INSTITUTIONAL INNOVATION: NOVEL, USEFUL, AND LEGITIMATE

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ABSTRACT

This chapter advances the theoretical construct of *institutional innovation*, which we define as novel, useful and legitimate change that disrupts, to varying degrees, the cognitive, normative, or regulative mainstays of an organizational field. Institutional innovation, like all innovation, is both novel and useful, but differs in that it is also legitimate, credible and appropriate. Legitimacy is hinged to four characteristics such that institutional innovation is theorized to be: 1) normative or value-laden; 2) progressing in bursts of change over time; 3) socially constructed and culturally embedded; and 4) associated with logics that shape practices. We develop a framework, outlining the definition, composition, and processual nature of institutional innovation, as well as its generative potency. Finally, implications for theory, practice, and future research are offered.

Key words: institutional innovation, institutions, institutional change, institutional logics, institutional practice, innovation, legitimacy, novelty, usefulness

Institutions –because they structure and make meaningful the behaviors, roles, and relationships among the members of a community—order the activities and interactions of a collective (Scott, 2008). Institutions accomplish this because they tend to be relatively stable, inert, and generally resistant to change and innovation. As Hughes (1936: 180) observed more than 75 years ago, the term "institution" connotes "some sort of establishment of relative permanence of a distinctly social sort," an argument with which most institutionalists concur (Raffaelli, 2013; Raffaelli, Glynn, & Strandgaard Pedersen, 2013).

And yet, in spite of their durability, institutions do change, over time and circumstance, to varying degrees, and with varying degrees of disruption (Leblebici, Salancik, Copay, & King, 1991). The institution of marriage, for instance, has been a site of innovation in the U.S. over the last few decades, as legal, normative, and cognitive sensibilities changed so that persons of different races, religions, and sexual orientation are now legitimately regarded as married (Amato, 2007). Another example is that of the employment contract, which has also been an innovation organizations enact in practice (e.g., Baron, Dobbin, & Jennings, 1986; Weber & Glynn, 2006). Similarly, financial institutions have innovated to serve new or underserved populations with products and structures that include micro-finance or other hybrid organizational forms (Battilana & Dorado, 2010). And, in the field of consulting, a new type of innovation has recently been institutionalized, that of "innovation consulting," (i.e., the process of helping clients develop novel capabilities, products or services) which, paired with performance-based compensation, "could revolutionize the industry" (Itzenshon, 2013: 27). Thus, institutional innovation can occur in existing institutions, as they adapt to address new opportunities, changed environments, or new cultural sensibilities. As Hargrave and Van de Ven (2006: 866) describe it, institutional innovation can be regarded as "institutional change as a difference in form, quality, or state over time in an institution." Moreover, these authors acknowledge a second and more radical form of institutional innovation, i.e., "the generative process of collective action through which institutions are created" (Hargrave & Van De Ven, 2006: 866).

The creation of new institutions is a more extreme form of institutional innovation, but one that is consistent with the notion of institutional entrepreneurship: "New institutions arise…when organized actors with sufficient resources (institutional entrepreneurs) see in them an opportunity to realize interests that they value highly… [Institutional entrepreneurs] create a whole new system of meaning that ties the functioning of disparate sets of institutions together (DiMaggio, 1988: 14). Consistent with Hargrave and Van de Ven (2006), we view institutional innovation as including both the creation of new institutions and change in existing institutions. Accordingly, we posit that institutional innovation can occur along a continuum that ranges from more disruptive or radical innovation (i.e., the creation of new institutions) to less disruptive or incremental innovation (i.e., the modification of existing institutions). Institutional innovation is challenging and often met with friction, resistance, and contestation because of the dynamic tension between institutional persistence and innovative change: "When innovations meet institutions, two social forces collide, one accounting for the stability of social systems and the other for change" (Hargadon & Douglas, 2001: 476). The stability that is the hallmark of institutions results from the "more-or-less taken-for-granted repetitive social behavior that is underpinned by normative systems and cognitive understandings that give meaning to social exchange and thus enable self-reproducing social order" (Greenwood, Oliver, Suddaby, & Sahlin, 2008: 4). And innovation – of any type – creates disruptions in this established order that can shift institutional arrangements, power structures, relational interactions, and well-honed practices.

In spite of the evident obstacles to institutional innovation, how and why does it occur? Three different types of explanations have been advanced by researchers, none of which has enjoyed widespread approval or broad scholarly acceptance. The first explanation centers on the causes or precipitating factors for institutional change and, especially the impact of exogenous factors. On balance, researchers have emphasized the force of the external environment in fostering institutional change, particularly in terms of environmental shifts (Hoffman, 1999) or environmental jolts (Meyer, 1982). Although this research has advanced our understanding of institutional change, Mahoney and Thelen (2010: 3) argue that it is still limited: “If theorizing is going to reach its potential, institutional analysts must go beyond classification to develop causal propositions that locate the sources of institutional change – sources that are not simply exogenous shocks.” In the theoretical framework we advance, we address this gap by examining how not only exogenous forces, but the endogenous dynamics of fields can give rise to innovations that ultimately create or modify institutions.

Second, although there has been some research into endogenous and agentic explanations of institutional creation and change, it has tended to focus on more extreme cases, rather than more incremental ones. Institutional entrepreneurship tends to elevate the hyper-muscular, heroic efforts of entrepreneurial actors who overthrow established institutions; it offers a counterpoint to alternative conceptualizations of actors as “passive dopes” who are overwhelmed and constrained by, and thus succumb to, institutional forces without hope of overthrowing or even changing them (Scott, 2010). This line of work tends to focus more on the actions taken by individuals during the extraordinary event of new institutional creation, rather than the more frequent (and sometimes more ordinary) instances of institutional change, which are often precipitated by groups of individuals or activists.

