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Studying Choice and Change: The Intersection of Institutional Theory and Entrepreneurship Research

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Although there are many potential points of intersection between institutional theory and contemporary studies of entrepreneurship, these have generally remained distinct literatures, with the connections left more implicit than explicit. We argue that there are a number of benefits to explicitly articulating the links between these bodies of scholarship. In this context, we review work that relates to two key questions we believe are especially likely to benefit from the integration of these literatures—namely, how do institutions affect entrepreneurial choices? And how is entrepreneurship related to changes in institutions? We conclude by considering a number of topics for future research suggested by this integration.

Key words: entrepreneurship; institutional change; decision making; social movements
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1. Introduction

Researchers working in the tradition of institutional theory and those studying entrepreneurship have rarely addressed one another directly. This general silence is striking for a number of reasons. First, the seminal analysis laying out an institutional approach to studying organizations, offered by Meyer and Rowan (1977), clearly spelled out its relevance to understanding entrepreneurial processes. As they note (p. 345),

> The growth of rationalized institutional structures in society makes formal organizations . . . both easier to create and more necessary. After all, the building blocks for organizations come to be littered around the societal landscape; it takes only a little entrepreneurial energy to assemble them into a structure. And because these building blocks are considered proper, adequate, rational and necessary, organizations must incorporate them to avoid illegitimacy.

That subsequent institutional work has rarely studied entrepreneurship may stem in part from the early lack of interest among sociologists—scholars from the discipline in which institutional theory is grounded—in the processes of founding new ventures. As has often been noted, much of the initial research on entrepreneurship focused on personal traits and dispositions of founders as keys to explaining entrepreneurial outcomes (Aldrich and Wiedenmayer 1993, Gartner 1988). Thus, the area was often viewed as unrelated to sociologists' concern with more macro-level organizational phenomena. Although there is evidence of an increasing interest in exploring the links between the empirical problems of interest to entrepreneurship researchers and the theoretical puzzles considered by institutional theorists (e.g., Thornton 1999; Sine et al. 2005, 2007; Khaire 2010; Sine and David 2010), much of the research conducted under the banner of contemporary institutional theory has remained focused on issues of change in established organizations (e.g., Tolbert and Zucker 1983, Holm 1995, Hoffman 1999, Lounsbury 2001, Greenwood and Suddaby 2006, Dacin and Dacin 2008) rather than on the generation of new organizations.

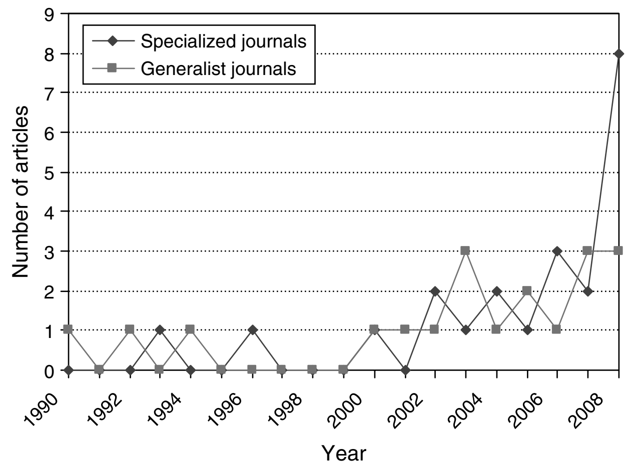
At the same time, whereas entrepreneurship research has used concepts that are very similar to those of institutional theorists, the connections to work of the latter are not always clearly elaborated or acknowledged. Thus, for example, Shapero and Sokol (1982, p. 83) refer to the "social and cultural factors that enter into the formation of entrepreneurial events," Baron et al. (1999, p. 3) discuss the "distinct 'organizational blueprints' or conceptions about employment relations" held by founders of new technology companies," and Begley and Tan (2001, p. 537) emphasize the "socio-cultural environment for entrepreneurship." These concepts clearly tap central constructs in institutional theory (Berger and Luckmann 1966, Meyer and Rowan 1977), yet none of these papers engages meaningfully with the institutional literature in organizational studies. Moreover, as discussed below, many empirical observations that are typically explained using economic theories, such as variations in founding rates in different geographical areas (Kirzner 1973, Pennings 1982, Shane 1996, Shane and Venkataraman 2000), are equally well—perhaps even more compellingly—explained within the framework of institutional theory. As with institutional theorists' neglect of entrepreneurship, the oblivion to alternative theoretical perspectives may stem from the disciplinary background of many entrepreneurship scholars. Mostly resident in business schools, these scholars often come from an economic tradition (Casson 1982) with a concomitant focus on firm growth, profitability, and economic development—not the typical domains of institutional theorists. The result has been mutual neglect, which we argue has limited the development of both traditions.

