

**Institutions and Entrepreneurship:
Broadening and Contextualizing the Institutional Theory in Entrepreneurship Research**

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Abstract

We comment on Hitt & Xu's (2019) paper summarizing recent research at the interface of institutional theory and entrepreneurship. We agree with the authors' suggestion that scholars develop a theoretically rigorous and comprehensive approach to address institutional effects on entrepreneurial strategy and performance. At the same time, we point to two avenues for future research that we hope can expand the new institutional economics view that underlies much of current research. First, we discuss research on institutional logics and institutional complexity, highlighting its potential in broadening our view of institutions. Second, we call for more research to contextualize the institutional theory in entrepreneurship research.

Keywords: institution, entrepreneurship, institutional polycentrism, institutional logics, institutional complexity

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Challenging the overly simplistic view of institutional effects on entrepreneurial activity, Hitt and Xu's (2019) review and agenda piece brilliantly summarized recent development of research at the interface of institutional theory and entrepreneurship, pointing to exciting opportunities in three major topical areas: (a) there are multiple types of institutions (e.g., formal and informal) and they exist at multiple levels (national, regional, local/city); (b) while individual institutions can and do have effects on entrepreneurial activities, the combinative effects of multiple institutions are often much more complex and influential, yet underexplored, and; (c) institutions are not static but evolve over time, perhaps more rapidly in emerging economies. We applaud this effort, and agree with the authors that it is important to develop a theoretically rigorous and comprehensive approach to address institutional effects on entrepreneurial strategies and actions. In this regard, the treatment of institutions as polycentric, the classification of different types and levels of institutions, and the attention to their combinative effects all have important implications for the way we think about how institutions shape entrepreneurial opportunities and enable and constrain entrepreneurial actions.

Yet we note that the majority of the studies reviewed are framed around more rationalistic, economic perspectives, often under the umbrella of new institutional economics (North, 1990; Ostrom, 2005). The focus of this commentary is to draw attention to a robust stream of research on institutional theory rooted in sociology and organization theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In particular, the exciting recent development around the institutional logics perspective (Thornton, Ocasio, & Lounsbury, 2012) and institutional complexity (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011) focused squarely on the notion of society as constituted by multiple institutional orders, the competing or complementary relationships among institutional logics, and their implications for organizational

strategies and responses. Scholars following this tradition have made significant advancement in understanding how institutional logics and institutional complexity shape entrepreneurial actions and outcomes (Cobb, Wry, & Zhao, 2016; Zhao & Lounsbury, 2016; Zhao & Wry, 2016). We argue that bringing in this line of research to the institutional economics approach represents an expanded research opportunity, and encourage future studies at the interface of institutions and entrepreneurship to more fully engage contemporary research on institutional logics and institutional complexity. To this end, we selectively review some recent work to demonstrate the value of the institutional logics perspective in guiding entrepreneurship research. In doing so, we highlight how this approach can help bring new insights in addressing the three major topical areas discussed by Hitt and Xu (2019).

In addition, we find Hitt & Xu's (2019) strong emphasis on promoting the notion of institutional polycentrism, while reasonable given the space constraint, has nevertheless eclipsed the substantive discussion of entrepreneurship as the context. As such, aside from drawing attention to how the institutional logics perspective and institutional complexity can inform entrepreneurship studies, we discuss the importance of grounding and contextualizing the institutional theory in entrepreneurship research more generally.

Go Beyond the Dichotomy of Formal versus Informal Institutions and Reorienting towards Society as an Inter-Institutional System

Hitt and Xu's (2019) focus on institutional polycentrism represents an important advancement beyond the overly simplified categorization of institutions in terms of formal versus informal. According to the theory of institutional polycentrism, institutional environments are not composed of individual, standalone institutions, but instead are characterized by multiplicity—the confluence of different types of interrelated institutions (Kogut & Ragin, 2006; Ostrom, 2005). As such, institutions are complex and multifaceted, originating from multiple

(poly) rule-setting centers such as governments, associations, and communities (Batjargal et al., 2013; Li, Hernandez, & Gwon, 2019; Ostrom, 2010). The confluence of these various institutions, through their dynamic interactions and mutual reinforcement, impose strong and qualitatively different effects on organizational actions and outcomes (e.g., entrepreneurs' network structure, new venture growth, new venture formation rate, entrepreneurial finance) than a single institution would (Batjargal et al., 2013; Ostrom, 2005).