A third explanation of institutional change focuses more squarely on our phenomenon of interest, institutional innovation. Although there is some emerging work (notably that of Hargrave and Van de Ven, 2006), to date, the concept seems to have had a limited following among academics; ironically, however, it is gaining traction among practitioners; our intent is to narrow this gap. Itzenshon (2013) describes the emergence and importance of institutional innovation to organizations and managers:

> As the pace of change increases, many executives focus on product and service innovations to stay afloat. However, there is a deeper and more fundamental opportunity for institutional innovation—redefining the rationale for institutions and developing new relationship architectures within and across institutions to break existing performance trade-offs and expand the realm of what is possible (Hagel & Brown, 2013: 2)

The result of such institutional innovation, Hagel and Brown (2013: 4) argue, is a shift from scalable efficiency to scalable learning, such that organizations "can become more adept at generating richer innovations at other levels, including products, services, business models, and management systems." Building on the foundational work of Hargrave and Van de Ven (2006), we seek to extend their work, by developing a theoretical framework that offers a fuller rendering of the definition, composition, and process of institutional innovation.

Thus, our notion of institutional innovation seeks to find a middle-ground between existing definitions of institutional persistence and change. Although we aim to account for the creative "art of institution-building" (Selznick, 1957: 153) and the rise of new institutional forms, we also apply the notion of institutional innovation to change in existing institutional forms, whereby we account for changes in the constitutive elements of institutions – normative, regulative, and cognitive factors – that induce change in existing institutions. In this case, institutional innovation refers to change that neither destroys the old institutional order nor brokers a new one, but instead, creates interstitial institutional spaces that can serve as a locus for innovation.

In this chapter, we elaborate the concept of *institutional innovation*, which we define as *novel, useful, and legitimate change that disrupts, to varying degrees, the cognitive, normative, or regulative mainstays of an organizational field*. Institutional innovation is similar to other types of innovation in that "An innovation is a new idea" (Van de Ven, 1986: 591) and "novelty that is useful," particularly in terms of solving problems or achieving goals, often in organizations (Amabile, 1988; Drazin, Glynn, & Kazanjian, 1999; Gopalakrishnan & Damanpour, 1997; Kanter, 1984). Both novelty and usefulness are defined in terms of their relevance to the adopting organization: "As long as the idea is perceived as new to the people involved, it is an 'innovation,' even though it may appear to others to be an 'imitation' of something that exists elsewhere" (Van de Ven, 1986: 592). However, institutional innovation is different in that it is less localized in its novelty; instead, novelty is perceived in terms of the broader organizational field (or community of organizations) in which the innovation arises. And, that novelty is perceived by relevant audiences, such as employees, consumers, or analysts, as legitimate, credible and appropriate.

Institutional innovation, as we see it, is not only new and useful, but also legitimate change. Legitimacy is an important factor in institutionalization, as "the creation, transformation, and diffusion of institutions require legitimacy, a condition whereby other alternatives are seen as less appropriate, desirable, or viable" (Dacin, Goodstein, & Scott, 2002: 47). Hargadon and Douglas (2001) point out that Edison's innovation of electricity succeeded, in part, because he embedded it in familiar and legitimated systems to "shape the outcomes of contests between the innovation and established institutions" (Dacin, 1997). Work in the entrepreneurship literature (e.g., Lounsbury & Glynn, 2001; Navis & Glynn, 2010) has recognized how institutional and cultural contexts bound entrepreneurial innovation and cast innovations as *legitimately* distinctive and not uniquely distinctive. Such embeddedness can thus constrain innovation, but also enable it, by supplying cultural resources and toolkits that can be appropriated in the service of innovation.

Importantly, institutional innovation need not be organizationally-bound but, instead, is more oriented to larger-scale change in an existing organizational field. Earlier researchers have touched on this idea (Hargadon & Douglas, 2001; Hargrave & Van De Ven, 2006; Ruttan & Hayami, 1984), but we extend this work to theorize the definition, composition, and processual nature of institutional innovation, as well as it generative potency in effecting disruptive change.

We seek to explore these ideas that we have briefly sketched out (above) with the objective of developing and advancing a theoretical framework on institutional innovation. Toward this end, we begin by reviewing the relevant literature to better understand innovation in the context of institutions. Our theorization anchors on Scott's (1987) four variants of institutionalization, which involve: 1) instilling values, 2) creating reality and social order, 3) embedding cultural elements, and 4) delineating particularistic logics, belief systems, and practices. From this, we develop a theoretical framework that delineates the definitional, compositional, and processual nature of institutional innovation; we pay particular attention to how institutional innovation is not only novel and useful, but also legitimate. Finally, we offer implications for theory, practice, and future research.

INNOVATION IN THE CONTEXT OF INSTITUTIONALISM

Since DiMaggio and Powell (1983) highlighted the homogenization of organizational fields, institutionalism has had a grip on organizational theory. Over the ensuing two decades, "Institutional theory [rose] … to prominence as a popular and powerful explanation;" indeed, it was said that institutional theory had "arrived" (Dacin et al., 2002: 45). Davis (Davis, 2006; Walsh, Meyer, & Schoonhoven, 2006) supported this assertion in his analysis of author keywords submitted to the Organization & Management Theory (OMT) division for the 2005 national meetings of the Academy of Management (AOM), finding that institutionalism was the most frequently used keyword, associated with 25% of the approximately 400 submissions to the division. A distant second was network theory (17%), while other theoretical perspectives received scant attention (i.e., less than 10%). If institutional theory was in its adolescence in the mid-1980s (Scott, 1987), it seemed to have reached maturity by the mid-2000s. As institutional theory aged in organizational studies, it also broadened its reach; a theory initially formulated to explain stability, persistence, and homogeneity began to be used to account for variation and change.