As shown in Figure 1, few published analyses of entrepreneurship to date have adopted an institutional theory approach. Over the last two decades, at most only one or two articles published per year in the two leading specialized entrepreneurship journals adopted this approach (a recent exception is 2008, which may signal a rapprochement). During the same time period, four leading generalist journals in organizational studies contained very few articles that dealt with entrepreneurship from an institutional theory perspective.

We believe that a more explicit articulation of the points of intersection of these two literatures offers a number of potential benefits for both literatures. Institutional theory's key premise—that normative expectations and socially shared assumptions often drive organizational decision making and practice—draws attention to factors that are apt to be important to understanding entrepreneurial behavior, factors typically ignored by studies that are framed around more rationalistic, economic perspectives (Tolbert and Zucker 1996). In addition, institutional theory offers a logical point of integration for a growing number of studies that implicitly reflect its theoretical focus on normative forces (e.g., Stuart et al. 1999, Higgins and Gulati 2003, Delmar and Shane 2004, Skinner and Staiger 2007, Sorenson and Stuart 2008). Such work could benefit from explicit consideration of some of the more nuanced arguments about how such normative forces operate that have been developed by institutional theorists (e.g., Greenwood and Suddaby 2006, David and Strang 2006, Glynn 2008, Scott 2008). Finally, research on newly formed organizations offers important opportunities to study organizational decision making, behavior, and outcomes in a context that is apt to be useful for both extending and clarifying the limits of arguments advanced by institutional theorists.

To these ends, our discussion is organized as follows. We begin with a very brief sketch of the development of institutional theory and research on entrepreneurship, respectively, to provide basic background for our discussion. We then consider a number of existing theoretical and empirical studies that relate to two key questions we believe are especially likely to benefit from the integration of these literatures—namely, how do institutions affect entrepreneurial choices? And how is entrepreneurship related to institutional change? In concluding, we identify a number of topics for future research that are suggested by this integration.

Figure 1 **Articles Taking an Institutional Theory Perspective on Entrepreneurship**



Notes. Specialized journals include the *Journal of Business Venturing* and *Entrepreneurship Theory and Practice;* generalist journals include the *Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly,* and *Organization Science.* For the specialized journals, we did an exact search for articles containing the keywords "legitimacy" or "institution*" in their citations and abstracts (ABI/INFORM Global) and citations to W. Richard Scott, John Meyer, or Paul DiMaggio (to avoid atheoretic uses of institutional terms). In the generalist journals, we used an exact search for articles with the keywords "entrepreneur*" AND ("legitimacy" OR "institution*") in their citations and abstracts (ABI/INFORM Global) and references to W. Richard Scott, John Meyer, or Paul DiMaggio, again to avoid other uses of "institution." The searches were done in July 2009.

2. Institutional Theory and Entrepreneurship Research in Synopsis

2.1. Institutional Theory

Understanding the historical context of sociological studies of organizations in the mid-1970s, when foundational work on institutional theory was first produced (Meyer and Rowan 1977), is useful to understanding the core arguments of this perspective. At that time, the majority of organizational research reflected the influence of functionalism as the reigning theoretical paradigm in sociology and, as such, was dominated by studies of formal organizational structures. Such studies were based, explicitly or (more often) implicitly, on the assumption that formal structures—offices and subunits, written rules and policies—were created and maintained because they enhanced the coordination and control of production activities and, hence, the functioning of the organization.

Institutional theory directly challenged the latter assumption.[1] Drawing on arguments about cognitive processes that anchor patterned social behavior (Berger and Luckmann 1966), theorists posited that formal organizational structures can become invested with social significance—interpreted and accepted as "normal" parts of rationally designed, well-run organizations. Under these conditions, the adoption and maintenance of formal structures can be explained by decision makers' unquestioning acceptance of common beliefs about the structures' utility, or by pressures from key resource providers such as customers, suppliers, and investors (Meyer and Rowan 1977, DiMaggio and Powell 1983).[2] Thus, in sharp contrast to the dominant explanatory approaches to studying organizations at that time, seminal institutional work suggested that many formal structures might have only a small (or even, possibly a negative) relation to operating efficiency. Although the concept of "institution" has been defined in various ways over time, here we use the term similarly to Meyer and Rowan (1977) to refer to commonly held beliefs and understandings about "proper" organizational structures and practices. A variety of work provides strong evidence that institutions, thus defined, are very important to understanding entrepreneurial choices. Before elaborating on this, however, let us first consider the evolution of research on entrepreneurship.

2.2. Entrepreneurship Research

The contemporary profusion of entrepreneurship research, rather ironically, can be traced, at least in part, to institutional changes that took place among business corporations and financial organizations in the 1980s. Entrepreneurship's origins as a distinct field lie in an area of business instruction known as "small business management" (Aldrich and Ruef 2006), whose curriculum was (and still is—see almost any course title listed with this phrase on the Web) devoted to providing aspiring business owners with basic accounting, marketing, and management skills. Its rapid growth and increased academic prominence in the last three decades (Cooper 2003) have been strongly affected by technological and, more importantly, economic changes that have resulted in new social rationales for and definitions of "founding a business."

