



## COVER SHEET

---

**This is the author-version of a book portion published as:**

Davidsson, Per and Hunter, Erik and Klofsten, Magnus (2006) Institutional Forces: The Invisible Hand That Shapes Venture Ideas?. *International Small Business Journal* 24(2):pp. 115-131.

Accessed from <http://eprints.qut.edu.au>

**Copyright 2006 Sage**

**INSTITUTIONAL FORCES: THE INVISIBLE HAND THAT SHAPES  
VENTURE IDEAS?**

*Per Davidsson, Jönköping International Business School, Sweden*

*Erik Hunter, Jönköping International Business School, Sweden*

*Magnus Klofsten, Linköping University, Sweden*

## **INSTITUTIONAL FORCES: THE INVISIBLE HAND THAT SHAPES VENTURE IDEAS?**

### **ABSTRACT**

Institutional theory is employed for examining how and to what extent external pressure leads to changes in the venture idea during the start-up and early life of new, knowledge-intensive ventures. From a population of 321 young, knowledge-intensive firms that underwent a training program at Linköping University, structured telephone interview data were obtained from 167 firms. The results confirmed that the venture idea had undergone more change in ventures that had more external owners, a dominant customer, and an incubator location. The results imply that institutional theory is a meaningful tool for understanding why and how venture ideas change over time.

### **INTRODUCTION**

A key research goal in entrepreneurship is explaining the development of venture ideas or—as they are often called—‘opportunities’ (Venkataraman, 1997). Unlike theoretical expositions like Krizner’s (1973)—which portrays entrepreneurial discovery as an instantaneous flash of insight by particularly ‘alert’ people—scholars who conduct empirical work have come to recognize that entrepreneurial discovery is not simply an event where the complete venture idea is found. Rather, it is a process that includes the identification, evaluation, elaboration and modification of ideas leading to firm emergence (Bhave, 1994; de Koning, 2003; Hills, 1995; Long & McMullan, 1984; Mckelvie & Wiklund, 2004; Sarasvathy, 2001). As a means of overcoming a perceived fragmentation of the knowledge in this area Ardichvili et al. 2000 reviewed, analyzed and integrated existing literature and proposed a theoretical model that ‘conceives of opportunity identification/recognition as a multistage process in which entrepreneurs play active roles’ (p. 121). That is, as the process unfolds, venture ideas transform iteratively from vague notions of how to fulfill a market need to clearly defined business concepts (Klofsten, 2004).

In discussions of the field entrepreneurship research influential voices on both sides of the Atlantic have recently suggested that the main focus should be on the interplay between the emerging new venture and the individual(s) who create it. Shane and Venkataraman (2000) denote this ‘the individual-opportunity nexus’ while Bruyat and Julien (2000) talk about the ‘dialogic between the individual and the project’. While neither completely disregards external factors both perspectives clearly give the environment a secondary role. That such relative disregard for the environment can come at a cost—at least in research on development of venture ideas—is demonstrated by several researchers. For instance, Mckelvie and Wiklund (2004) found that in dynamic markets, close market interaction (i.e. testing and probing of ideas) and the development of knowledge were critical in meeting market needs. A recent study by de Koning (2003) investigated how entrepreneurs are affected by their social networks and how they manage their social context to advance and pursue opportunities. In a rare empirical study of product development in entrepreneurial high-tech firms, Pavia (1991) found evidence that scanning competitors and their potential new products was a fruitful way to exploit current technologies more

effectively, thereby improving their customer offering. On the basis of an empirical study of expert entrepreneurs' decision-making Sarasvathy (2001) theorizes that entrepreneurial processes are often signified by an incremental and iterative process, which she calls *effectuation*, where the venture ideas goes through evolutionary as well as revolutionary change as a result of interaction with the environment.

An explicit or at least implicit assumption in most such accounts is that the changes made to the venture idea as a result of such interaction are competition and efficiency based. In other words, the entrepreneur is expected to act according to rational economic logic, or at least in line with his or her preference structure. This paper challenges this notion by employing Institutional Theory as the theoretical lens. According to this perspective various forms of external pressures may make new or emerging ventures adapt in systematic and (probabilistically, but not deterministically) predictable ways. More specifically, the institutional pressures will tend to make the emerging or new venture more similar to other business ventures. These adaptations may or may not lead towards maximal economic outcomes or the attainment of the true goals of the individuals concerned. That is, the perspective highlights that while adapting to pressures in the environment may sometimes be necessary to gain legitimacy and ensuing success, such pressure may occasionally lure business founders into following practices that do not lead to goal attainment, and which are therefore best resisted. Arguably, awareness of this potential is important for entrepreneurs and entrepreneurship researchers alike.