Institutionalism emerged as a counterpoint to the then-dominant view in organizational studies of "a diverse and differentiated world of organizations…geared towards explaining variation rather than its absence" (DiMaggio & Powell, 1983: 148). Researchers generated a profusion of definitions of institutions whose only commonality seemed to be that of stability, durability or "relative permanence" (Hughes, 1936: 180). This "relative permanence" of institutions is due to the fact that "organizations produce and reproduce their material subsistence and organize time and space" (Friedland & Alford, 1991: 232), a process that eventually becomes stabilized, normalized, and fixed as an institution.

The core tenet of institutionalism, that isomorphism legitimates, is its core explanation for field structuration and organizational homogeneity. Due to strong isomorphic forces for legitimacy, organizations tend to converge, in structure and symbol, and conform to central tendencies or a few overworked patterns in cognition or norms in their industry or organizational field (Glynn & Abzug, 2002). Fields that are structured via isomorphism result from several factors, including: the interconnectedness among organizations (DiMaggio & Powell, 1983; Greenwood & Hinings, 1988; Tolbert & Zucker, 1983); network interrelationships (Galaskiewicz & Wasserman, 1989); shared understandings, beliefs, and norms; and "pressures exerted by broader societal expectations as well as from organization-organization interdependencies" (Dacin, 1997: 50)

And yet, although DiMaggio and Powell (1983: 148) were clear, even emphatic, about their focus – "we seek to explain homogeneity, not variation" – the study of variation and change has become part of the institutional canon. In some ways, institutional theory has long wrestled with the notion of change as it sought to explain persistence. Selznick (1992: 326) seemingly foreshadowed the tension, casting it as the trade-off between responsiveness and integrity: "The challenge is to maintain institutional integrity while taking into account new problems, new forces in the environment, new demands and expectations. A responsive institution avoids insularity without embracing opportunism." Even as institutions "change in character and potency over time," researchers' understanding the process of institutional change over time is needed (Dacin et al., 2002: 45).

As a way of understanding the role of change – and the potential triggers for institutional innovation – we focus on the four variants of institutional theory identified by Scott (1987), i.e., Institutionalization as: 1) normative; 2) social construction; 3) culturally embedded; and 4) a bundling of logics and practices. We discuss each of these four in light of its potential for enabling institutional innovation, noting that the variants are neither mutually exclusive nor independent; rather, understanding institutionalization typically involves taking a number of these variants into account. However, for parsimony, and ease of discussion, we treat the four variants as separable and distinctive perspectives on institutionalism and institutionalization.

Institutionalization as Normative

One variant Scott (1987) identified views institutionalization as a process of instilling value (e.g., Selznick, 1957) and emphasizing the importance of history. "By instilling value, institutionalization promotes stability: persistence of the structure over time" (Scott, 1987: 494). Thus, the normative order of institutions is an important feature of structuration and stability. However, values, norms and beliefs shift over time, for societies, organizations and institutions. For instance, consider the valuation today placed on being "green" and on promoting environmental sustainability, which are viewed as a "critically important problem" (Gulati, Henderson, & Tushman, 2013):

> The challenge of sustainability is increasingly becoming a mainstream business issue. McKinsey's focus on the 'resource revolution' is symptomatic of a broadening understanding that firms can no longer take either supplies of cheap raw materials or the easy disposal of waste for granted. Many firms are focusing on the risks inherent in ignoring the social, political and regulatory shifts that may shape the business environment in unexpected ways as environmental problems become increasingly pressing and social structures around the world come under stress, while some firms see the opportunity to significantly differentiate themselves from their competitors by creating entirely new business models to address the challenges we face.

Similarly, changes in American society's moral sentiments have changed the institution of marriage. Allowing gay couples to marry (or to have legal standing as domestic partners) has triggered institutional innovations in health insurance benefits, the adoption of children, taxation policies, inheritance laws, and the definition of family, all of which have affected organizational policies in human resources. While these practices are not novel, changes in policy have nonetheless became legitimized, and therefore, made them accessible to a broader population.

Thus, changes in the value bases defining institutions can ripple through an organizational field to shape innovations in programs and policies. Thus, from the perspective of treating institutionalization as a normative process, we propose that institutional innovations will emerge that are not only novel and useful but also in alignment with prevailing norms and values. Moreover, we also expect that such institutional innovations will diffuse more rapidly within an organizational field and be easier and more effectively adopted by the organizations that populate the field.

Institutionalization as Social Construction

A second variant that Scott identified is that of institutionalization as a process of creating reality and social order over time, i.e. social constructionism (e.g., Berger & Luckmann, 1967). Like Selznick (1957), Scott (1987: 495) emphasized “the necessity of employing an historical approach”: “Institutions always have a history, of which they are the products. It is impossible to understand an institution adequately without an understanding of the historical process in which it was produced” (Berger & Luckmann, 1967: 54-55, cited in Scott, 1987: 495). Institutionalists have demonstrated that such historical processes need not be linear; rather, discrete moments or periods may punctuate how institutionalization proceeds over time (Glynn & Abzug, 2002). The transitions from one period to the next may be opportune moments for triggering institutional innovations.

Institutional change seems to occur and recur at somewhat regular intervals or historical periods (Abzug & Mezias, 1993). For instance, Dacin (1997) demonstrated that institutional norms varied discretely and periodically over time; she found these time periods had significant effects on the founding and survival of Finnish newspapers. In their study of organizational name changes, Glynn and Abzug (2002) illustrated periodicity in the institutionalization of organizational naming practices. They found that different name patterns prevailed in different time periods and exerted isomorphic pressures for naming conformity within that period; as a result, they concluded that "Over time, organizational names have changed, but they have done so with patterned regularity" (Glynn & Abzug, 2002: 268). And yet, in spite of the evidence on periodicity, little is known about what drives periodic institutional change over time (Dacin et al., 2002).