In conjunction with the emergence of new and often highly profitable technologies that could be developed within small, fledging organizations (particularly in the areas of information technology and biomedical research), the expansion of nontraditional forms of financing for businesses—venture capital and private equity—helped foster a very different way of viewing organizations: ownership was increasingly seen simply as a form of stockholding, a relatively short-term investment to be sold as soon as some profitability threshold was attained (Krippner 2005). A burgeoning initial public offering market allowed the founders of small firms to "cash out" at the earliest opportunity. This institutional shift helped spur a wave of start-ups in a number of industries whose founders had the explicit intent of selling their ownership shares in the organization in the not-too-distant future (Zucker et al. 1998). Such foundings reflect very different motives and views of organizations than foundings undertaken with an eye toward making a long-term livelihood.[3] In line with this shift, the sobriquet "small business management" has been commonly replaced by "entrepreneurship," and organizational researchers and funders of research have become increasingly interested in studying an array of phenomena associated with this label (Thornton 1999, Sorenson and Stuart 2008). These phenomena include the decision processes involved in electing to create a new organization, designing the formal structure of the organization, and managing relationships with other organizations, especially those with investment capital. Below, we summarize a number of empirical studies that suggest ways in which institutions shape each of these decisions. Again, we underscore that most of these studies do not explicitly draw on institutional theory, although this framework does provide a useful integrative umbrella for them.

3. How Do Institutions Shape Entrepreneurial Choices?

3.1. Founding New Organizations

Much of the work on entrepreneurial foundings to date has drawn on economic theories that treat the decision to create an organization as the product of the discovery of entrepreneurial opportunities (Kirzner 1973), opportunities for individuals to make a profit by entering into market activities. Within this framework, such opportunities are viewed as existing "out there" prior to their discovery. As Shane and Venkatraman put it (2000, p. 220), "Although recognition of entrepreneurial opportunities is a subjective process, the opportunities themselves are objective phenomena that are not known to all parties at all times." This approach raises many thorny theoretical and empirical questions. For example, explaining variations in rates of organizational foundings across groups and over time seems problematic from this perspective. Are members of ethnic groups who are characterized by greater propensities to start new businesses (Light and Gold 2000, Waldinger et al. 1990) somehow inherently better at spotting opportunities than others? Do waves of organizational foundings over time reflect changes in individuals' perspicacity, or does the latter remain constant while existing opportunities flow and ebb?

As an alternative to this approach, institutional theory suggests that decisions to create new organizations are social products, shaped by definitions of entrepreneurship as an "appropriate" kind of economic behavior, which can vary across time, space, and social networks. This explanation is consistent with Saxenian's (1994) celebrated comparison of the different propensities to create new computer-based businesses in California's Silicon Valley and Massachusetts' Route 128. One reading of Saxenian is that entrepreneurship existed as an accepted institution in the former, but not in the latter. Her work, detailing regional differences in collaboration between local businesses and key universities, and in interorganizational exchanges of both information and personnel, strongly suggests that entrepreneurship, as an institution, was embedded in Silicon Valley but not on Route 128. Her account points to a number of historical contingencies that led to this key institutional difference. Likewise, the stream of work on regional economic clusters can also be interpreted as suggesting that, under certain conditions and in particular places and industries, entrepreneurship becomes normalized, even taken for granted as an accepted activity and an admired career path (Sorenson and Audia 2000, Romanelli and Khessina 2005, Khessina and Carroll 2008), whereas in other places—even ones with relevant resources—it does not (Sine and Lee 2009).

The implication of these analyses, that the presence of entrepreneurship as an institution may vary considerably across space and social networks, is also consistent with research on ethnic entrepreneurship (Aldrich and Reiss 1976, Bonacich 1973, Waldinger et al. 1990, Light and Rosenstein 1995). Zhou (2004, p. 1041), reviewing the literature in this area, notes, "It is generally known that certain groups of immigrant and ethnic minorities are more entrepreneurial and more likely than others to adopt small business ownership...." She then lists Jews, Japanese, Koreans, Chinese, Iranians, and Cubans as examples of such groups. Explanations suggest a number of material factors are at play (see Light 1972, Bonacich 1987, Portes et al. 2002) but they also highlight institutional sources. For example, Goldscheider (1986) points to a shared value of occupational independence among Jews, and Raijiman and Tienda (2000) note that Koreans accept business ownership as a natural "stop-gap" mobility strategy, although they do not want their children to be small business owners.

The separate literatures on regional variations in foundings and ethnic entrepreneurship therefore provide independent pieces of evidence for the argument that culturally embedded institutional notions of the appropriateness of entrepreneurship are key forces in shaping decisions to found new organizations (Brandl and Bullinger 2009).