The paper proceeds as follows. The next section introduces some fundamental ideas and concepts from Institutional Theory. In the then following section specific hypotheses are derived from this theoretical perspective with regards to the degree and direction of change in the venture ideas that new or emerging firms are pursuing. The method section describes the survey method used for the empirical investigation, which is followed by a presentation of results concerning the tests of the hypotheses. In the concluding section these results are discussed alongside limitations and avenues for future research.

## INSTITUTIONAL THEORY

Katz and Gartner (1988) and Aldrich (1999) regard venture start-ups primarily as emerging organizations (rather than primarily as new competitive activities that stir up equilibrium in the marketplace; cf. Shane & Venkataraman, 2000). This is a perspective that fits well with the purpose of this paper and with Institutional Theory. The idea that the environment can have a strong influence on the development of new organizations is hardly new. Neither is it a new thought that such external pressures can lead organizations towards isomorphism (i.e., the process of homogenization). For example, in the model of perfect competition in standard micro-economic theory there is no way a firm can survive if it does not completely adhere to economic rationality and the price and volume decisions it dictates within this model (Mansfield, 1979).

Such isomorphism, which DiMaggio and Powell (1983) call *competitive isomorphism* is also dominant in Hannan & Freeman's (1977) classic account of Population Ecology. In viewing organizations as open systems that are affected by their environment, it becomes apparent that forces impacting the organization are more complex than just competition and efficiency (Scott, 2000). For instance, cultural

influences (Barley & Tolbert, 1997) have a direct impact on decision making and formal structures as do uncertainty, legitimacy, and politics (DiMaggio & Powell, 1983). This *institutional isomorphism* is the type of homogenization highlighted in Institutional Theory and which will be focused on in this article.

In Institutional Theory the *organizational field* is comprised of organizations that mirror recognized areas of institutional life, such as resource and product consumers, suppliers, regulatory agencies, (DiMaggio & Powell 1983) and, technical practices (Karnoe, 1995). According to DiMaggio and Powell (1983), at some point 'structuration' in the field may occur if:

1. There is an increase in interaction among organizations in the field
2. An emergence of inter-organizational structures of domination and patterns of coalition
3. An increase in the information load with which organizations in the field must contend
4. A development of mutual awareness among participants in a set of organizations that they are involved in a common enterprise

Structuration of an industry constrains the ability of organizations to deviate from the norm, vaulting the pursuit of legitimacy, rather than just efficiency, as a reason for change. This constraining force is the isomorphism that DiMaggio and Powell (1983) postulate. A key theme in institutional theory, then, is that organizational action is influenced by tangible and intangible sources of institutional pressures. This occurs through three analytically (albeit perhaps not empirically) separable forms: *normative*, *coercive*, and *mimetic* forces. All three lead organizations towards isomorphism as they struggle for ways to combat uncertainty and gain legitimacy (DiMaggio & Powell, 1983).

*Coercive* forces stem formally or informally from pressure exerted on the organization from other organizations that provide resources and through legal or otherwise regulated expectations placed on the organization by society. Clear examples of coercive isomorphism are present in the start up phase of companies, e.g., when they file tax forms and follow standard incorporation procedures mandated by governments. One example of coercive isomorphism can be found in Brytting's (1991) doctoral dissertation where an entrepreneur seeking funding and a banker eager to accommodate a reliable partner, colluded together on a 'fake' written plan in order to please the superiors in the bank and adhere to the internal, formal rules. Neither side really cared about the content of the plan; they trusted the proven 'business ability' of the entrepreneur. In this example coercive acquiescence was motivated by political influence and legitimacy.

*Mimetic* isomorphism occurs due to uncertainty in the environment that forces organizations to mimic what is perceived to be 'best practice'. This can manifest itself through copying standard business models or scanning the environment to benchmark competitive practices and employed technologies (Pavia, 1991). One example of this is what could be witnessed occurring during the 'dot-com' boom. Young companies displayed their utter lack of respect towards the 'establishment' by setting up ping-pong tables in their break rooms, allowing employees to show up at work dressed in Hawaiian shirts, khaki shorts, and Birkenstock sandals. Traditional organizational

structures were scoffed at in favor of flatter, more egalitarian structures. Ironically, in rebelling against the 'establishment', new dot.com start-ups were actually mimicking each other in an uncertain environment and hence were actually conforming to, rather than resisting established institutional pressures.

*Normative* pressures arise because of professionalization. A classic example of normative pressure can be found in Willmott (1986, p. 559, referring to Larkin, 1983), as he investigated the field of accounting to conclude that '... professional associations are seen primarily as political bodies established and maintained to define, defend and enhance the symbolic and material value of their members' skills.' Moving from the substantive, i.e. abilities, to the formal, i.e. titles, is an example of normative isomorphism.