While the theory of institutional polycentrism enabled us to better theorize and measure heterogeneous institutional conditions across countries and how such institutional variations systematically shape organizations' structure and strategies, its deep root in new institutional economics has constrained its focus primarily on economic and political institutions (e.g., political risks, regulatory regimes) and non-market institutions (e.g., associations). According to this theory, institutional variations penetrate organizational behavior and outcomes mainly by shaping resource flows and structuring sanctions and incentive systems. Given its concentration on economic and political institutions and the associated material impacts on organizations, the theory of institutional polycentrism has paid insufficient attention to culture and its influence on organizational attention and identity. Culture is considered an informal institutional order, built upon some shared understandings and assumptions related to six major dimensions: power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance, long term versus short term orientation, and indulgence versus restraint (Hofstede, 1980; House, Hanges, Javidan, Dorfman, & Gupta, 2004; Li & Zahra, 2012). This conceptualization views culture as composed of a set of homogenous norms and generalized value systems (Hofstede, 1980). Culture in this case serves as a strong force with sweeping effects across contexts, implying a largely homogeneous model of cultural influence based on a

number of preset culture dimensions and an impoverished approach to understanding the rich cultural dynamics that shape entrepreneurial processes (Lounsbury & Glynn, 2001, 2019).

As such, the theory built around institutional polycentrism reflects its strong origin in new institutional economics. In new institutional economics, institutions are ‘humanly devised constraints that shape human interaction’ (North, 1990: 3). Institutions exist to reduce the uncertainties involved in economic exchange which arise as a consequence of the complexity of the environment and computational limitations of individuals. Institutions create the incentive structure in an economy, and organizations are created to take advantage of the opportunity set provided within a given institutional framework to accomplish the purposes of maximizing wealth or other objectives. Institutions evolve over time, and institutional change is path dependent. In this new institutional economics approach, the conceptualization of institutions as formal and informal rules that provide constraints is highly consistent with the reductionist approach and rational choice assumptions in explaining the behavior of actors given the institutional constraints faced (Bruton, Ahlstrom, & Li, 2010; Li & Zahra, 2012; Lounsbury & Glynn, 2019).

Compared with the theory of institutional polycentrism, the institutional logics perspective rejects the rational choice approaches that instrumentalize behaviors and views institutions as “socio-cultural constructions that both constrain and enable different kinds of behaviors” (Lounsbury & Glynn, 2019). A distinctive feature of the institutional logics perspective is its conceptualization of society as an inter-institutional system constituted by multiple institutional orders, such as markets, corporations, professions, states, families, religions, and communities (Thornton et al., 2012). Each institutional order is characterized by unique organizing principles, practices, and symbols that shape individual and organizational

identity, focus their intention and attention (Grimes, Williams, & Zhao, 2019), and influence their actions (Thornton & Ocasio, 1999; Thornton et al., 2012). Individuals and organizations are situated within and across the spheres of these different institutional orders, subject to sometimes incompatible and sometimes complementary guiding principles and prescriptions of organizational behavior (Zhao & Wry, 2016). When individuals and organizations confront incompatible prescriptions from multiple institutional logics, they face what we call institutional complexity (Greenwood et al., 2011). While institutional complexity inevitably generates challenges and tensions for those exposed to them, it also provides unique opportunities for entrepreneurial actions.

The institutional logics perspective and the notion of institutional complexity represent a powerful approach for comparative institutional designs and help foreground the heterogeneous configurations of institutional orders within and across nations, and the intricate relationships among those institutional orders. Its theorization of institutions are more comprehensive and systematic, going beyond economic and political institutions to cover various institutional orders. Its focus on the incompatibility or complementarity among different institutional logics bestows partial autonomy on actors, i.e., institutions not just constrain but also enable entrepreneurial actions.