3.2. Designing New Organizations

Once the initial decision to found an organization has been made, the next step is to determine *how* to organize—i.e., to decide what form the organization should take. One stream of research on this issue, generated by sociologists affiliated with the Stanford Project on Emerging Companies (see Baron et al. 1999, Burton and Beckman 2007), provides very strong evidence of the role of institutions in such decisions. Based on surveys and interviews conducted with nearly 200 Californian start-up firms in the mid-1990s, early work in this vein identified a number of largely implicit, distinctive models of organization that guided founders' decisions. Common models identified included "engineering," "star," "bureaucracy," and "commitment," each distinguished by a specific combination of compensation, control, and selection practices. Although these studies do not explicitly leverage institutional theory, the notion of models used in this work is quite consistent with our notion of institutions (see Greenwood and Hinings 1988 for more on organizational archetypes); they are described as "blueprints" for organizational design that founders believe are associated with effective organizations.

Questions of where such differences come from, and whether they can be maintained over time, are addressed in part by later work based on an expansion of the original data set by Burton and her colleagues (Burton et al. 2002, Burton and Beckman 2007, Beckman and Burton 2008). This work suggests that different models are derived in part from founders' prior career experiences—that is, that organizational designs of prior employment often implicitly shape entrepreneurs' cognitions and thus choices in creating their own organizations. Likewise, Phillips (2002) finds strong resemblance in the structures of newly founded law partnerships and those of the firms from which the partners came. This line of research documents the enduring impact of such choices. Burton and her colleagues find that initial organizational structure is extraordinarily durable and outlasts the formal influence of the founders of new organizations. Likewise, Mitsuhashi et al. (2008) find that initial organizational designs are difficult to change and play a more important role in determining future structural decisions than organizational attempts to optimize exchange relationships.

Other work has focused on the way in which other organizations, such as trade associations or related populations, can provide templates for new organizations. For example, a study of new independent power plants by Sine et al. (2005) shows that the formation of state associations in this industry, designed in part to foster the sharing of information and ideas among members, enhanced the rates of founding of organizations using conventional production technologies much more than those using innovative technologies. The authors argue that, whether or not by intent, because the leadership of the associations was often drawn from wealthier firms, and such firms were typically based on conventional technology, the association fostered an environment in which conventional technologies were viewed as preferable (see also Rosenkopf and Tushman 1998). Likewise, Hiatt (2009) finds that the level of variation in the founding of different types of organizations producing biofuels was affected by whether there was one dominant industry association or several competing associations in that particular state. In states with a single dominant association, there was much less variation in the technologies new firms used. Moreover, Dowell and David (2009) find that entrepreneurs in Alberta's deregulated liquor-retailing industry followed spatial templates established by the ancestral population of government-owned liquor stores when making location decisions, even though following these templates conferred no survival advantage.

Thus, insofar as important constituents hold consistent notions of appropriate form, some evidence suggests that these notions may exert strong pressure on entrepreneurs' decisions, regardless of whether they personally agree. It seems likely, moreover, that nonconformity to constituents' expectations may impose costs on new firms. Research by Zuckerman (1999), for example, indicates that firms not seen as fitting into conventional categories by stock market analysts had lower stock values, an "illegitimacy discount" (p. 145).

3.3. Managing External Relations

The creators of new firms must also make decisions about external relations—which suppliers to use, what partnerships to form, where to obtain funding for ongoing operations as well as expansion, how to build and maintain a customer base, etc. Once again, empirical work provides evidence that institutions and institutional processes are important in shaping these decisions.

For example, Uzzi (1996, 1997) distinguishes two key models of contractual relations, which he refers to as "arm's length" and "embedded." The former denotes relationships assumed by classical economics—short term, price-based, and driven purely by calculations of self-interest. The latter, in contrast, refers to relationships governed by expectations of enduring interactions, in which extra exchange costs may be absorbed by parties with an understanding that there will eventually be quid pro quo arrangements. Although Uzzi does not specify conditions under which one or another of these relationships will be most characteristic, we note that his studies documenting the institution of embedded exchange were conducted in distinctive settings that were geographically defined and dominated by particular ethnic groups.

Work by Suchman and Cahill (1996) on mutually supportive relations between new electronics and venture capital firms in Silicon Valley also suggests that the geographic concentration of both sets of exchange partners in this area may be an important influence on the rapid development of highly institutionalized patterns of interorganizational relations between investor and production companies. In addition, they highlight the surprising role played by law firms in facilitating and maintaining such cooperative exchange institutions. Moreover, research by Burton et al. (2002) demonstrates the impact of new firms' compliance with the standards of the Silicon Valley community in terms of their ability to obtain funding. And Guler (2007) finds evidence of normative and mimetic influences on the decisions of venture capital firms to continue their funding of start-up companies.