While the theory allows probabilistic predictions on the population level, institutional pressures are not assumed to lead deterministically to fully predictable responses on the level of the individual venture. 'When organizations are not assumed to be invariably passive or active, conforming or resistant, then responses to the institutional environment become cast as behaviors to be predicted rather than theoretically predefined outcomes of institutional processes.' (Oliver 1991, pg. 174) In other words the options available to organizations confronting institutional pressures include not only conformance and resistance, but also compromise, avoidance and manipulation (Oliver, 1991).

## IMPLICATIONS OF INSTITUTIONAL PRESSURES ON EMERGING OR NEW VENTURES

Interestingly, institutional theorists have paid little attention to entrepreneurship and the creation of new ventures (Aldrich, 1999). While institutional theory thus is traditionally applied to existing organizations in older institutional fields, Aldrich and Fiol (1994) have argued that the same pressures apply to new organizations in new institutional fields. In fact, pressure to gain legitimacy, ambiguity/uncertainty, and political involvement may be greater for emerging organizations. It may also be argued that the increased political, media and academic interest in entrepreneurship (understood as new firm formation) has led towards considerable structuration tendencies. The growth of educational programs; a professionalized Venture Capital Industry; informal investor networks; business incubators that are connected via national and international networks; business plan competitions, and associations as well as media devoted specifically towards entrepreneurship issues suggest that the phenomenon of venture creation occurs under a much higher degree of structuration (according to DiMaggio & Powell's four criteria above) today than, say, twenty years ago. This also indicates an increased relevance of applying an institutional perspective for understanding entrepreneurial phenomena.

Some specific hypotheses derived from Institutional Theory are developed below. The hypotheses do not specify exactly what type of institutional influence is assumed to yield the expected effect. This is because—as observed by DiMaggio and Powell (1983)—these analytical categories are difficult to distinguish empirically. Consequently we lack direct and separate measurement of *mimetic*, *normative* and *coercive* pressures, respectively. However, in the discussion leading up to each

hypothesis it is revealed what type of institutional pressures is assumed to underlie the expected effects.

Pursuing and maintaining a steady flow of financing is crucial for the survivability of emerging organizations (Landström & Winborg, 1995). Acquiring the necessary funds to remain afloat is often tied to first establishing legitimacy. External investors, concerned for the well-being of their investment may exert pressure to force a change in the venture ideas their clients are pursuing. Such influence is likely to primarily coercive in nature. However, as banks, venture capital firms and other financial institutions are also 'victims' of the norms and role modeling of their own industry such coercion may have underlying elements of mimicking and norm compliance.

*Hypothesis 1a:* The greater the dependence of a venture on external finance, the greater the degree of change in the venture idea.

Business founders are often reluctant to grow their businesses (Wiklund, Davidsson & Delmar, 2003) and their initial aspirations are often relatively modest (Delmar & Davidsson, 1999). External investors looking to maximize their investment may see opportunities to expand the initial venture idea and attempt to coerce the venture into accepting these ideas. Interested in maintaining some level of control, the venture founders might try to compromise and include the suggestion without abandoning their initial idea.

*Hypothesis 1b:* More external investors will cause the initial venture idea to broaden in scope.

Ventures that rely on a dominant customer are often put in the precarious position of having to 'jump through hoops' to meet client demand. The legitimacy and ultimately survivability of the venture hinges upon keeping the end user placated. The dominant customer may choose to use this position of power to shape the idea of the company to better suit their needs. As a consequence the new or emerging venture may have to change aspects of their business models to conform to standards regarding delivery and payment terms, or through further fuelling normative pressures such as requiring a certain level of certification.

*Hypothesis 2a:* The greater the reliance on a dominant customer, the greater the degree of change in the initial venture idea.

It may be in the best interest of dominant customers to keep their supplier in a position of subordination. Directly in line with Institutional Theory this may take the form of forcing the venture to become more similar to its peers, and hence more exchangeable. Alternatively, by guarding their leverage over the venture, the dominant customer may tacitly force the venture to fine tune its idea to better suit its specific needs, thus giving it less negotiating power due to its increased dependence.

*Hypothesis 2b:* Reliance on a dominant customer will cause the initial venture idea to narrow in scope.

Ventures located in incubators face normative, mimetic and to some extent also coercive pressures. For instance, both coercive and normative pressures occur in

incubators regarding the writing of business plans (Karlsson, 2003). In addition, due to high external uncertainty the firms in the incubator likely have a tendency to mimic one another and hence incorporate elements of each other's business ideas. It may also be suspected that normative pressures arise in incubators from received views that the market should be approached with a precisely defined business concept. Presumably, the 'business plan rationality' is at odds with fuzzy, broad or poorly articulated business ideas that cannot be convincingly communicated in concise writing.