This conceptualization of society as an inter-institutional system also implies cultural pluralism that embraces the “culture as toolkit” approach and views the wider cultural repertoire as an enabler of multiple forms of rationality and basis of strategic actions (Spillman, 2002; Swidler, 1986). Instead of imposing strong structural constraints, culture can provide critical resources that entrepreneurs mobilize to construct optimally distinct identity (Navis & Glynn, 2010; Zhao, Fisher, Lounsbury, & Miller, 2017; Zhao, Ishihara, Jennings, & Lounsbury, 2018)

and manage to develop strategies of action (Lingo & O'Mahony, 2010; Lounsbury & Glynn, 2019). We summarize the key differences between the institutional polycentrism and institutional logics perspectives in Table 1.

Institutional Complexity and Entrepreneurial Opportunities and Actions

In the past decade, there has been an emerging stream of research that adopts the institutional logics perspective and engages the notion of institutional complexity in addressing entrepreneurship related topics. The co-existence of multiple, competing logics has been shown to create entrepreneurial opportunities and motivate entrepreneurial actions. For example, (Marquis & Lounsbury, 2007) showed that large, national banks' acquisitions of smaller, local banks (i.e., manifestation of strong banking logic) triggered banking professionals' resistance, leading them to mobilize and found community banks in order to preserve the community logic of banking. As such, sensing and exercising "entrepreneurial opportunities" is not a neutral, objective occurrence but one embedded in broader institutional dynamics involving competing logics.

An institutional logic may also manifest differently with varied strengths across institutional orders, contributing to heterogeneous configurations of institutional environments (Zhao & Wry, 2016). Such heterogeneous institutional configurations may in turn shape various types of resource flows that are critical to new venture survival and performance. Reflecting this, (Zhao & Wry, 2016) found that patriarchy, a societal-level logic, is differently evident across institutional orders in different countries. In countries where it is universally strong across institutional orders, entrepreneurs face the strongest constraint and their entrepreneurial actions are likely suppressed. In comparison, in countries where it is strong in certain institutional orders (e.g., family and religion) yet weak in others (e.g., state and professions), the resulting contrast

helps draw attention to gender inequality issues, motivate redress efforts, and encourage various types of resources flows (e.g., clients, loan officers, and government support) into the microfinance sector.

Beyond directly shaping entrepreneurs' motivations and the kind of opportunities and constraints they face, institutional logics also influence the funding preferences and strategies of resource providers. In the case of microfinance, for instance, commercial funders and public funders follow unique funding logics—financial and development logics, respectively—and prefer different types of microfinance organizations to support, particularly in placid environments (Cobb et al., 2016). In addition, two kinds of institutional logics—related to market and religion—of the host country also have been shown to independently and jointly affect microfinance organizations' capital acquisition from the two different types of funders (Zhao & Lounsbury, 2016).

Beyond these cross-national comparative studies, the institutional logics perspective and institutional complexity are equally powerful in explaining regional institutional variations within nations. For example, Zhao & Yang (2019) examined gender gap in new venture performance across different provinces in China, and found that different provinces are characterized by unique configurations of government interference in market-based competition and cultural beliefs in gender inequality. They showed that in provinces with strong government interference and strong cultural beliefs in gender inequality, women entrepreneurs make systematically different career and life choices as compared with male entrepreneurs; they are more likely to select into low (vs. high) revenue-generating industries, and they are less likely to participate in after-work social activities, both of which are critical for new venture success.

As demonstrated by these examples, the institutional logics perspective is indeed a powerful approach in conceptualizing institutional multiplicity, capturing the intricate relationships among various institutional orders, and guiding research on the impact of institutional variation at different levels (e.g., national, regional) on entrepreneurial actions and outcomes.

Historically Contingent Institutions and Entrepreneurship

Consistent with Hitt & Xu (2019), the institutional logics perspective assumes that institutions are not static, but are historically contingent. Going beyond Hitt & Xu (2019) though, the institutional logics perspective argues that institutions are historically contingent not just because of the passing of new laws and shift of regulations, but also because of the changing salience of different institutional orders and the associated changes in interpretations and collective sensemaking (Thornton et al., 2012). For example, modern societies are typically more influenced by the logics of the state, the professions, the corporation, and the market. As nations become more open, democratic, and integrated into world society, they face pressure to introduce policies that promote free markets, human rights and equality. The salience of the influence of market logics in particular has risen over the last 30 years as shown in studies as diverse as mutual fund (Lounsbury, 2002), higher educating publishing (Thornton & Ocasio, 1999), health care (Scott et al., 2000), and community banking (Marquis & Lounsbury, 2007). Similarly, there is also an increase of professional training, tertiary education, and the adoption of curricula that teach global values of equality and human rights (Meyer & Höllerer, 2010; Ramirez, Soysal, & Shanahan, 1997).

