepreneurial firms legitimize their activities if they are to secure resources and support from stakeholders and society. Access to resources is less problematic for established organizations because past performance itself often provides legitimacy and access to resources. Society judges an organization as appropriate partly because of its past performance. Established organizations can use their performance record to acquire legitimacy and access resources. The new venture cannot do so, however, because of its limited or nonexistent record of performance. Institutional theorists have helped to illuminate and frame the legitimacy-building approaches used by new ventures by pointing out that organizational structures, procedures, and personnel may be used to build and demonstrate an organization's acceptability to key constituencies (DiMaggio & Powell, 1983; Oliver, 1995).

Each of the three institutional pillars impact firm legitimacy and are thought to be particularly important in order to understand entrepreneurship in emerging economies

(Peng & Zhou, 2005). While both normative and cognitive institutional pillars draw on culture, there are differences in the two. The normative pillar represents actions that organizations and individuals ought to take; normative pillars are the standards of behavior and commercial conventions of different professions, occupations, and organizational fields. A normative evaluation of legitimacy concerns whether the organization's activities are proper and consistent with influential groups and societal norms (Suchman, 1995). The cognitive institutional pillar includes the scripts, schemas, and taken-for-granted elements that influence individuals in a particular sociocultural context. A cognitive evaluation of legitimacy concerns the congruence between an organization and its cultural environment (Meyer & Scott, 1983). Regulatory institutional pillars include the laws, regulations, and their enforcement. Such institutions include the sanctions, laws, and political power that regulate individual and organizational action (Scott, 2007). Regulatory structures are relatively rational, negotiated arrangements to exchange problems that can change readily (North, 1990). Regulatory legitimacy occurs when laws and regulations recognize and help to safeguard the right of the industry to exist. The details of the strategic behavior that entrepreneurs exhibit in different countries may differ somewhat due to variation in their respective institutional environments. For example, the legitimacy-building methods being used in China were found to be quite familiar and useful to managers in Taiwan (Ahlstrom, Bruton, & Yeh, 2008). While there were differences, particularly based on the less intrusive role of government in Taiwan, these findings suggest the durability of legitimacy-building strategies and their value to all firms in Greater China. These legitimacy-building approaches are also learned by foreign alliance partners of the firms in our study and proved valuable as they entered and sought to navigate China's markets. Some similar approaches were found in other developing economies including India and Latin America (Bruton, Ahlstrom, & Puky, 2009; Bruton, Ahlstrom, & Singh, 2002). This suggests the value of understanding local approaches to management, and reemphasizes the importance of the institutional environment to entrepreneurship (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Tsui & Lau, 2002).

## Stream 3—Institutional Entrepreneurs

Entrepreneurs often create a product or service in an under-organized domain (Trist, 1983). In such a setting, new entrants to this market can recognize some degree of mutual interest, but relatively little coordinated action exists among them and few standards exist for their emerging field. Entrepreneurs often face developing institutions, which are narrowly diffused. They may work (or collaborate) to construct new institutions which may help to promote their organization or field (DiMaggio, 1988; Lawrence, Hardy, & Phillips, 2002). This is particularly true in emerging economies in which legal institutions are weak and professional and commercial norms are just being established. There is little role for nongovernmental organizations (NGOs), and civil society is not always well developed (Ahlstrom et al., 2008). Entrepreneurs lack the legitimacy they need in weak institutional environments, particularly those in emerging economies (Ahlstrom et al.). Entrepreneurs may have to play the role of institutional entrepreneur to improve the environment and to create structures that help their business to be recognized and promoted.

Composed of sets of institutions and networks of organizations that together constitute a recognizable area of life (DiMaggio & Powell, 1983), an organizational field develops through patterns of social action that produce, reproduce, and transform the institutions and networks that constitute it. Through repeated interactions, groups of organizations develop common understandings and practices, and institutional entrepreneurs can work to form the institutions that define the field and, at the same time, these institutions shape the ongoing patterns of interaction from which they are produced (DiMaggio & Powell; Giddens, 1984).

The concept of institutional entrepreneurship has emerged to help answer the question of how new institutions arise and are changed. Thus, institutional entrepreneurship represents the activities of actors who have an interest in encouraging particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones (DiMaggio, 1988; Fligstein, 1997; Rao, Morrill, & Zald, 2000). Studies of institutional processes have tended to concentrate on relatively mature organizational fields (e.g., Greenwood, Suddaby, & Hinings, 2002; Lounsbury, 2002), but institutional entrepreneurship also occurs in emerging fields and is increasingly seen as an important role for entrepreneurs and venture capitalists (Bruton & Ahlstrom, 2003; DiMaggio, 1991; Garud, Jain, & Kumaraswamy, 2002; Lawrence, 1999).