*Hypothesis 3a:* Ventures located in incubators will experience a higher degree of change in the venture idea than ventures not located in incubators.

*Hypothesis 3b:* Location in an incubator will cause the initial venture idea to narrow in scope.

Ventures based on ideas that deviate too far from the norm face uncertainty and challenges to their legitimacy. Therefore, regardless of the specific source of the institutional pressure, institutional theory implies that more radical ideas are subject to stronger external pressure to conform. In such cases coercive and normative institutional pressures may be too great to ignore, causing a partial rethinking of the venture idea.

*Hypothesis 4:* The more original a venture based idea, the greater the degree of change to the initial venture idea.

Regarding originality Institutional Theory does not provide a basis for predicting the direction of change in terms of broadening or narrowing, which is why such an hypothesis is not specified here.

## METHOD

### Sample and procedure

From a population of 321 young, knowledge-intensive firms that underwent a training program at Linköping University, telephone interview data were obtained from 167 firms (52%) that were eligible (i.e., they could be identified), relevant (there was some kind of activity around the idea), and willing to cooperate. In order to facilitate the data collection the questionnaire and a cover letter were sent to respondents in advance so that they had access to it during the interview. Thanks to the respondents generally being highly qualified; the interactive phone interview mode, and examples illustrating complex concepts being given in the questionnaire, some seemingly complex questions (cf. below) could be posed without any apparent comprehension problems.

As regards descriptive characteristics the following deserves mentioning:

- the average firm age is 3.6 years
- 70% employ less than 5 people and have a turnover less than 1.5 MSEK<sup>1</sup>
- 40% want to expand
- 60 % are started by teams



- 61% are spin-off firms (32% come from the private sector)
- three quarter (74%) are exclusively owned by the founder(s)
- 60% are or have been located in a business incubator
- 85% are offering a pure service concept or a combination of both products and services
- 39% are selling services or products on the international market

## Variables

*Dependent variables.* For hypotheses concerning *Degree of change* of the venture idea an index was constructed based on the questions ‘To what degree did the idea change?’ and ‘If it changed, to what degree was this due to external pressures?’ As the questions were repeated for the pre- and post start-up stages the total number of items is four, all of which were answered on five-point agree-disagree scales. This index has a range from 4 to 20; a mean of 10.03; std. dev. 3.99, and a Cronbach’s Alpha of 0.77. For hypotheses concerning *Direction of change* of the venture idea were used various re-computed versions of the answers to the question ‘Please indicate the nature of the idea’s development over time,’ which originally had four response alternatives: a) the idea has undergone divergence (broadened); b) the idea has undergone convergence (focused); c) the idea remains unchanged and narrow, and d) the idea remains unchanged and broad. In the analysis is used a three-point version where the latter two categories have been combined to ‘no change’. The intended meaning of ‘divergence’ and convergence’ was further illustrated to the respondents by means of examples.

*Independent variables.* The measure of *External investors* is the sum of external owner categories represented in the venture<sup>2</sup>. For ventures with no external owners this variable has the value zero. One is added for each type of external owner that the venture has. As many as 138 (83.1%) of the ventures have no external owners, and as a result this variable is highly skewed to the left, with a mean of 0.22 and std. dev 0.58. For *Dominant customer* a computed dummy variable was used. Ventures whose most important customer accounts for 50 percent or more of sales get the value 1 on this variable. This characteristic is shared by 17.5 percent of the firms in the sample. The variable *Incubator location* is likewise a dummy variable with value 1 for ventures that either at the time of the interview or previously were located in an incubator, which goes for 42 percent of the sample. *Originality* is a computed index based on the questions ‘Please indicate the idea’s degree of research orientation’ and ‘What degree of novelty did the idea have?’ Both of these questions were answered on five-point scales ranging from high to low. As the former question was re-stated for pre- and post start-up stages the resulting three-item index has a range from 3 to 15; mean 8.03; std. dev. 3.65, and a Cronbach’s Alpha of 0.81. It should be noted here that the Swedish original for ‘research’ has a more specific meaning than its English counterpart. It points clearly towards university research or systematic R&D and excludes, for example, ‘marketing research’ and the background ‘research’ conducted by journalists; phenomena for which other terms are used. The sophisticated respondents in this sample should have little difficulty interpreting its intended meaning.

It should be noted that direct measures the quality of external pressures in terms of mimetic, coercive and normative are not included in this study. Hence we did not bring the hypotheses to this level of specificity, either.