On a related note, studies suggest that decisions by entrepreneurs to form alliances with other firms (including funders) may be shaped by their awareness of the social significance attached to such ties. Various scholars have shown that formal ties by a focal firm to prominent organizations within a community can impart legitimacy to the firm along various dimensions and ultimately lead to enhanced firm performance. Thus, work by Stuart et al. (1999) shows how entrepreneurs affiliated with high-status venture capital firms are more likely to obtain needed resources, survive, and grow. Likewise, Sine et al. (2003) argue that associations with high-status universities enhance opportunities for raising capital for new technology-based ventures. In line with this, Dacin et al. (2007) suggest that strategic alliances serve an important legitimating function, beyond their more often-studied benefits for skills acquisition, risk sharing, and economies of scale, consistent with findings by Zott and Huy (2007). And David (2011) explains how hiring from the rapidly expanding population of business schools bolstered early management consulting firms' claims of providing "expert" advice.

Together, this research suggests the importance of external relationships for entrepreneurial ventures, not only for their functional benefits (knowledge, capital, access to markets) but also for their legitimating potential: organizations that follow institutional models of exchange and display ties to prominent institutions in their environment are more likely to be seen as "desirable, proper, and appropriate" (Suchman 1995, p. 574) by constituents. It also suggests that the form and durability of these external relationships are strongly influenced by institutional forces.

3.4. Summary

In sum, these studies provide compelling evidence that prevailing institutions—consisting of normative expectations and understanding of acceptable organizational structures and practice—exert considerable influence on decisions about appropriate structures, practices, and behaviors of entrepreneurial ventures, and that studying these influences is therefore critical to studies of entrepreneurship. But these arguments can be seen as painting an overly determined view of choice and action, a common complaint leveled against institutional theory. Recent work by institutional theorists has sought to address this problem, focusing on sources of change in existing institutions and the generation of new ones (for reviews, see Lawrence and Suddaby 2006, David and Bitektine 2009). Rarely, however, is the connection between institutional change and entrepreneurship made explicit. Our focus in the following section, therefore, is on how changes in institutions can occur and how such changes are related to entrepreneurial activities and opportunities.

4. How Is Entrepreneurship Related to Institutional Change?

We begin our discussion by considering a recent stream of work on the impact of broad-based social movements on organizational environments, particularly on cognitive and normative environmental dimensions. Whereas much of the work on the creation of entrepreneurial opportunities has focused on technological shifts (Tushman and Anderson 1986, Tripsas 1997, Katila and Mang 2003), this recent literature suggests that the influence of cultural shifts merits much more attention by entrepreneurship researchers. In this context, we describe the ways in which changes in organizations' environments produced by social movements both create opportunities for entrepreneurs and affect their willingness to pursue such opportunities. We also consider how entrepreneurial activities thus generated can lead to the creation of new institutions, including new forms of organization and new occupations.

4.1. Social Movements and Entrepreneurship

A recent stream of research has begun to explore specifically how social movements affect organizations (Schneiberg and Bartley 2001, Schneiberg 2002, Lounsbury et al. 2003, Rao 2009). Although this work provides compelling evidence of the relation between the size and activities of social movements and changes in organizations, the specific mechanisms through which such changes are produced, and in particular how they affect entrepreneurial activity, have not always been made clear (e.g., Haveman et al. 2007). Moreover, the reciprocal relation, the impact of entrepreneurial activities on the trajectories of social movements, has been almost entirely neglected.

There is no single agreed-upon answer to the question "What is a social movement?"; however, most academic responses include "change-seeking" as a definitional element. Thus, McCarthy and Zald's (1977, pp. 1217–1218) classic work characterizes movements as "…a set of preferences for changing some elements of the social structure and/or reward distribution in society" (see also Garner 1996, King and Soule 2007). How do movements bring about social change? Much of the social movement literature has focused on efforts of social movement organizations[4] to influence "institutional authorities," which often result in legislative change. Although government agencies and, more broadly, legal systems may often be movements' proximate targets, ultimately, effecting social change requires changing the operating procedures, policies, and products of organizations. Whether the values pursued by a movement concern racial and gender equality, or antiabortion and heterosexual-only marriage, to become enduring elements of society, they must be embedded in the policies and practices of various organizations, such as schools, medical clinics, and business firms. Sometimes this entails changing the policies and practices of extant organizations (e.g., admissions and hiring protocols, curricular content, benefits provisions, etc.), but it may also entail creating new forms of organizations and/or new occupations.

Social movement organizations seldom make nonlegislative organizations the direct targets of their influence activities. More often, they affect such organizations indirectly by changing aspects of organizations' environments (Sine and David 2003). This can include altering common beliefs and understandings of what kinds of behaviors and activities are harmful and risky, or safe and responsible—affecting cognitive aspects of the environment through educational activities. Movements may promote shared notions of the kinds of organizational practices and procedures that are "right"—shaping normative aspects of organizations' environment through proselytizing and other techniques of moral suasion. And finally, movements may seek to alter legal definitions of property rights and the distribution of resources—changing regulative aspects of the environment through political activities (Scott 2008).