The concept of institutional entrepreneurship focuses attention on these labors and the manner in which institutional entrepreneurs shape their institutional contexts (Beckert, 1999; DiMaggio, 1991; Lawrence, 1999). Examples include the introduction of business plans in museums and other cultural organizations by government (Oakes, Townley, & Cooper, 1998), moves by professional associations to persuade members to standardize new procedures (Greenwood et al., 2002), firms lobbying governments for new or revised regulations (Bonchek & Shepsle, 1996; Hillman & Hitt, 1999), and manufacturers and service providers sponsoring new technological or service standards (Garud et al., 2002). Institutional entrepreneurs lead efforts to identify political opportunities, frame issues and problems, mobilize constituencies, and spearhead collective attempts to infuse new beliefs, norms, and values into social structures (DiMaggio, 1988; Rao et al., 2000).

## Problem 1—Different Streams of Institutional Theory

Although researchers generally agree on the importance of rule sets and taken-for-granted parameters limiting organizations and individual behavior, as noted earlier, there are two broad formulations of institutional theory (DiMaggio & Powell, 1991). One is derived principally from sociology and organizational theory while the second is based on work in political science and economics (North, 1990; Shepsle, 1989). These two branches share the notion that humans are limited in their cognitive and informational processing abilities. As a result, humans are purposeful and goal-oriented, but individuals employ shortcuts or heuristics in decision making as a result of their cognitive limits. These shortcuts or heuristics shape the decisions of the individuals in subtle but pervasive means.

While there is common ground in the two branches of the theory, there are also substantive differences between these two branches of institutional theory. The sociology/organizational theory branch argues that the principal driving force is the effort to achieve legitimacy and stability in uncertain situations. As a result, it holds that views, values, and norms of entire social classes of people are the main heuristic (Zucker, 1991). In contrast, the economic/political branch exemplified by North (1990) focuses on governance structures or rule systems constructed by individuals as the most critical driving force (Shepsle, 1989). Therefore, decision makers are influenced by formal incentives and governance systems.

The differences between the two streams of institutional theory also go deeper. Most economic/political science institutional theorists assume that actors purposefully

Table 3

A Comparison of Economic/Political and Sociology/Organization Theory Branches of Institutional Theory

| Characteristics | Economic/political branch | Sociology/organization theory branch |
|---|---|---|
| Assumptions | People make decisions based on the convenience and standardization of rules and agreements | People make decisions based on heuristics because of cognitive limitations and take action based on conventions and preconscious behavior |
| Drivers of human behaviors | Rules and procedures, formal control | Social norms, shared cultures, cognitive scripts, and schemas |
| Basis of legitimacy | Formal rules, procedures, and agreements | Morally governed and socially bound beliefs |
| Relationship between institutions and organizations | External institutions create structures for organizations | Organizations adjust and conform to values and limits prescribed by a society's institutions |
| Representative works | North, 1990; Bonchek & Shepsle, 1996 | DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1991 |

construct institutions that achieve the outcomes they desire, rarely asking where preferences come from or considering feedback mechanisms that might further shape interests and institutions. In contrast, sociology/organizational theory institutionalists question whether individual choices and preferences can be properly understood outside of the cultural and historical frameworks in which they are embedded (Scott, 2007). The sociology/organizational theory perspective finds adaptive storytelling less persuasive. In this view, behaviors and structures that are institutionalized are ordinarily slower to change than those that are not. Those who embrace the sociology/organizational theory version of institutional theory instead focus on the ways in which institutions complicate and constitute the paths by which solutions are sought. Whereas economic/political science theorists tend to accept a range of negotiated agreements and conventions as institutions, sociology/political science theorists argue that institutions are not conveniences but that they have taken on a rule-like status in social thought and action that is often taken for granted and is even almost preconscious (Meyer & Rowan, 1991). Thus, the organization theory and sociological stream finds adaptive storytelling less convincing than do political and economic theorists. Instead, they hold that institutions are slow to change and are difficult to construct (Bruton & Ahlstrom, 2003; Scott, p. 219). The key theoretical issues between the economic/political and sociology/organizational and views of institutional theory domain are summarized in Table 3.