In contrast, the role of some other institutional orders such as the family might have retreated or shifted in modern society. For instance, significant changes in marriages, divorce,

and birth rates in North America have reshaped family composition and modified the roles and relations of family members; families are growing smaller and losing many of their previous role relationships (Aldrich & Cliff, 2003). We observe similar trends in societies like China (China Daily, 2014). Alternatively, some ingrained values and beliefs (e.g., patriarchy) might be enduring and difficult to dislodge in the institutional order of family and religion, despite modernization of society. For example, even in nations such as Japan and South Korea—where female education is widespread, voting rights are universal, and there are formal anti discrimination laws—patriarchy in the family and religion continue to support gender inequality (Siegel et al., 2014; Zhao & Wry, 2016).

These historically contingent institutional patterns have significant implications for entrepreneurship research. In Zhao & Yang's (2019) study of women entrepreneurs in China, for instance, they found that there have been concerted efforts among government agencies and non-governmental organizations pushing towards gender equality and enhancing women's right. As a result, women are increasingly well-educated, their well-being significantly improved, and they are encouraged to participate in labor force. Consistent with this broader trend, women entrepreneurs are also increasingly comparable to male entrepreneurs in terms of their access to critical resources such as training, networks and bank loans. Despite these positive changes, however, women entrepreneurs continue to confront stronger gender inequality beliefs in certain regions than others. In fact, some even argue that there is a resurgence of modern day sexism, as reflected in the phenomenon of so called "left-over women" (i.e., those women who are in their late 20s but have yet to marry are strongly stigmatized). Zhao & Yang (2019) suggested that this resurgence of modern day sexism has a significant impact on women entrepreneurs' decisions in pursuing and dedication to entrepreneurship.

We agree with Hitt and Xu (2019) that attending to the historical evolution of institutions is particularly important for studies of entrepreneurship in emerging economies like China and India, due to their rising economic clout, rich culture, strong yet changing historical legacies, and durable values and beliefs. The institutional logics perspective has the potential of helping us identify and model the shifting influence of various institutional forces that operate simultaneously in influencing entrepreneurs and shaping the fate of their ventures.

Contextualizing Institutional Theory in Entrepreneurship Research

Hitt & Xu (2019), like many institutional studies on entrepreneurship, focused on the institutional aspect. In fact, the institutional approach on entrepreneurship remains largely an application of the theory with entrepreneurship treated as another context. While this approach can shed light on entrepreneurship phenomena, we believe that grounding and contextualizing institutional theory in entrepreneurship research can further theory building in entrepreneurship research and in turn enrich the institutional theory (Zahra, 2007).

Entrepreneurship represents a rich and unique context for institutional research. As Hitt & Xu (2019) pointed out, entrepreneurship could be undertaken by new ventures or by established firms in the form of corporate venturing. New ventures are unique in that they are usually characterized by lack of resources and track record, as well as high risk and uncertainty (Gompers, 1995, Li, 2008). Will institutions have a similar impact on corporate venturing and new venturing in terms of providing resources and incentives or posing constraints? Further, new ventures typically go through several stages of development, from idea generation to idea execution and scale-up. What combination of institutions would be particularly beneficial for ventures at different stages of development? In addition, in entrepreneurship research, recognition, creation, and exploitation of entrepreneurial opportunities is at the core of new

venturing (Venkataraman, 1997). Do different types, levels and combinations of institutions play a different role in the creation and discovery of entrepreneurial opportunities? Finally, do we need to relax any assumptions in the institutional theory in its application to entrepreneurship?

Another avenue for contextualizing the institutional theory in entrepreneurship research is the co-evolution between institutions and entrepreneurship. Much of current research on institutions and entrepreneurship, especially in the new institutional economics tradition, can be characterized as a choice-within-constraints approach; that is, institutions are often viewed as given or stable, and entrepreneurs operate within a given institutional framework that poses constraints on entrepreneurial strategy and performance. It follows that the behavior and outcomes of entrepreneurs and investors are contingent on formal and informal institutions and their interactions (Bruton, Ahlstrom, & Puky, 2009; Iriyama, Li, & Madhavan, 2010; Klapper, Laeven, & Rajan, 2006; Li, Vertinsky, & Li, 2014; Li, Zahra, & Lan, 2017; Li & Zahra, 2012).

