

INSTITUTIONAL ENTREPRENEURSHIP AND ORGANIZATIONAL INNOVATION

The Start up of a Divergent New Venture at the Periphery of a Mature Field

Abstract

In this paper we address the question of institutional and organizational change through the start up of new ventures. Following the institutional entrepreneurship theory, we examine the process of divergent change and the kinds of institutional work enabling entrepreneurs operating in a peripheral social position of mature fields to challenge the existing *status quo*. We argue that the start up of new organizations can be an opportunity for re-positioning existing traditional entrepreneurial capabilities by combining them with additional and complementary competences towards new institutional logics. Building on an in-depth longitudinal case study of a group of Italian SMEs – acting intentionally as a community for innovation – we highlight the contextual conditions and the implementing factors allowing this type of institutional entrepreneurship. Our study makes two main contributions. First, we try to fill the gap with existing research mostly focused on dominant organizations, by showing how institutional entrepreneurship can be implemented by low-status organizations, within highly institutionalized field. Second, we shed light on the type of institutional work required to create and legitimate new divergent organizational forms, by bridging established mature firms with new innovative fields.

Theoretical background

Organizational innovation is considered strictly complementary to technological innovation to strengthen firms' competitiveness. Empirical research shows how complex and difficult is to change the organizational structure of established firms because of their resistance and inertia to innovation. Evidence demonstrates that the “genetic” characteristics of nascent new ventures (Colombo and Piva, 2012) have a significant impact on their organizational structures, on their strategic orientation and, also, on their innovation performances (Visintin and Pittino, 2014; Criscuolo, Nicolaou and Salter, 2012). In this paper we argue that it is more likely to create new institutional and organizational logics through start up of new ventures instead of trying to change existing ones. We focus “on change agents who initiate divergent changes, that is, changes that break the institutional status quo in a field of activity and thereby possibly contribute to transforming existing institutions or creating new ones” (Battilana et. al. 2009, p. 67). This is the research field of institutional entrepreneurship as a special kind of entrepreneurship, aiming not only to generate economic value, but also to change established institutions and create new organizational forms (Tracey et. al. 2011).

The article explores how institutional entrepreneurship theory can contribute to the very complex phenomenon of institutional change within a specific economic and social context, that is an Italian local production system, strongly characterized by the presence of small and medium-sized enterprises operating in traditional and mature industries and mainly adopting the family business institutional model. In this direction, we consider how the start up of a new divergent new venture can contribute to the generation of new institutional logics leading to the creation of new

organizational forms, beyond the traditional family business model of Italian SMEs (Pittino et al., 2013).

In our paper we analyze a high institutionalized but declining field (Perkman and Spicer, 2007), where the stable set of rules, norms and cognitive schemas are challenged by the incumbent crisis. In addition, within this context, we focus on the strategic role of peripheral actors who have incentives to create new practices but lack the power to modify existing institutions (Garud et al., 2007).

We will address the following research questions.

RQ1: What are the distinguishing enabling factors and the nature of the process determining divergent institutional change by peripheral actors within high institutionalized fields?

RQ2: What institutional work is required to implement new practices when institutional entrepreneurs, following new institutional logics, create and legitimate new organizational forms?

To answer these questions we conducted a longitudinal in-depth case study of the start up of a new venture created by a community of entrepreneurs coming from the established institutional logic but acting to explore a strategic divergent institutional change.

The research framework

Our research framework proposes a multilevel approach to institutional entrepreneurship that examines: a) the enabling conditions for institutional entrepreneurship, b) the divergent change implementation and c) the legitimation of institutional change.

a) Enabling conditions for institutional entrepreneurship: creating common ground

The actors we consider fulfill the two essential conditions to be institutional entrepreneurs: a) they initiate divergent changes and b) actively participate in the implementation of these changes (Battilana et al. 2009). Specialized literature considers the degree of heterogeneity and the level of institutionalization as two key characteristics of enabling institutional entrepreneurship. In particular, when heterogeneity is high and when the level of institutionalization is low there are greater opportunities for strategies of institutional change. In our framework we propose a different perspective as we explore initiatives of divergent change when the heterogeneity is low and when institutionalization is high. Despite recent studies giving great attention to the role of high-status and dominant organizations, in our framework we focus on the periphery of the field and on the role of low-status organizations.

b) Kinds of institutional work for implementing divergent change

Enabling conditions lead to the practice and institutional work necessary to initiate and implement institutional change (Battilana et al., 2009; Tracey et al., 2011). The target is the opportunity discovery and recognition of a divergent strategy. In our framework the discovery process is based on two steps: the creation of a new vision and the mobilizing of motivated allies behind that vision. The networking process between motivated but peripheral actors is similarly crucial as the change project cannot be implemented by a single “heroic” institutional entrepreneur but requires a “multi-actor” force (Sotarauta and Mustikkamaki, 2011).

c) Legitimation of institutional change

The new institutional logics have to be translated into a new organizational structure. The challenge is the translation of existing competences and capabilities to a different organizational field. The new organizational form has to possess high absorptive capacity of complementary resource from the external network. The organizational governance has to be contestable. Additional key variables are the reputation of human resource involved and the management style of the new venture. The legitimation of institutional change requires actors to introduce new practices and ensure that these become widely adopted by other actors in the field.