These sorts of environmental changes can affect entrepreneurial activity in several ways. They can motivate entrepreneurs who are sympathetic to the values of a given movement to create products and new organizations that are consistent with those values; they can persuade individuals to accept certain products and services as valuable, creating market opportunities that even nonsympathizing entrepreneurs may elect to pursue; and they can affect policies and create infrastructures that reduce the costs and risks associated with certain entrepreneurial activities. We discuss each in turn.

4.1.1. Motivating Entrepreneurship. Entrepreneurial motivations are complex. Although economic theories stress calculations of monetary gain as the driving force behind entrepreneurs' risk taking, the realization of deeply held values can also serve as an important, separate source of motivation. By framing particular types of opportunities as virtuous, social movements can legitimate an area of economic activity (Aldrich and Fiol 1994) and encourage individuals to take risks that they might not take if they were driven purely by financial concerns. For example, Russell Wolfe became interested in wind power technology when he was challenged by his daughter to "do something in his life as worthwhile as developing renewable energy sources" (Asmus 2001, p. 57). Although renewable energy was considered very high risk at the time, Wolfe and other entrepreneurs were willing to assume those risks partly because of their commitment to values promoted by the environmental movement (Sine and Lee 2009). Likewise, some early entrepreneurs in the soft drink industry were advocates of temperance and formed soft drink companies to provide alternatives to "hard drinks" (Hiatt et al. 2009). Likewise, the Progressive movement's valorization of efficiency and the application of scientific logic to solving social problems (including nonoptimally functioning organizations) provided a source of inspiration for some champions of the new profession of management consulting (David et al. 2008). We underscore that social movements may not intend to promote such entrepreneurial activity by adherents; however, by providing normative justification for the activities, they can affect entrepreneurs' perceptions of the value of such activities. Such perceptions may also be influenced by market demand created by movements.

4.1.2. Creating Market Opportunities. By persuading individuals of the benefits of acting in ways that are consistent with the values promulgated by the movements (on either normative or cognitive grounds), social movements can also create demand for new products and services. Thus, even if entrepreneurs are not themselves adherents of a movement, they may still respond to these opportunities. For example, as the American temperance movement made the use of alcohol less socially accepted in the late 1800s, individuals began to search for other beverages to substitute for alcohol on occasions where it had normally been served. Asa Candler, founder of the Coca-Cola Company, and other soft drink manufacturers responded to this demand by defining their products as "temperance drinks" (Pendergrast 1993). Likewise, the organic foods movement convinced potential customers of the benefits of and need for pesticide-free agricultural products, leading to a rapid growth in demand for such products. In response, entrepreneurs—including those who had relatively little concern for environmental issues but who recognized a market opportunity when they saw one—became involved in meeting consumer demand (Lee 2009; see also Weber et al. 2008). In the same way, the quality movement (Cole 1995) created demand among organizations for quality management programs; this demand was filled by management consulting firms, both existing and newly founded (Abrahamson and Fairchild 1999, Guler et al. 2002, David and Strang 2006). As Lounsbury (2001) notes, the environmental movement helped spur colleges and universities to set up recycling programs, which in turn contributed to the growth of profit-oriented firms that collected and processed recycled products.

Likewise, by normatively framing some activities as appropriate, social movement organizations infuse value into some types of resources that may have otherwise been viewed as valueless. This is illustrated by the development of wind power in Texas and California in the early 1980s. Although Texas had vast amounts of high-quality windy land, very few entrepreneurs tried to build wind farms. Despite California's relatively more modest endowment of natural resources for such enterprises, a larger number of wind farms were founded there. Sine and Lee (2009) demonstrate that such differences reflected the key influence of environmental groups, which were much more active in California, and affected entrepreneurs' perceptions of the potential value of wind farming.

4.1.3. Providing Supporting Infrastructure. Finally, as movements mobilize members to promote social change, they can help generate infrastructures that facilitate the creation of new enterprises. Such infrastructures include social networks that may link potential entrepreneurs and potential supporters; new economic policies, of either government agencies or other powerful actors (e.g., private foundations), that offer financial support for new enterprises; and laws that legitimize and define the boundaries of new markets. Network relations that develop among the members of social movement organizations often serve as a conduit through which information about resource opportunities reaches entrepreneurs (Shane 2000, Swaminathan and Wade 2001) and as a vehicle for connecting entrepreneurs and potential investors (Greve et al. 2006). For example, the founders of Wind Harvest International met Sam Francis, a wealthy artist who became a key investor in their fledgling company, through their work with the Sierra Club (Asmus 2001).

As noted, movements often target government actors, seeking legislation that is consistent with the values they espouse. Such legislation can provide resources for entrepreneurs, both directly and indirectly. For example, the passage of the Civil Rights Acts in the 1960s and 1990s indirectly enabled a host of entrepreneurial activities, from the founding of new law firms specializing in employment discrimination suits (on both the plaintiff and management sides) to the creation of consulting firms assisting employers with issues of diversity management (Kalev et al. 2006, Dobbin and Kelly 2007). The environmental movement helped pass state and federal laws defining requirements for the labeling of foods as "organic," thus legitimating as well as defining the boundaries of the new market for organic produce (Lee 2009). This movement also played a key role in the passage of federal legislation that provides favorable tax policies for entrepreneurs in the independent power sector, helping to offset the inherent risks of founding firms in this new and undeveloped area (Lee and Sine 2007).