Despite the differences in the two theoretical viewpoints, the entrepreneurship literature draws primarily on the organizational branch. There are notable exceptions, however, such as the work by Farjoun (2002), which employs an economic/political view of institutional theory as he examines pricing in emerging industry of online databases. Similarly, the work of Moran and Ghoshal (1999) in *AMR* employed the economic/political view as the authors extend the theory for the development of markets and economies. Whether the articles employ the sociology/organizational theory or the economic/political view of institutions, they sometimes fail to acknowledge the existence of the other stream and the somewhat different assumptions inherent in the different institutional traditions.

As a result, such research fails to recognize that with these different perspectives there could be differences in key underlying assumptions (about individual agency or structural-functionalism, for example) which could impact the results and implications. For instance, the work by Busenitz, Gómez, and Spencer (2000) defines institutional dimensions of entrepreneurship in different countries by applying Scott's categorization of institutions without acknowledging that the political/economic perspectives have some different assumptions. The use of the economic/political perspective could have led to very different insights on institutions across countries, which needs to be acknowledged by researchers (e.g., Scott, 2007).

## Problem 2—The Focus on Culture

Many studies employing institutional theory have examined culture and its impact on entrepreneurship utilizing institutional theory from a sociology/organizational theory perspective. DiMaggio and Powell's (1983, 1991) work is among the best recognized as providing an overview for these (and other) branches of institutional theory. Scott (1995, 2007) extended their work in categorizing the three main types of institutions: regulatory, normative, and cognitive. The regulatory pillar of an institutional system gives incentive and sanction to organizations and individuals from a government or other authoritative body that regulates individual and organizational action (Scott, 2007). In contrast, the normative and cognitive institutional pillars are socially constructed over time and come to be "perceived as objective and external to the actors: not as man-made but a natural and factual order" (Scott, 1995, p. xvii). Culture is one important means by which both normative and cognitive structures are transmitted (DiMaggio & Powell, 1991; Jepperson, 1991).

The research that has examined culture's impact in particular has generated several significant insights. Several empirical studies have examined the relationship between national culture and entrepreneurship (Davidsson, Lindmark, & Olofsson, 1995; Davidsson & Wiklund, 1997; Shane, 1992, 1993). For example, Shane (1992) examined the association between the Hofstede (2001) dimensions of individualism and power distance and national rates of organizational innovation, and he found that individualism was positively associated with innovation while power-distance was negatively associated with innovation as might be expected. Shane (1993) also investigated the association between four of Hofstede's cultural dimensions and the national rates of innovation in two different years—1975 and 1980—and in different countries. Shane found that uncertainty avoidance was negatively associated with innovation in both time periods. Individualism was found to be positively associated with innovation in 1975 but not in 1980. Correspondingly, power-distance was negatively related to innovation for 1975, but not for 1980. Masculinity proved insignificantly related to national innovation. Limited empirical research has also explored the association between culture and firm formation rates (Davidsson et al.; Davidsson & Wiklund). Davidsson and Wiklund proposed that cultures that promote a higher need for achievement (nAch) and autonomy (McClelland, 1961), as well as self-efficacy (Bandura, 1986), will have higher firm-formation rates. This is thought to be derived from the fact that these values encourage a strong work ethic and risk taking (Harrison, 2008).

The preceding discussion shows that some evidence exists that broad cultural characteristics are associated with national levels of entrepreneurship. Specifically, high individualism, low uncertainty avoidance, and high power-distance have all been found to be associated with national rates of innovation. These relationships are not consistent over time, however (Shane, 1993), and have not been found to systematically vary with aggregate indicators of entrepreneurship (Davidsson & Wiklund, 1997).

While culture is clearly important to the understanding of institutions, often the research or theory development that has occurred has often focused solely on culture. For example, in Drori, Honig, and Wright's (2009) discussion of transnational entrepreneurship as an emerging field of entrepreneurship, they state "TE [transnational entrepreneurship] is highly linked to the translation of institutional-culture realms." In another study attempting to remedy some of the conflicting findings concerning culture and institutions, Davidsson and Wiklund (1997) attempted to include economic and institutional factors (small firm density, population size, density and growth rate, unemployment level and trends, and public expenditures) by creating three matched pairs of geographic regions. Unfortunately, in an attempt to control for the influence of industry and economic structure, these authors may have created pairs with little cultural variation. Consequently, only marginal effects were found for the influence of culture on new firm-formation rates.