Methodology: the “opportunistic, reflexive autoethnographic” approach

We conducted a longitudinal ethnographic case study. The adoption of a qualitative approach allows us to focus on understanding the in-depth nature of the entrepreneurial process rather than a “positivistic” explanation based on quantitative data. The aim of the qualitative case study research has been the construction of the “sense making” of activities and behaviors (Denzin and Lincoln, 2003). The empirical research comprises three phases: a) data collection; b) construction of a narrative; c) construction of a collective interpretation through interaction with managers. As a consequence the case study research can be considered a form of “opportunistic and reflexive autoethnographic” methodology (Jonsen et al. 2013, Reimer, 1977, Hayano, 1979, Tracey et al. 2011). This approach seeks to extract theoretical value from the description and analysis of personal experience (Karra and Phillips, 2008; Ellis et al. 2011).

Case study: the Gloreha project¹

The narrative of the case history is presented as a multilevel process starting from the action of institutional entrepreneurs for constructing the common ground, to the institutional work to allowing the start up of the new venture and, finally, to the affirmation of the new institutional logics with the successful entrepreneurial innovative project (Gloreha – Glove Rehabilitation Hands).

The entrepreneurs’ context and the construction of the common ground

At the beginning of 2003 Mr Paride Saleri – CEO of OMB Saleri, a medium-sized enterprise located in Brescia (Italy) and engaged in the production of valves for the automotive industry – initiated to activate an informal community for innovation. He and a small group of other local entrepreneurs proposed a proactive strategy based on the challenge of innovation at all levels to start a divergent process in the local production system. He decided to start with informal meetings (workshop and seminars) to analyze critically the existing situation and to discuss collectively new developments and changes. He did not propose this strategy to any formal institutions, but instead tried to follow a bottom up approach, involving people he supposed were interested in the idea of

¹ The names of Idrogenet, of the founders companies, as well as, of the Gloreha project and of every person involved are all real as we acquired the consensus of all actors. The founders of Idrogenet are 11 businessmen – coming all from SMEs of Lumezzane District – and 1 university professor.

developing a new way to compete. The initial informal community for innovation had three components: 1) A group of 15 entrepreneurs and businessmen from Lumezzane. The group was born originally by the common need, among the members, to explore innovation strategies. 2) A group of Paride Saleri's friends interested in social and industrial changes. 3) A small group of researchers and academics - including the first author of this paper – who were involved in researching technological and organizational local transformations.

“Exploratory meetings” that followed were dedicated to technological and organizational issues. The main issue discussed was: how to re-position existing industrial and productive competences in innovative sectors and new markets. The outcome was an increasing and diffused consciousness among people of the “real” opportunity to address existing “practical” knowing towards new products and new entrepreneurial initiatives.

Implementing divergent change: the start up of Idrogenet limited

The first exploratory stage led to a self-selective process of people involved and highly motivated to show a different way to do things. Twelve persons remained attached to the project, 11 entrepreneurs and one university professor (the first author). The entrepreneurs are engaged in different sectors within the mechanical industry and they bring and contribute a variety of productive and technological competences. They are linked by the same cultural background and all of them wanted to carry out a strong break from the traditional family business. In the first part of 2004 they started up the company Idrogenet limited owned with the same share by the twelve partners. The initial idea was to industrialize a highly qualified system of components to link the fuel cell with the hydrogen's container. Idrogenet applied for European funding but the bid was unsuccessful and the hydrogen project was suspended. Surprisingly, Idrogenet partners were not disappointed by this outcome (probably because they expected it) and they came out of it with higher energy to undertake new innovative project. The learning process about complex innovations increased the involvement of the most sceptical members.

The new institutional logics: the Gloreha project

New institutional logics started to develop because people enjoyed breathing an exciting atmosphere, quite different to that of the traditional “trap” of closed “family business” from where they came. Some meetings were devoted to analyze the errors made in the first explorative project. The new innovation strategy was more oriented to market opportunities and to the discovery of growing sectors. The discovery process quickly led to the life and health industry and in particular to the segment of rehabilitation devices.