*Control variables.* A number of control variables are also included in the regressions. Apart from (log) *Venture age* all of these are dummy variables concerning the nature and origin of the venture or the venture idea: *Team start-up*, *Spin-off*; *Product*; *Service*; *Internal*, and *Idea scope*. The second to last variable distinguishes between ideas originating internally (1) vs. being adopted into the venture (0), while the last variable crudely characterizes the ideas as (initially) broad (1) or narrow (0) in scope.

### Analysis techniques

For hypotheses regarding *Degree of change* OLS multiple regression analysis is applied. For the hypotheses regarding *Direction of change* bivariate as well as multinomial logistic regression has been tried. However, for reasons explained below the only displayed analysis is a cross-tabulation accompanied with the conventional Chi<sup>2</sup> test.

## RESULTS

Before turning to hypothesis testing let us first present some descriptive statistics to confirm that there is change in the venture ideas, and that the respondents agree that this is at least in part due to external pressures. Table 1 provides some information about this.

TABLE 1  
Descriptive statistics on venture idea change and external pressure (n=166)

<i>Variable</i>	<i>Mean</i>	<i>Std. dev.</i>
Degree to which the idea changed before start-up (1 low; 5 high)	2.30	1.78
Degree to which the idea changed after start-up (1 low; 5 high)	2.87	1.25
Change caused by external pressure, before start (1 low; 5 high)	2.09	1.30
Change caused by external pressure, after start (1 low; 5 high)	2.78	1.45

These data suggest that the original venture ideas undergo changes in a sufficient number of cases to make the below analyses meaningful. They also suggest that the respondents often perceive external pressures to be the source of such changes. Further, the data suggest that both the amount of change and external pressure are greater after start-up than in the formative stage that precedes it. Data not displayed in the table show that the respondents identify customers as the strongest source of external pressure, followed by ‘competition’, ‘investors’, ‘other’ and ‘suppliers’. Incubator influence was not separately asked for, so this should be included in the ‘other’ category. There is perhaps reason to caution against social desirability or impression management tendencies here. Respondents may be more prone to agree to listening to the customers and to keeping up with the competition than to giving in to external stakeholder demands. However, overall the descriptive results suggest it is meaningful to further investigate the hypotheses derived from institutional theory on these data.

Table 2 displays the regression analysis where the hypotheses regarding *Degree of change* are tested; i.e., hypotheses 1a, 2a, 3a and 4. In Model 1 the dependent variable is regressed on control variables only, in order not to over interpret explained variance

that could be attributed either to the control variables or the theoretically derived explanatory variables. In Model 2 the explanatory variables are entered alongside the controls.

TABLE 2  
Regression analysis with *Degree of change* as dependent variable (n=165)

	<i>Model 1</i>	<i>Model 2</i>
<i>Explanatory variables</i>		
External investors		.20**
Dominant customer		.18**
Incubator location		.27***
Originality		.09 n.s.
<i>Control variables</i>		
Log. Venture age	-.14 $\alpha$	-.20*
Team start-up (yes=1)	.06 n.s.	-.02 n.s.
Spin-off (yes=1)	-.21*	-.24**
Product focused venture (yes=1)	-.01 n.s.	.06 n.s.
Service focused venture (yes=1)	.10 n.s.	.14 n.s.
Internal idea (yes=1)	.13 n.s.	.11 n.s.
Idea scope (broad=1)	-.10 n.s.	-.04 n.s.
Adj. R <sup>2</sup>	.04	.16

Note: Significance levels are single-tailed for explanatory variables and two-tailed for control variables.  $\alpha$  = p<.10; \* = p<.05; \*\* = p<.01; \*\*\* = p<.001.

The results for Model 1 show that the control variables have very limited influence on degree of change of the venture idea. Ventures that are older and—in particular—those that are started as spin-offs report lower degree of change. The latter is possibly because such ideas are further developed before they are launched or even conceived of as distinct venture ideas, than are ideas leading to independent start-ups. The explanatory power of the model is miniscule, however.

Also for Model 2 the explanatory power is modest. However, in a cross-sectional analysis with the type of measures used here (rating scales and dichotomous variables) one should not expect anything near full explanation even if all important variables are included (cf. Davidsson, 2004). Importantly, the analysis gives fairly clear support for hypotheses 1a, 2a, and 3a. Consistent with ideas derived from institutional theory, then, it is found that relatively more change of the venture idea is reported for ventures with more external investors. The same is true also for ventures with a dominant customer as well as those with an incubator location. The estimated effect is the strongest for the latter variable. The effect for originality is in line with hypothesis 4, but the effect is small and (therefore) not statistically significant. It thus cannot be ruled that original/novel/ radical venture ideas degree are neither more nor less subject to change in response to external pressures, than are more mundane venture ideas.