One could start with a different premise; that is, institutions evolve over time and entrepreneurship is a dynamic process. Combining these two aspects, one may ask whether and how institutions shape entrepreneurial behavior and entrepreneurial development and vice versa. For example, how do institutions and institutional changes encourage or constrain markets and firms to shift towards entrepreneurial economies and entrepreneurial enterprises? In the United States, venture capital investment was modest during the 1970s. The number of rounds per year, the number of new ventures financed, and total venture capital investment show a dramatic increase after the liberalization of ERISA's "prudent man" rule in 1979, which eased pension fund restrictions on investments in venture capital (Gompers, 1995). Similarly, the passage of the Jumpstart Our Business Startups Act (JOBS Act) in 2012 has been widely credited with stimulating crowdfunding in the United States. In emerging markets such as China, we also see

institutional changes that are intended to spur entrepreneurship and entrepreneurial finance. One such example is the creation of the Growth Enterprise Market (GEM) board in 2009 in China. GEM is similar to NASDAQ in the United States. It provides a public trading platform for the shares of China's high-growth, high-volatility ventures that are not yet qualified for the main board in Shanghai or Shenzhen. These institutional changes have arguably precipitated entrepreneurial growth in nations and over time.

Conversely, does entrepreneurship stimulate and accelerate institutional changes? If so, how? Institutional change is a path-dependent process (Arthur, 1989; North, 1990). Just as entrepreneurs are often agents of change and innovation (Schumpeter, 1934, 1942), could entrepreneurship be an impetus to incremental, disruptive or even radical change in institutions at the firm, industry and national levels? Do the various needs of new ventures at different stages require different institutions or institutional changes? More broadly, how does entrepreneurship shape institutions at various levels? Addressing these questions will help increase the two-way communications between institutional and entrepreneurship scholars and substantively advance research at the interface of institutions and entrepreneurship.

Conclusion

In sum, we believe that Hitt & Xu's (2019) paper has clear value in helping redirect our attention from previous overly simplified views of institutions (e.g., formal versus informal institutions; three pillars) towards the notion of institutional polycentrism. We also applaud the authors' efforts to discuss the implications of institutional polycentrism for research on entrepreneurship. However, the institutional polycentrism approach, grounded largely in new institutional economics, has paid insufficient attention to a robust stream of research around institutional logics and institutional complexity which focuses precisely on the multiplicity of

institutions and the combinative and interactive effects of multiple institutional orders. In fact, scholars in that tradition have done notable work in addressing some of the questions proposed by Hitt & Xu (2019) as part of their future research agenda. We use this commentary to present a broadened view of institutions beyond new institutional economics. We see ample opportunities to more deeply engage institutional theory as rooted in sociology and organization theory, as scholars study complex and dynamic institutional environments in countries like China.

We further make the observation that the current institutional approach towards entrepreneurship is generally under-contextualized. We encourage future institutional research that ties more closely to the unique and rich context of entrepreneurship and new venturing. We also see ample opportunities to address how institutions shape entrepreneurial development and vice versa across countries and over time. Such a contextualized approach holds the potential to enrich the institutional theory and offer additional insights into entrepreneurship.

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Table 1. Comparison of the institutional polycentrism and institutional logics perspectives

	Institutional Polycentrism	Institutional Logics Perspective
Theoretical roots	new institutional economics	sociology, organization theory
Focused theorization of institutions and society	economic, legal/regulatory, political institutions; formal versus informal rules	various institutional orders, such as market, state, profession, religion, community, family
Nature of institutions	institutions as given, constraining individual behavior and structuring social interactions	institutions and culture as toolkit, enabling and constraining entrepreneurial actions
Relationships among institutions	individual and interactive effects of formal and informal institutions	institutional complexity due to complementarity, contrast, incompatibility of different institutional logics
Empirical strategies	multiple types of institutions collapsed into single composite measures; interactive effects of formal and informal institutions	interactive and configurational approaches
Dynamics of institutional change	passing of new laws; shift of regulations	changing salience of different institutional orders; changes in interpretations and collective sensemaking