We theorize that understanding the role of institutional innovation in these moments of transition, from one historical period to the next, are times when institutional stability and isomorphism may be somewhat weakened and ripe for innovations more. To the extent that innovations can bridge from old and familiar institutions to new and creative ones, the likelihood that they will succeed in shaping the next institutional order is more likely (e.g., Hargadon & Douglas, 2001; Lounsbury & Glynn, 2001; Navis & Glynn, 2011).

In treating institutionalization as a process of creating reality, the focus is on the role of social construction in creating and ordering cognitive, normative and behavioral patterns of interaction in collectives (Meyer & Rowan, 1977b; Zucker, 1977). The appeal of this approach – and its fit with other social science theories – may account for the enormous popularity of institutional theory in recent decades (Greenwood, Oliver, Sahlin, & Suddaby, 2008). The critical insight here is that, in spite of their seeming stability, permanence and impenetrability, institutions are essentially a human creation (Rao, 1994). As Scott (1987: 495) explains:

> Social order is based fundamentally on a shared social reality which, in turn, is a human construction, being created in social interaction. It is recognized that man or woman as a biological organism confronts few limits or constrains in the form of instinctual patterns, yet constraints develop in the form of a social order.

Drawing on Berger and Luckmann (1967), Scott (1987: 495) notes that institutionalization occurs as actors take action, then interpret and classify that action as "typifications" that, as they are reproduced and reciprocated, become habitualized and associated with certain roles or classes of actors, e.g., "supervisors give orders, workers follow them." This process occurs in three phases or "moments": externalization, objectification, and internalization (Scott, 1987: 495). This approach is reflected in the work of Zucker (1977) and Meyer and Rowan (1977)(1977a) , with the latter emphasizing the rule-like status by which social understandings become concretized.

In his study of the early days of the U.S. automobile industry, Rao (1994) demonstrated how favorable organizational reputations are socially constructed, as an outgrowth of the legitimation that flowed from carmakers' victories in certification contests. Glynn and Marquis (2004) demonstrated how short-lived legitimacy may be when cognitive re-construction occurs and the type of legitimacy changes: organizations that quickly innovated to append "dot-com" to their names in the "unjustifiable euphoria" of the internet boom (at the turn of the last century) were quickly illegitimated with the "abrupt and equally unjustified skepticism" (DiMaggio, Hargittai, Neuman, & Robinson, 2001: 319) of the internet bust. Thus, isomorphic forces can quickly change in the face of broader cultural, economic or environmental shifts; as a result, the prototype for conformity can be a moving target and provide an opportunity for the emergence of an institutional innovation.

In their study of the historical development of the new technology of cochlear implants, Garud and Rappa (1994) have shown how scientists' individual cognition about technological claims, routines, and evaluations resulted in a collective level of shared cognition that directed the institutionalization of the innovation. Hargadon and Douglas (2001) demonstrated how

Edison acted as a skilled cultural operative in interpreting his innovation of electricity in ways that resonated with their understanding of gas utilities. More generally, new innovations need to be interpreted and framed in ways that appeal to their audiences (Kaplan & Tripsas, 2008; Weber, Heinze, & DeSoucey, 2008).

Building on these multiple strands that conceptualize institutionalization as a process of social construction, we propose that institutional innovations will need to be interpreted by key social actors to make them more understandable (and perceived to be novel and useful), and yet, consistent with more familiar or existing taken-for-granted understandings, to make them more legitimate. Moreover, we expect that institutional innovation will emerge not necessarily in a linear, incremental fashion, but in periodic bursts that change the field.

Institutionalization as Culturally Embedded

The third variant that Scott (1987: 498) identified is that of institutional systems as a class of elements which "stresses the role played by cultural elements – symbols, cognitive systems, normative beliefs – and the sources of such elements," a view that stands in contrast to technical elements. The relevance of this version of institutionalism is that it embeds innovation in its cultural and social milieu. It is a view consistent with cultural entrepreneurship (Lounsbury & Glynn, 2001), which similarly emphasizes the role of "rational myths" (Meyer & Rowan, 1977), shared belief systems (Scott, 1987) or narratives that explain and justify innovations (Navis & Glynn, 2010, 2011).

Beyond enabling interpretations, culture can also function as a set of resources that can enable innovation. Conceptualizing culture as a "toolkit" of resources, Swidler (1986) emphasized the role of agency in the way that actors might assemble cultural elements to construct strategies of action in different situations. Moreover, Swidler (1986) points out how culture is significant not because of the values it signifies, but because it affords individuals particular strategies of action for which they are culturally equipped. As a resource or a form of capital, culture can be appropriated in ways that make innovations useful, and, as such, can contribute to one of the key dimensions of innovation. For example, Weber, Heinze, and DeSoucey (2008) show how broad shifts in cultural sentiments in favor of grass-fed livestock led to the creation new markets for these products that transformed the meat and dairy industry. Glynn, Lockwood, and Raffaelli (forthcoming) demonstrate how luxury boutique hotels were able to differentiate themselves from competitors by claiming an identity associated with cultural themes more broadly situated societal trends associated with environmental sustainability. And Glynn (forthcoming) illustrates how the rise of Martha Stewart was due in part to her ability to create innovative products by reframing them within the context of cultural trends.

Drawing from notions of institutionalization as culturally embedded, we propose that institutional innovation will appropriate relevant cultural resources from broader contexts that enable interpretation, direct strategies for action, and aid adoption and implementation.