Our hypotheses regarding *Direction of change* of the venture idea concern a variable that in the original is a four-category nominal variable. There are a number of multivariate approaches to analyzing the influence of a set of predictors on such a variable. Binomial and multinomial logistic regressions, using two- and three-

category versions of the dependent variable, were run for this analysis. Different cut-offs have also been contrasted both including and excluding cases for which no change in either direction was reported. Generally speaking these models show very modest explanatory power and very weak relationships for control variables as well as theoretically derived explanatory variables. However, there was a somewhat consistent tendency for the variable *Incubator location* to appear with a significant effect across model specifications. Table 3 therefore displays the more easily interpreted bivariate result for this variable when it is cross-tabulated with *Direction of change*.

TABLE 3  
Cross-tabulation of *Incubator location* with *Direction of change* (n=165)

		<i>Incubator location</i>		Total
		0 Never located in incubator	1 Now or previously located incubator	
<i>Direction of change</i>	1 Broadening	35 (32.6)	21 (23.4)	56
	2 Focusing	16 (25.0)	27 (18.0)	43
	3 No change	45 (38.4)	21 (27.6)	66
Total		96	69	165

Note:  $\chi^2 = 10.92$ ;  $d.f. = 2$ ;  $p = .004$ . Cell entries are observed frequencies and, within parenthesis, expected frequencies if there were no relationship between the two variables.

As can be seen, the result is highly significant and in the expected direction. An inspection of the cells in the table reveals that the significant result appears because firms with an incubator location have a 50 percent higher than expected (27 vs. 18) probability of having made their venture idea more focused over time. Mirroring this, ventures that were never located in an incubator show change in this direction much less than expected (16 vs. 25). Thus, relatively clear support is found for hypothesis 3b: location in an incubator will cause the initial venture idea to narrow in scope. This analysis also illustrates that what might appear as a weak and uncertain effect in a multivariate, variance-explaining model may in fact be a rather clear and strong effect, given the nature of the data and what strength of effect can reasonably be expected.

While hypothesis 3b is supported the data give no support for hypotheses 1b or 2b, neither in multivariate analyses nor in bivariate cross-tabulations like that displayed in Table 3. We thus find no evidence that pressures from customers or investors lead to systematic change of venture ideas in a particular direction in terms of broadening or narrowing it.

## CONCLUSIONS

Researchers increasingly view entrepreneurial discovery or opportunity recognition as a nonlinear process where the idea that becomes the foundation for a successful venture can be quite different from the idea the firm initiation was originally founded around (Klofsten, 2004). Previous literature that acknowledges both such a dynamic view and the idea that input from external parties is one reason for adaptations of the venture idea usually assumes that the adaptation makes the venture more viable, successful, or apt to achieve whatever underlying goals made the founders try to create it in the first place. This is similar to what DiMaggio and Powell (1983) call competitive isomorphism. The current study investigates the overlooked aspect that the development of venture ideas in many cases may be subject to a process of institutional isomorphism. The adaptations resulting from such a process may or may not be aligned with economic rationality or founders' goal attainment. A certain degree of alignment would not be mere coincidence as compliance with at least some forms of institutional pressures should facilitate the attainment of legitimacy, which may be necessary for survival and success. There can be little doubt, however, that adherence to institutional forces will make emerging ventures less different from existing ventures and from their peers—that is, less innovative. In order to ensure not just marginal survival but to also retain some probability of above-average success, founders of new and emerging ventures may sometimes be better off resisting, compromising, avoiding or manipulating (Oliver, 1991) than eliciting the standard response of conforming to such pressures.

Our empirical investigation and ensuing analysis confirmed several hypotheses that were derived from institutional theory. Hypothesis 1a: 'The greater the dependence of a venture on external finance, the greater the degree of change in the venture idea', was supported. The same goes for Hypotheses 2a: 'The greater the reliance on a dominant customer, the greater the degree of change in the initial venture idea.' The authors interpret these results as primarily the fruits of coercive institutional pressures, although elements of norm compliance and mimicking may in part underlie such coercion. Support was found also for 3a: 'Ventures located in incubators will experience a higher degree of change in the venture idea than ventures not located in incubators, and 3b: 'Location in an incubator will cause the initial venture idea to narrow in scope'. These effects of incubator location arguably have more to do with normative pressures (sometime enforced with an element of coercion) and tendencies for co-located firms to mimic elements of each other's business models.

While the results are largely in line with institutional theory, other theoretical perspectives make similar suggestions. For example, the issue dealt with in Hypothesis 2b about (over-)adapting to one strong customer might—had it been supported—be interpreted as having to do with *asset specificity*, which is a concept from Transaction Cost Economics (Williamson, 1975)<sup>3</sup>. It can further be argued that hypotheses generated concerning dependence on stakeholders would have been better grounded in resource dependence theory (Oliver, 1991). Admittedly, when the coercion leads to adaptation to the needs of, e.g., a particular customer without at the same time making the venture more similar to a population of other ventures the process at work is not strictly one of isomorphism. However, whether emerging organizations are seen as resource dependent or as entities that respond to institutional pressure the coercive forces and effects should arguably remain the same.