However, in no case were any of the values or beliefs (e.g., change orientation, need for achievement, need for autonomy) consistently associated with new firm-formation rates examined in addition to culture. Moreover, no other institutional factors were examined. Instead, there was almost a singular focus on culture as the main effect. This observation is not to detract from the value of the authors' work. The insights they find are both valid and useful. However, the presence of the other institutions in Scott's (2007) triad including normative and regulatory institutions remain understudied. In general, these results indicate that the effect of specific cultural dimensions on development, even after controlling for economic system, is inconsistent. This suggests that strong moderators such as specific institutional measures would be helpful in clearing up the confusion.

## Problem 3—Single Country Studies

A large number of the articles examined in this review, including the work by Peng (2003), Newman (2000), and Webb, Tihanyi, Ireland, and Sirmon (2009), focused on theory development. Such theory development is typically not tied to a single country. In contrast, much empirical work has almost always focused on single countries. For example, Bruton and Ahlstrom (2003) in their study of venture capital focused only on China. Similarly, Honig (2001) studied firms in the West Bank, while Mair and Marti (2009) examined Bangladesh. However, when scholars only focus on single countries it can be more difficult to judge the impact of institutions in this setting. It is true that significantly different institutions can exist not only between but also inside a single country. Thus, the institutions in a large country like India or China can vary widely. But for scholars to be able to address the effects of institutions so that theory can be developed for use by other scholars, one must consider how institutional impacts apply to a wide region. If not the insights of institutional impact are relevant to the country examined. As a result, future research needs to ensure that the institutional setting examined has wider applicability by including multiple countries in the research.

Unfortunately, to date, multiple country databases are the exception, not the rule, when using institutional theory as a foundation for entrepreneurship studies. Some research, such as Zacharakis, McMullen, and Shepherd (2007) has examined venture capital and institutions in three countries. Similarly, Manolova, Eunni, and Gyoshev (2008) examined the institutional impact on entrepreneurship in three countries. Such work allows researchers to have greater confidence that the impact of the institutions implied has relevance to a wide range of settings. Without such multicountry samples and investigations, it is more difficult to be sure that the institutional impact is applicable to a wide set of environments rather than just an idiosyncratic result of the sample of a given country.

## The Special Issue and Future Directions

The review has highlighted a number of issues that future work that should address as it employs institutional theory and expands our understanding of the theory and its application. The simplest of these changes is that if scholars want to discuss institutions and their impact they should do so in a theoretically sound manner. If institutions matter, then institutional theory should be employed as part of the analytical framework. If institutional theory cannot help explain the results found, then the institutions may only serve to provide a background story for the research.

Part of the challenge is that researchers have observed that the relationships among these elements are complex and endogenous (e.g., Davidsson et al., 1995; Herbig, Milewicz, & Golden, 1994); that is, social institutions, industry characteristics, and behaviors reflect and reinforce a culture's values and impact individual mindset and behavior (Collins, 2004). For example, differences in culture can influence a society's legal system (Hofstede, 2001). Of greatest relevance here is the legal protection and enforcement of intellectual property rights, which will influence investments in innovation. Similarly, some have suggested that patterns of values and beliefs (i.e., culture) will vary systematically with variations in industry structure. For example, countries or regions with greater industry concentration would be expected to positively influence the presence of values supportive of entrepreneurship by increasing the legitimacy of this type of activity (Davidsson et al.; Etzioni, 1987). Unfortunately, unless larger samples can be identified, the interdependencies between values and entrepreneurship may remain difficult to discern. Furthermore, such a study would require a more cogent conceptualization of anticipated interactions among culture, institutional context, and behaviors than has been presented to date.

In addition, scholars need to increasingly recognize and seek to address the reality that there are multiple streams of institutional theory and that there is a need to at least acknowledge, if not explore, the implications of these different perspectives on the investigation at hand. Such explorations should also expand to include not only different streams of institutional theory but also a richer set of institutions across multiple countries. Admittedly, writing comparative studies across multiple countries and systems is difficult and requires the researcher to read widely across the field, taking into account issues of equivalence, not only in data defining and collection, but also in terms of the time periods studied (Goldstone, 1993; Wood, 2009). That is, if one wants to compare different emerging economies that may be at different stages, the time periods studied in the different countries have to be comparable in that they cover similar periods of the countries' development, but are not overly separated in time to make comparisons difficult (Wood, pp. 210–211).