Institutionalization as a Bundling of Logics and Practices

The fourth and last variant that Scott (1987) identified is that of institutions as distinct social spheres, each with its own particular set of belief systems, logics and substantive content, with high degrees of durability; moreover, because each sphere is so distinctive, there is often little integration or coherence across institutional spheres. This view has gained currency recently, with an explosion of work on institutional logics.

Friedland and Alford (1991) launched organizational inquiry into institutional logics with their seminal article, which identified five distinct institutional spheres in Western society (i.e., family, religion, market, democracy, and the bureaucratic state) and associated each with a core logic that constitutes both actors and society. Thornton, Ocasio and Lounsbury (2012) comprehensively summarize this perspective and focus on how institutional logics can be mechanisms of organizational change; their approach "redirects scholarship away from institutional isomorphism and persistence and toward institutional transformation, for which logics are the tools of change" (Glynn, 2013). Logics motivate change because they not only function as cognitive frames of reference but also guide action by their connection to practice.

The institutional logic of innovation can be thought of in a number of different ways. One is in terms of the logic that underlies a particular innovation. For instance, innovation has long been conceptualized in terms of a "closed" logic in that the locus of innovation resided in the collective (e.g., team or organization) that sought the new innovation. Recently, however, there is growing interest in "open innovation" which extends the boundaries of the collective to embrace anyone who can contribute (Baldwin & von Hippel, 2011). The shift in the beliefs embedded in the particular logic of innovation reflect not only assumptions about who is best qualified to innovate but also the practices used in innovation, particularly in terms of who is invited to participate.

A second way is to think about the role of logics is to consider how innovations may incorporate multiple and different logics. For instance, the innovation of the micro-finance institution (MFI) incorporated both the logic of the market and the logic of social welfare (Battilana & Dorado, 2010) to create a hybrid organizational form. Thus, in a way similar to the "toolkit" function of culture, logics can be supple resources that can enable the beliefs embedded in the innovation and its practices.

To summarize, our review of the institutional literature revealed a number of important contacts or compatibilities between institutionalism and innovation, in spite of the potential friction that can ensue when “innovations meet institutions” (Hargadon & Douglas, 2001: 476), as stability encounters change. In particular, our review of institutionalism points us to several possible features of institutional innovation: 1) institutional innovations may be understood not as value-free (or purely technical), but rather are often normative or value-laden; 2) institutional innovations may progress not in a linear or incremental fashion, but in bursts of change, in historical periods over time; 3) institutional innovations are socially constructed, embedded in cultural understandings, but also appropriating cultural elements as resources; and 4) institutional innovations can be characterized in terms of the logics that they embody and put in practice.

More importantly, however, our reading of the institutional literature suggests a critical dimension of institutional innovation that differentiates it from innovations in general is that they are legitimate. Thus, we conceptualize institutional innovations in terms of three key dimensions: novelty, usefulness, and legitimacy. Next, we turn to formalizing these insights theoretically.

A THEORETICAL FRAMEWORK ON INSTITUTIONAL INNOVATION

As a starting point, we revisit our initial conceptualization of institutional innovation, as novel, useful and legitimate change that disrupts, to greater or less degrees, the cognitive, normative or regulative mainstays of an organizational field. Our reading of the literature on institutional theory (described above), and particularly the four theoretical variants on institutionalization identified by Scott (1987), affirmed the viability of our approach. Drawing from this, we leverage these insights to articulate a theoretical framework for understanding institutional innovation. We organize our framework into two areas: first, *Definition and Composition* of institutional innovation, and second, *Processes* of institutional innovation.

Definition and Composition of Institutional Innovation

We view institutional innovation as being located at the intersection of three dimensions: novelty, usefulness, and legitimacy. The first two of these define innovations in general (and in organizations) but the third – legitimacy – is the hallmark of institutional innovation. Hagel and Brown (2013: 14-15) describe how VISA, with its creative ownership and governance structure, was an institutional innovation:

> In the late 1950s, many large banks were struggling to drive adoption of consumer credit cards. No single organization seemed to be able to solve the problem. Many smaller banks wanted to be able to offer credit cards, but the overhead to set up a credit card operation, as well as back-office processing costs, were prohibitively large.
>
> National BankAmericard (the name would be changed to Visa in 1976), acted as a jointly owned utility, enabling traditional competitors to work together to gain the advantages of a centralized payment-processing system. Within a year of its development in 1970, the program had recruited 3,000 banks to participate in this new venture, forming a nationwide network of banks that backed the system. Within seven years, the company was generating $20 billion in sales, reshaping the emerging credit card business in the process. Part of Visa's strategy involved defining the governance structure for the newly connected banks, allowing the banks to jointly own the new business entity while preserving Visa's ability to move rapidly and flexibly.

We depict the relationship among the three salient characteristics of institutional innovation – novelty, usefulness and legitimacy – illustrated in the case of VISA, in Figure 1.

Insert Figure 1 About Here

Legitimacy involves the comprehension and acceptance of a change (Glynn & Abzug, 2000) such that audiences endorse or authorize the change. Dacin and colleagues (2002) explain how legitimation can enable innovation:

> A number of studies …emphasize the need to legitimate change, either through some form of conformity to field-level cognitive interpretations (Glynn & Abzug, 2002), or through market feedback (Lee & Pennings, 2002), or through the development of

> constitutive rules that provide guidelines for change (Hinings et al., 2002) as well as links to these actors (Casile & Davis-Blake, 2002).