To the extent this study's results reflect tendencies towards isomorphism it has not been directly assessed empirically whether the firms in the sample have, for institutional reasons, changed their ideas more or differently in ways that are best for them. This means that some results may reflect competitive rather than institutional isomorphism, or institutional pressures whose results coincide with competitive isomorphism. Importantly, however, the authors would argue that the presented theorizing and results is reason to be alerted to the fact that institutional isomorphism that lead to suboptimal adaptations may be at work. In particular, the question whether incubator pressure to narrow down the idea is productive or not deserves further scrutiny.

Of course, this study is not devoid of technical shortcomings. The sample is non-random; however it is relatively homogeneous and, arguably, theoretically relevant. Single respondent measures were taken. In the case of large organizations this may pose a significant drawback, but given the small size of ventures studied, this should only be minor issue. Ad hoc and sometimes single item or dichotomous measures were taken. The typical effect of this, however, is to deflate rather than exaggerate results. It is actually encouraging that the theoretically derived hypotheses held up despite the relative crudeness of some measures and other limitations of the data. In spite of these limitations, the authors would argue that answers to interesting and relevant questions were uncovered.

Future research should do a better job at measuring institutional pressure. For example, researchers should try to develop multi-item batteries to separately measure mimetic; coercive and normative pressures, respectively. The outcomes of adhering to institutional pressures relative to not doing so should also be assessed, to the extent possible. Moreover—which we think would be a contribution to the heart of institutional research itself—it would be of great interest to see studies that investigated both parties involved in the process. As this would allow for assessment both of the intent and the effect of the pressure quite interesting possibilities, all of which have not been much highlighted in the institutional literature, can be investigated. For example, there may be at least four types of intent behind the pressure: a) a selfish intent without regard for the eventual fate of the new venture; b) an intent to further the interest of both parties; c) an 'altruistic' intent to help the new venture without considering the consequences for ones own organization (presumably possible for incubators and some business angels), and c) unintentionally exercising pressures that nonetheless has effects. As regards effects there are also at least four possibilities: i) better for the organization exercising the pressure; ii) better for the new venture; iii) better for both, and iv) better for neither. This makes for 16 combinations, which appears to include possibilities usually not discussed in accounts of institutional theory.

Despite its tentative nature, this study has provided input for viewing change in the discovery (or 'opportunity recognition') process as not solely internally driven or reflecting only such adaptations that facilitate survival and success. Institutional pressures in general, and dominant customers, external investors and incubator experience in particular, are factors that help explain change in evolving venture ideas. It would serve entrepreneurship theory and practice well to learn more about the precise nature of such change.

CONTACT: Magnus Klofsten; Linköping University EKI/CIE, 581 83 Linköping, Sweden; (T) +46 (0)13 28 17 85; (F) +46 (0)13 28 18 73; magkl@eki.liu.se

### References:

- Aldrich, H. E. (1999) *Organizations Evolving*. London: Sage Publications Ltd.
- Aldrich, H. E., & M. C. Fiol. (1994) 'Fools rush in? The institutional context of industry creation.' *Academy of Management Review*, 19(4): 645-670
- Ardichvili, A., R. Cardozo., & S. Ray. (2003) 'A theory of entrepreneurial opportunity identification and development.' *Journal of Business Venturing*, 18: 105-123
- Barley, S., & P. Tolbert. (1997) 'Institutionalization and structuration: Studying the links between action and institution.' *Organization Studies*, 18(1): 93-117
- Bhave, M. (1994) 'A process model of entrepreneurial creation.' *Journal of Business Venturing*, 9(3): 223-242
- Bruyat, C., & Julien, P.-A. (2000). 'Defining the field of entrepreneurship.' *Journal of Business Venturing*, 16, 165-180.
- Brytting, T. (1991) *Organizing in the small growing firm: A grounded theory approach*. Doctorial dissertation, Stockholm School of Economics, Stockholm, Sweden.
- Davidsson, P. (2004). *Researching Entrepreneurship*. Dordrecht: Kluwer.
- De Koning, A. (2003) 'Opportunity Development: A Socio-Cognitive Perspective.' In J. Katz & D. Shepherd: *Advances in Entrepreneurship, Firm Emergence and Growth*, 6: 265-314. Oxford: JAI Press/Elsevier
- Delmar, F., & Davidsson, P. (1999). 'Firm size expectations of nascent entrepreneurs.' In P. D. Reynolds, W. D. Bygrave, S. Manigart, C. Mason, G. D. Meyer, H. J. Sapienza & K. G. Shaver (Eds.), *Frontiers of Entrepreneurship Research 1999* (Vol. 19, pp. 90-104). Wellesley, MA: Babson College.
- DiMaggio, P., & Powell, W. (1983) 'The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields.' *American Sociological Review*, 48: 14 7-160
- Hannan, M. T., & Freeman, J. H. (1977). 'The population ecology of organizations.' *American Journal of Sociology*, 82(5), 929-964.
- Hills, G. (1995) 'Opportunity Recognition by Successful Entrepreneurs a Pilot Study.' *Frontiers of Entrepreneurship Research*. Wellesley, MA: Babson College