Thus, as social movements seek to bring about changes in broad-based value orientations, they can create new market opportunities for entrepreneurs, motivate them to seize such opportunities, and enhance their chances of success by creating infrastructure that enables action. In turn, entrepreneurial activities can lead to the generation of a variety of organizational-level institutions—new forms, new practices, and new occupations—that embody and perpetuate the changes set in motion by social movements. We next turn to this issue.

4.2. Entrepreneurial Action and Organizational Institutions

Recent research has shed light on how entrepreneurs leverage social movements to found new organizational institutions—new organizational forms and practices that become taken for granted within a social sector. Entrepreneurs frequently engage in additional theorizing of problems (Strang and Meyer 1993) identified by movements and develop new types of organizations that presumably address these problems. These activities can strengthen—or potentially even redirect—the social changes initiated by social movements. For example, Rao (1998) describes how early consumer watchdog organizations were theorized by their founders as a solution to rampant product proliferation and misleading advertising, social problems initially identified by the Progressive movement. They proposed the formation of novel organizations devoted to impartial, scientific testing as a solution to these problems, a form of organization that became a lasting, taken-for-granted embodiment of the movement that motivated it. More recently, David et al. (2008) analyze how early entrepreneurs in the management consulting industry, building on the momentum created by scientific management (itself an outgrowth of the larger Progressive movement), worked to convince the executives of large corporations that their organizations were inefficient and that knowledge from the fields of accounting, psychology, and the natural sciences could offer solutions. The result: the creation of a new occupational group, management consultants, who could serve as a point of transmission of such knowledge for corporate use.

Of course, this raises a key question: What makes theorization of this kind compelling to constituents, the targets of such activity? Much recent research has focused on the importance of rhetorical skill in the process of institutional change (e.g., Seo and Creed 2002, Phillips et al. 2004, Greenwood et al. 2002). This seems to be a logical but also insufficient condition, particularly in an entrepreneurial context where the self-interested motives behind rhetorical claims are apt to be fairly transparent. In such a context, constituents are likely to look for more tangible evidence supporting the theorization of entrepreneurs.

Research suggests that one way in which entrepreneurs address this issue is by creating new collectively oriented, field-level organizations and institutions, such as industry associations and certification systems, to legitimate their new enterprises and occupations. For example, the National Electric Light Association (NELA) and the Association of Edison Illuminating Companies (AEIC) helped define the boundaries of the emerging electricity industry by denouncing city-owned electric firms, excluding them from their meetings, and organizing boycotts against this competing form (Granovetter and McGuire 1998, p. 154). The American Association of Museums (AAM) promoted the legitimacy of the art museum through regional and national conferences, leading DiMaggio (1991, p. 286) to conclude that "the diffusion of museums was guided and shaped by the emergence of fieldwide structures at the national level, outside the boundaries of particular museums."

More recently, Sine et al. (2007) show how entrepreneurs in the independent electric power industry worked to create a certification system that raised the confidence of resource holders in the entrepreneurs' activities. Likewise, Ierfino (2010) describes how small wine producers in Ontario helped to establish the Vintners Quality Alliance (VQA) and its certification system, which raised consumer confidence in their wine products. Eventually, VQA certification was enshrined in law, and it now confronts wine-making organizations as an external and coercive fact. Likewise, David et al. (2008) explain how early management consulting entrepreneurs formed the Association of Consulting Management Engineers in 1929; this association worked to build common standards of practice among early consultants, which contributed to the belief that management consulting firms could address the efficiency problem of large corporations (a problem which the entrepreneurs themselves had worked to make salient). As these studies suggest, endorsements from collective bodies—even those constructed by entrepreneurs themselves—can strongly influence the evaluations of constituents (Graffin and Ward 2010).

Thus, entrepreneurs not only respond to opportunities created by institutional change, they also create organizational institutions that provide seemingly "objective" and dispassionate information, further entrenching new beliefs and assumptions. In this way, their activities can extend and deepen the social movements from which they stem. The irony, of course, is that the organizational-level institutions thus created often serve as constraining forces on the choices of subsequent entrepreneurs, as described in the earlier sections of this paper.

5. Directions for Future Research

The preceding discussion has aimed to demonstrate the ways in which the concepts and logic of institutional theory can provide an integrating framework for seemingly disparate bodies of research on entrepreneurship, and conversely, how studying entrepreneurship can contribute to the advancement of institutional theory by illuminating the process through which institutions are created and changed. This suggests some interesting unanswered questions and thus some potentially fruitful lines of inquiry. We list just a few of these by way of illustration.