To secure legitimacy for a new innovation, organizations seek to conform to prevailing practices (or institutionalized norms, cognition or practices) to demonstrate their social fitness. To legitimate an institutional innovation, different strategies are necessary. One strategy involves framing the new institutional innovation in terms of older institutions, bridging from the past to the present. For instance, several researchers have noted how entrepreneurs frame their new innovation in terms of older or more familiar institutionalized beliefs or practices, often symbolically by using cues, frames, stories or metaphors (e.g., Hargadon & Douglas, 2001; Lounsbury & Glynn, 2001; Navis & Glynn, 2010; 2011). Alternatively, institutional innovation might be legitimated in terms of new beliefs, needs, problems or issues. For instance, Hoffman (1999) has shown how "green" innovations came about in response to the perceived crisis in the natural environment. And, Weber, Heinze, and Desoucey (2008) show how grass-fed beef gained legitimacy by framing it as a superior product to traditional beef.

Legitimacy is a dynamic process which connects an institutional innovation to relevant sets of institutional stakeholders, who in turn, can grant or withhold legitimacy. To the extent that the innovation resonates with these audiences – and is perceived as novel and useful – it is more likely to succeed. This is what happened in the case of VISA. When it achieves this, institutional innovation is more likely and will be situated at the apex of the intersection of novelty, usefulness and legitimacy, as depicted in Figure 2.

Insert Figure 2 About Here

In contrast to other innovations, which may be more technical than social, institutional innovations are shrouded in legitimated meanings, socially constructed from the values they embody or the cultural configurations that they appropriate or that embed them. Institutional innovations can signal this symbolically, via language, symbols or images, or strategically, in terms of their problem-solving capabilities or usefulness. Such symbolic vehicles (e.g., meanings, language or stories) are “carriers of cultural resources” (Glynn & Watkiss, 2012; Glynn & Watkiss, 2011) that have the capability to bind together a community and enlarge possibilities for collective action (Swidler, 1986).

Importantly, though, the perceived novelty of institutional innovations may need, at times, to be tempered by legitimacy. Thus, rather than seeming uniquely distinctive, institutional innovation may need to be perceived as *legitimately* distinctive (Navis & Glynn, 2011): being perceived as too new and unfamiliar may threaten legitimacy while being perceived as not new enough may threaten its innovativeness. Legitimacy may constrain the perception of novelty, with a need to cast the new innovation within the existing institutional order. Hargadon and Douglas (2001) explain:

> To be accepted, entrepreneurs must locate their ideas within the set of existing understandings and actions that constitute the institutional environment yet set their innovations apart from what already exists…. One cultural determinant of an innovation's value is how well the public, as both individuals and organizations, comprehends what the new idea is and how to respond to it. And it is the concrete details of the innovation's design that provide the basis for this comprehension, as well as for new understandings and actions to emerge, which then, in turn, change the existing institutional context.

Moreover, these authors explain how these dynamics played out in the case of Edison’s innovation to its ultimate success:

> …despite his vision of a new electric world of lighting and household appliances, Edison purposefully hobbled his innovation to fit cleanly within the technical roles currently given to gas. By mimicking virtually every aspect of the familiar gas system, save for its

noxious fumes, Edison ensured his users would both recognize the purpose of his innovation at the outset and know without reflection how to use it in their everyday lives.

Processes of Institutional Innovation

We conceptualize the processes undergirding institutional innovation in terms of two major factors: first, the way in which these processes unfold over time, and second, their generative potency to change an organizational field. In terms of the former, our review of the institutional theory literature suggests that the process of institutional innovation may unfold not linearly or incrementally, but rather in a series of eras or historical periods that are characterized by distinct and different social orders (e.g., Abzug & Mezias, 1993; Glynn & Abzug, 2002). Such a view is consistent with models of the innovation process that depict it moving through different eras; synthesizing these different approaches will be important to mapping the movement of institutional innovations through time. There is a need for such work (Dacin et al., 2002: 53): “There is still little known about the mechanisms that drive the waxing and waning of the power of institutions across time. …Further examination of the temporal embeddedness of institutions may provide insights into the power, pacing, sequencing, and momentum of institutional change.”

As well as mapping how institutional innovation may unfold over time, understanding their degree of generative potency is an important issue. Generativity expands available resources and capabilities so as to create new possibilities for action. In their study of Infosys, Garud, Kumaraswamy, and Sambamurthy (2006: 283) attribute its success to the fact that “Infosys has seeded each element of its organizational design with generative properties i.e., the routine application of these elements for day to day performance also yields new possibilities for the future.” The launch of Apple’s iPod also reflects generative potency. Although the device itself was not that revolutionary from a purely technical standpoint, it did create a significant reconfiguration of actors in the music industry that coordinated an institutional environment; the result was to converge music, artists, distributors and technology into a new eco-system or field. Part of the challenge that other manufactures (e.g., Creative, Audible.com, Diamond Multimedia) faced in rolling out digital music players was their inability to build acceptance and legitimacy with key stakeholders in the music industry for the novel medium of downloading music instead of purchasing CDs, records or tapes. By their very nature, we expect that institutional innovations are generative in transforming, changing, or creating organizational fields.

DISCUSSION AND CONCLUSION

In this chapter, we have made an initial foray into theorizing about the nature, processes, and effects of institutional innovation. We sought to elaborate the definition, composition, and processes of institutional innovation, differentiating it from related constructs such as institutional entrepreneurship and field-level change. We defined institutional innovation as novel, useful, and legitimate change that disrupts the cognitive, normative or regulative mainstays of an organizational field. We have discussed how institutional innovation resembles organizational innovation in that it is both novel and useful to the adopting actor, but we extend the definition by suggesting that the innovation must also be accepted as legitimate within its institutional environment. We drew on the extant institutional and innovation literatures to explicate the definition, composition, and processual aspects of institutional innovation. In doing so, we advanced a theoretical framework on institutional innovation which we hope will motivate future research on the subject.