Many institutionalization studies attempt to show the diffusion of practices across an institutional field (e.g., Galaskiewicz, 1985; Tolbert & Zucker, 1983; Zucker, 1988), resulting in the isomorphism that enhances organizational effectiveness and survival in that environment (DiMaggio & Powell, 1983). Little institutional research examines the ways in which these practices come to be viewed as legitimate in the first place; instead, such research focuses on the effects of their adoption across the collection of relevant actors that constitute the institutional field. In this regard, researchers (Busenitz et al., 2000) have attempted to address the indistinct view of institutions and culture that results from single dimensions. Busenitz and colleagues present a three-dimensional measure of country institutional profiles that include the regulatory, normative, and cognitive elements that are expected to influence levels of entrepreneurship across borders and cultures. One advantage of this approach is the explicit recognition that country differences involve more than the cognitive aspect of cultural values. Also, by developing a measure that focuses solely on broader institutional factors influencing entrepreneurship, this research path avoids the generality that has limited the prescriptive benefits that can be derived from Hofstede's (2001) dimensions. The advantages of developing such a measure, if the data are gathered independently, include the elimination of mono-method bias, the acknowledgement that institutions can be malleable and are not time invariant, and a greater relevance to entrepreneurship.

Finally, institutional theory has opened up several rich new avenues of potential entrepreneurship research. Typically researchers have conceptualized institutions as macro-level variables. However, Wicks (2001) reminded us that institutional theory could also be a micro-level variable impacting individual behavior. Such a mindset could be envisioned in the leadership of former government firms that are undergoing privatization. Such a mindset would not be universal in a given country but clearly would be an institutional variable that would impact a large number of businesses which had a previous state controlled environment. Future research should expand the use of the theory to examine issues such as the macro–micro (institutional–individual mindset) link (Collins, 2004; Wicks).

## The Special Issue

This special issue initially had over 80 submissions. From those submissions and the reviews received, the authors of the following six articles among others were invited to a special conference at Northeastern University. The conference ran over two days and offered exceptional speakers such as Richard Scott, Michael Tushman, and Max Boisot. In addition, there was extensive interaction that allowed the articles to receive input and suggestions to help push the articles further in their development. After numerous revisions and improvements, the resulting six articles were ultimately accepted for publication. Several leading scholars in the management discipline, including Boisot, Dacin, Ireland, McCarthy, Mitchell, Peng, and Puffer, are represented in this collection. There is also a healthy mix of scholars who bring fresh new concepts to the field.

The articles in this issue include: "Institutional Arrangements and International Entrepreneurship: The State as Institutional Entrepreneur" by Rasha Nasra and Tina Dacin; "Bankruptcy Laws and Entrepreneur-Friendliness" by Seung-Hyun Lee, Mike Peng, and Yasuhiro Yamakawa; "Entrepreneurship in Russia and China: The Impact of Formal Institutional Voids" by Sheila Puffer, Daniel McCarthy, and Max Boisot; "The Entrepreneurship Process in the Base of the Pyramid Markets: The Case of Multinational Enterprise/Non-Government Organization Alliances" by Justin Webb, Geoffrey Kistruck, Duane Ireland, and Dave Ketchen; "Rapid Institutional Shifts and Co-Evolution: Entrepreneurial Firms in Russia's Transition Economy" by Garry Bruton, David Ahlstrom, and Yuri Rubanik; and finally "Institutional Environment and Entrepreneurial Cognitions: A Comparative Business Systems Perspective" by Dominic Lim, Eric Morse, Ronald Mitchell, and Kristie Seawright. Each of these articles expand our understanding and helps to address important questions relevant to our field. For example, the work by Puffer, McCarthy, and Boisot specifically seeks to look across two countries for institutions that have a wide impact on entrepreneurship. Lim, Morse, Mitchell, and Seawright address the less-examined micro issues in institutional theory. The article by Nasra and Dacin examines international entrepreneurship and institutional theory in the novel research site of Dubai and the United Arab Emirates.

## Conclusion

Institutional theory has the potential to provide great insights for entrepreneurship and the broader management discipline. However, since the theory has matured, it is time to employ new and richer insights and uses of the theory. The editors of the special issue appreciate Editor Ray Bagby's sponsorship of this special issue at *Entrepreneurship Theory and Practice*. The editors also wish to thank the sponsors of the conference associated with the special issue—The Chinese University of Hong Kong, Northeastern University, and Texas Christian University—for their support as well.

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