Hills, G., & Shrader, G.E. (1998) 'Successful entrepreneurs' insights into opportunity recognition.' *Frontiers of Entrepreneurship Research*. Wellesley, MA: Babson College

Honig, B., & Karlsson, T. (2004) 'Institutional forces and the written business plan.' *Journal of Management*, 30(1): 29-48

Karlsson, T. (2003) *The institutionalization process of business plans in young organizations*. Unpublished manuscript, Jönköping International Business School, Sweden.

Karner, P. (1995) *Institutional Interpretations and Explanations of Differences in American and Danish Approaches to Innovation*. Thousand Oaks: Sage Publications Ltd.

Katz, J., & Gartner, W. (1988) 'Properties of Emerging Organizations.' *Academy of Management Review*, 13(3): 429-441.

Kirzner, I. M. (1973). *Competition and Entrepreneurship*. Chicago, IL: University of Chicago Press.

Klofsten, M. (2004) 'New venture Ideas: Their Origin and Metamorphosis into Viable Business Concepts.' Paper presented at the 12<sup>th</sup> annual High Technology Small Firms Conference, University of Twente, Enschede.

Landström, H., Winborg, J. (1995) 'Small Business Managers' Attitudes Towards and Use of Financial Sources.' *Frontiers of Entrepreneurship Research*. Wellesley, MA: Babson College

Larkin, G. (1983). *Occupational Monopoly and Modern Medicine*. London: Tavistock.

Long, W., & McMullan, W.E. (1984) 'Mapping the new venture opportunity identification process.' *Frontiers of Entrepreneurship Research*. Wellesley, MA: Babson College

Mansfield, E. (1979). *Microeconomics: Theory and Applications*. New York: Norton.

McKelvie, A., & Wiklund, J. (2004). 'How knowledge affects opportunity discovery and exploitation among new ventures in dynamic markets.' In J. Butler (Eds.), *Research in Entrepreneurship and Management*, Vol. 4, 219-240. Greenwich, CT: Information Age Publishing.

Oliver, C. (1991) 'Strategic responses to institutional processes.' *Academy of Management Review*, 16(1): 145-179.

Pavia, T. (1991) 'The early stages of new product development in Entrepreneurial high-tech firms.' *Journal of Product Innovation Management*, 8: 18-31



Sarasvathy, S. (2001) 'Causation and effectuation: towards a theoretical shift from economic inevitability to entrepreneurial contingency.' *Academy of Management Review*, 26(2): 243-288.

Scott, W. (2000) *Institutions and organizations*. Thousand Oaks: Sage Publications Ltd.

Shane, S., & Venkataraman, S. (2000). 'The promise of entrepreneurship as a field of research.' *Academy of Management Review*, 25(1), 217-226.

Venkataraman, S. (1997) 'The distinctive domain of entrepreneurship research: An editor's perspective.' In J. Katz and R. Brockhaus (Eds.), *Advances in Entrepreneurship, Firm Emergence, and Growth*, Vol. 3, 119-38. Greenwich, CT: JAI Press.

Wiklund, J., Davidsson, P., & Delmar, F. (2003). 'What do they think and feel about growth? An expectancy-value approach to small business managers' attitudes toward growth.' *Entrepreneurship Theory & Practice*, 27(3), 247-269

Williamson, O. E. (1975). *Markets and Hierarchies: Analysis and Antitrust Implications*. New York: The Free Press.

Willmott, H. 1986 'Organizing the profession: A theoretical and historical examination of the development of the major accountancy bodies in the UK.' *Accounting Organizations and Society*. 6: 555-580

---

<sup>1</sup> 1.5 MSEK=1.5 Million Swedish Kronor or roughly EUR 150 000

<sup>2</sup> Other indicators of institutional pressure from external sources of finance were also explored. When entered alongside the chosen indicator none of those contributed to the explanatory power of the models.

<sup>3</sup> We would like to thank an anonymous reviewer for this observation.