What are the social conditions that make entrepreneurial activity more easily accessible as an employment option within a group and that support such activity (i.e., that give rise to entrepreneurship as an institutionalized career path)? Literatures on ethnic entrepreneurship and on regional clusters attest to the importance of strong networks in facilitating flows of information about both opportunities and "how-to" knowledge, but this begs the question of what factors encourage the formation of such networks. It is also unclear whether strong networks are a necessary but insufficient condition for higher rates of entrepreneurship: Does increasing network density within local communities *typically* lead to higher rates of foundings, or does this relationship depend on mediating factors? This general problem is not only theoretically intriguing but clearly has implications for the success or failure of economic policy efforts, such as the formation of business enterprise zones (O'Keefe 2004; see also Marquis et al. 2007).

Do states or local areas with more active social movement organizations generally have higher rates of entrepreneurship, and if so, what are the mechanisms through which these effects are generated? Can increases in related areas of entrepreneurship strengthen social movements and social movement organizations? Are countermovements, or more conservative movements, as likely to foster entrepreneurial activities as other types of movements? Although these questions may have less obvious policy connections, they lie at the confluence of research in institutional theory and entrepreneurship, and they address basic issues of understanding social and organizational change.

If social movements are geographically bound, what implications does this have for the organizational institutions that they spawn? For example, in the case of management consulting, this organizational form stemmed from the Progressive movement, which was strongest in North America. Has this connection limited the expansion of this organizational form to other geographic areas? How has the underlying logic of the organizational form been translated to different contexts (Kipping 1999)? Likewise, will the organic food organizations that arose in response to the organic food movement in the United States be equally successful elsewhere? These questions call for greater attention to the geography of social movements, and the answers to these questions (yet to be discovered) are of importance to entrepreneurs wishing to "import" organizational models across national borders.

Under what conditions are entrepreneurs more likely to act collectively, developing organizations and other arrangements that support new enterprises, and what are the conditions under which such collective action is effective (i.e., will it spur new foundings, reduce the mortality of new organizations, etc.)? Do such activities also affect the level of heterogeneity in the forms that new organizations take—perhaps an unintended consequence? At what point do field-level, collective organizations (e.g., industry associations, standard-setting bodies) begin to *limit* rather than foster entrepreneurship? Again, the answers to these questions could have practical significance as well as being of theoretical interest.

6. Conclusions

Past researchers in the largely separate domains of entrepreneurship and institutional theory have paid little attention to one another, despite (what seems to us) the clear benefits that integrating these two traditions bring. Research in the institutional tradition has largely focused on the constraints inherent in social structure, paying less heed to the creation of new forms, practices, and industries. Institutional theorists in the 1980s and 1990s typically examined how institutions spread across extant organizations and often overlooked the role played by skilled institutional entrepreneurs in institution construction (Tolbert and Zucker 1996; see DiMaggio 1991 for an exception). Likewise, early entrepreneurship research examined individual entrepreneurs and the traits that "made" them entrepreneurs. This research lacked macro-level explanations for how social structure enabled, constrained, and shaped individual action. More recent entrepreneurship scholars have treated opportunities as objective, preexisting phenomena awaiting "discovery" by sharp-eyed and enterprising actors. We argue that institutions shape both the identification of opportunities by entrepreneurs and the way in which they set about exploiting them. Conversely, entrepreneurs are critical to the construction and institutionalization of new practices, forms, and structures as they act to instantiate broad social changes at the organizational level. Although the intersection of entrepreneurship research and institutional theory has been neglected in the past, there is some evidence that the number of researchers addressing this intersection is growing—but we believe it remains rich with opportunities for further scholarship that can enhance our understanding of entrepreneurial phenomena and contribute to the intellectual tradition of institutional theory.

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Endnotes

[1]There are several varieties of institutional theory, including a tradition from political science (North 1990) and one from economics (Williamson 1985); in contrast to the sociological tradition, the institutional streams within political science and economics have generally maintained a functional approach to studying organizational structure (DiMaggio and Powell 1991, Scott 2008).

[2]Which of these two mechanisms is apt to be most influential in determining the diffusion of structures (as well as their postadoption fates) was not clarified in these early studies, and indeed, this remains a question in contemporary work in this tradition (Tolbert and Zucker 1996, Abrahamson and Fairchild 1999, Hinings and Tolbert 2008, Scott 2008).

[3]The variations in actors' orientation toward organizational formation underlie many of the debates about how to define *entrepreneurship*. Aldrich and Ruef (2006), for example, note that some reserve the term for organizations characterized by high growth and capitalization, some use it for organizations that are based on core innovations, and some apply it to any type of organizational creation. We use the latter, big-tent concept here.

[4]Work on social movements usually distinguishes a general movement for some change from specific organizations that are created to pursue such change. For example, the social movement for racial equality in the 1960s was represented by a range of social movement organizations, including the National Association for the Advancement of Colored People (NAACP), the Black Panthers, and the Student Nonviolent Coordinating Committee (SNCC), among others.

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