We have sketched the broad outlines of a theory of institutional innovation, but clearly there is more work to be done. Below, we elaborate four potential directions in which future research might advance our understanding of institutional innovation. These focus on the composition of institutional innovation, the role of time in the development, the diffusion and adoption of institutional innovation, and the evaluation of an institutional innovation by various actors or audiences.

We have argued that institutional innovation is characterized by three elements – novelty, usefulness and legitimacy – but a useful amendment to our framework might investigate cases when one of these elements is absent. In the absence of legitimacy, innovations are novel and useful but not necessarily institutional. Clearly, this describes the traditional view of innovation, particularly at the organizational level (e.g., Amabile, 1988; Drazin, Glynn, & Kazanjian, 1999; Gopalakrishnan & Damanpour, 1997; Kanter, 1984; Van de Ven, 1986).

It seems useful to examine two other cases, i.e., when an innovation is: 1) legitimate and useful, but not novel, and 2) legitimate and novel, but not useful. The first case, that of innovations that are legitimate and useful, but not novel to the adopting firm, would seem to characterize those kinds of "best practices" that organizations might routinely adopt or imitate (from other organizations). Legitimate and useful innovations seem to describe those innovations that are broadly diffused and widely implemented by organizations; in other words, an innovation that has become institutionalized. Such innovations tend to be at a later stage of adoption, further along the steep S-curve of diffusion (Rogers, 1995), already adopted by a majority of organizations, and a generally "safer" move for organizations. Here, the motivation is less about innovating to change the status quo and more about not appearing (or being) out of synch (or potentially illegitimate) with other organizations in the organizational field.

Organizations seek to be isomorphic to secure legitimacy and engage in mimeticism, or copying others' innovative practices, to do so. Kelly and Dobbin (1998) show how innovative affirmative action programs in organizations, designed in response to federal legislation, persisted as a legitimate (and presumably useful) organizational practice, even when regulatory enforcement diminished. Thus, innovations that fade in their novelty can often become diffused and institutionalized as taken-for-granted practices.

A more extreme instance of this situation is when an innovation is novel and useful but *il*legitimate. One might argue that the proliferation of small, short term unsecured loans (i.e., "payday loans") served as a novel and useful financial innovation to provide liquidity to individuals in need of immediate cash. However, several local and national governments have banned such lending practices to prevent lenders from "preying" on low-income populations by charging them excessive interest rates. Thus, the innovation was both novel and useful (given its high adoption and usage rates), but seen by many as illegitimate because it failed to meet standards for acceptable lending.

Another recent example might be that of some online universities, which challenged and are doubted by more traditional brick-and-mortar universities. A recent *New York Times* article, entitled "The Trouble with Online College," reported that: "The online revolution offers intriguing opportunities for broadening access to education. But, so far, the evidence shows that poorly designed courses can seriously shortchange the most vulnerable students" (The New York Times, 2013). Beyond the suggestion of illegitimacy, charges of illegitimacy and wrong-doing have been leveled: "Three primarily online colleges—the University of Phoenix, Kaplan University, and Argosy University—were among 15 for-profit colleges targeted by an undercover government investigation that uncovered possible education fraud and deceptive marketing practices" (GetEducated.com Consumer Reporting Team, 2013). Given the infancy of both online universities and online courses, however, it is still possible that, with change, they may become legitimated.

The second case, that of institutional innovations that are legitimate and novel, but not useful, presents a different set of dynamics. This case seems to be conceptually closer to creativity, rather than innovation, given the lack of usefulness. Here, wild, creative ideas are tamed by their comprehensibility, credibility and perhaps what seems "rational and reasonable" (Van de Ven & Lifschitz, 2012); a label such as "institutional creativity" might be more apt. Returning to the proverbial S-curve (Rogers, 1995), these innovations would likely be found at earlier stages of diffusion but would probably diffuse and be adopted fairly quickly, in a steep and narrow S-curve, because of their legitimacy. We might argue that some fads and fashions fit this description (Abrahamson, 1991; Abrahamson & Eisenman, 2008); often firms adopt innovations that are novel and considered appropriate in the field, but end up not being useful or helpful to the firm's business model. For example, not all firms that adopted six sigma or total quality management (TQM) programs when they were the latest management trends found the practices to be particularly salient or useful to their business (e.g., Kwak & Anbari, 2006).

A related but different extension of our theoretical framework of institutional innovation might be to explicitly incorporate the role of time – and temporal dynamics. We have proposed that institutional innovation may proceed in a discrete and disruptive bursts, periodically, rather than in linear incrementalism. This is because institutional innovation is difficult and involves change, but clearly our ideas require empirical testing. We can speculate however, that there may be stages or sequences by which the three elements (novel, useful, legitimate) become more or less salient over time, or at different phases of diffusion or adoption. For instance, legitimacy could be a leading influence on innovation, promoting the spread and adoption of institutional innovation. At the introduction of the iPad, Apple's reputation affected perceptions of novelty and legitimacy; however, it was not until users experienced it that it was perceived as useful (Watkiss, 2013). Alternatively, legitimacy might also be a lagging attribute, following the realization of the novelty and usefulness of an institutional innovation. For instance, Navis and Glynn (2010) illustrate that legitimacy followed the initial introduction of satellite radio; it was not only that the innovation was made "real" (and available to consumers as a viable alternative to terrestrial radio), that it was also perceived to be a legitimate new form of media. Thus, further investigation into the temporal condition of institutional innovations – in terms of the processes of emergence, adoption, and the three key compositional characteristics – is a potentially fruitful avenue for future research.

Finally, given the normative, social, and cultural aspects of institutional innovation, it would be informative to investigate how key audiences might judge or evaluate its novelty, usefulness and legitimacy over time and in organizational adoption. As in creativity research (e.g., Amabile, 1988), individuals' subjective judgments of the novelty and usefulness of an institutional innovation might be examined through qualitative or quantitative methods. Similarly, individuals might be queried or surveyed about their perceptions of legitimacy, particularly as it is cued by symbolic or reputational features (Glynn & Abzug, 2002; Glynn & Marquis, 2004). At the organizational level, legitimacy may be viewed (and inferred) via the patterns of innovation diffusion, adoption and sustainability over time; to the extent that an institutional innovation is widely shared among the organizations in a field, legitimacy might have been attained. Clearly, the investigation of institutional innovation could leverage theory and empirics from the relevant literatures on institutionalism and innovation.

In closing this chapter, we reiterate our initial motivation to spur interest and inquiry into the investigation of institutional innovation. Theoretically, it would enhance our “big picture” thinking about creativity and innovation. By reinforcing the importance of innovation within the context of larger systems of meaning that are shared among actors in a field, our aim is to reinstate some of the early management theories that argued organizations could act as carriers of values that were legitimated over time (and across the tenure of multiple leaders) to impact the broader society (e.g., Barnard, 1938; Selznick, 1957; Selznick, 1996). Pragmatically, it seems to be an idea whose time has come, given the accelerating pace of change, the continuing development of new technologies, and the need for organizations to be increasing nimble in adapting to ever-shifting markets and institutions. Most importantly, however, may be the promise that institutional innovation holds: “The result of engaging in institutional innovation is that we can begin to unlock the unlimited potential of ourselves and our organizations.” (Hagel & Brown, 2013: 19). A novel, useful, and legitimate aspiration, indeed.

Figure 1

Three Dimensions of Institutional Innovation: Usefulness, Novelty, and Legitimacy

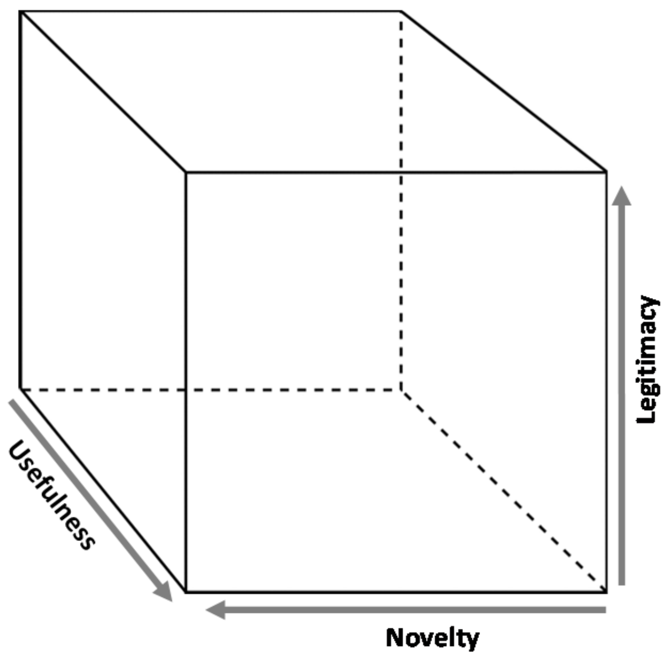
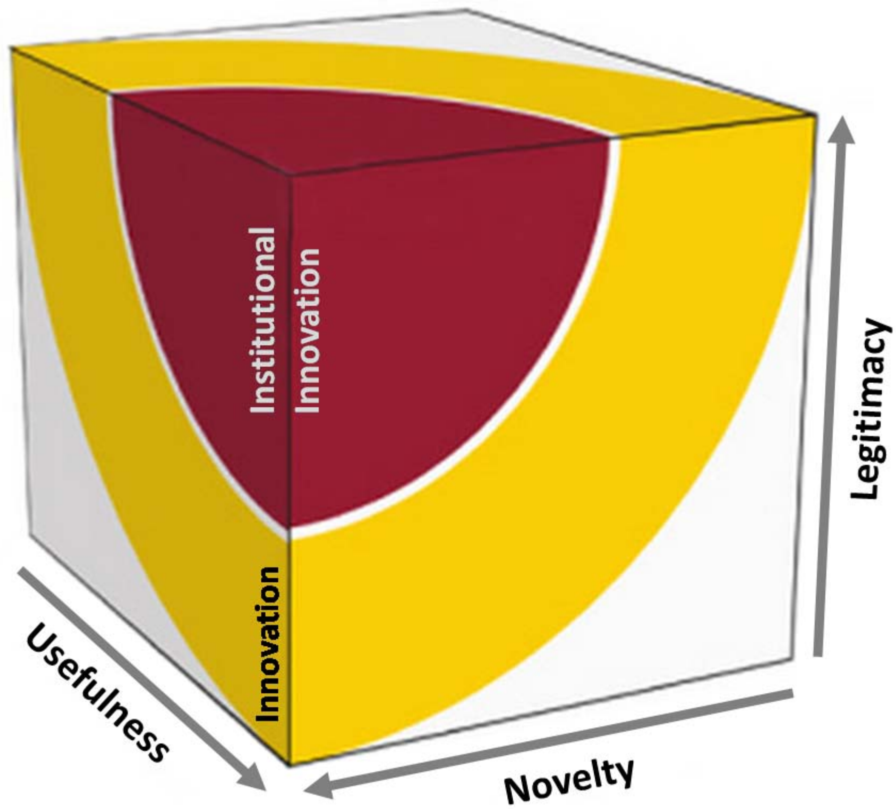


Figure 2

Graphic Comparison of Innovation to Institutional Innovation



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