Pursuing this direction, the networking process with research centres and university departments allowed the discovery of an entrepreneurial opportunity through a contact with an important research institute in Lombardia (CNR – The National Research Centre in Lecco) strongly engaged in research on “shape memory metal”. Some meetings followed which allowed an intense learning process of participants about the technological aspects as well as the institutional logics and organizational processes of the biomedical field and the rehabilitation sector. The outcome was the decision of Idrogenet to develop a very promising existing research project on the development of a hand-prosthesis for stroke patients survivors made of shape memory metals.

Idrogenet recruited a young technical engineer from the technical side of CNR and a young project manager for the organizational and management side. Through the CNR established relationships, Idrogenet gained access to a wider consolidated network built by the research institute over many years. It includes two hospitals, some enterprises working on modelling and furnishing shape memory metals and some important university departments.

The collaboration with CNR quickly entered in a crisis phase. A "soft" exit agreement with CNR was subscribed to stop the collaboration after a few months. At the beginning of 2007 the redefinition of the innovation network started. New and additional actors were called on board, including: the Mechanics and Industrial Engineering and the Business Administration Departments of the University of Brescia. The final challenge was to produce a new prototype of the rehabilitation device (patenting and CE mark included) within one year. The growing involvement of people in this phase was linked to their clear role and the active task performed inside the community (Muzzi and Albertini, 2014). Near the end of this phase, the promoter leader role - crucial in the previous stage to involve all members and to make sense to the project - became less relevant. For these reasons the governance of Idrogenet changed at this moment. Carlo Seneci was appointed as new CEO of the company. An intense turnover also occurred within the board of directors with the entrance of younger managers.

Gloreha in society before entering the market

In late 2011 Idrogenet launched Gloreha, a device for hand rehabilitation, on national and international markets. Before the market entrance of Gloreha - during the two years period 2009-2011 - the promoters team initiated the legitimation process of the new venture within the local production system and local society. The innovation community and the project team had worked well to get a new prototype of an innovative project - against the scepticism of many local observers - following an innovative institutional and organizational logic. The main initiatives were (1) a public presentation in Lumezzane to local entrepreneurs, local public institutions, local press and opinion leaders, (2) frequent presentations of Idrogenet and of the Gloreha project within University and Master courses for executives and (3) the start-up of the second generation new Gloreha before the market response on the first generation. On this second project (GLOREHA HOME TC) Idrogenet have received further public funds from the National Department of University and Research (MIUR) .

Discussion: the model of divergent exploitation of existing entrepreneurial capabilities

A model of institutional entrepreneurship based on the divergent exploitation of existing entrepreneurial capabilities emerged based on our study. Having in mind our research questions, we present the model along the following building blocks.

1. The strength of peripheral collective actors

As regards the first research question, we found that institutional change can effectively occur in the context we considered. Our case study shows that the enabling conditions for peripheral actors is the existence of a highly motivated promoter leader who intentionally mobilizes people and partners behind his vision. Institutional entrepreneurship can actually occur also in highly institutionalized fields and its activation can be initiated by peripheral actors. The enabling conditions in this context are:

- the strong and explicit intentionality of actors who initiate the divergent change in response to the competitiveness needs, trying to re-position their business;
- the collective aggregation process of peripheral actors to implement a collaborative strategy to activate complementary resources.

2. *Steps for divergent change implementation*

As regards the second research question, institutional work emerges at the a) micro level, b) meso level and c) macro level (Tracey et al., 2011).

- a) *New vision for opportunity recognition* - The creation of the new vision can be considered essential at the micro level for opportunity recognition. This is the prerequisite for any form of entrepreneurship (Eckhardt and Shane, 2003) because the opportunities are not “out there” waiting to be found (Ardichvili et al., 2003) but they have to be “enacted” by the perception, interpretation and understanding of entrepreneurs (Dutta and Crossan, 2005). In our case, the micro social context of the leader and of the starting group of promoters can be considered as the “cognitive lab” to create the new vision and to enact the opportunity recognition.
- b) *Selecting partners for the new organizational form* - The second step is the construction of an entrepreneurial team with a distinctive bundle of capabilities required by the entrepreneurial activity, including skills, abilities and resources needed to pursue the entrepreneurial opportunity (Arthurs and Busenitz, 2006). At first a selection work is required to identify the right people and the specific resources. In our model part of the process has to be self-selective (entrepreneurs autonomously decide to participate or not). After that, the founders group can call and acquire the specific additional skills and resources. As a consequence the organizational design has to be coherent with expertise and resources contributed, providing a proper correspondence between skills and roles played within the firm (Muzzi and Albertini, 2014). The governance has to be a competence-based process in which skilled people take part to the decision making. A “post-family” governance structure is needed in which the new venture is totally separated from the owner families.
- c) *Legitimation of the new venture* – The personal quality of promoters and entrepreneurs involved is the base for gaining legitimation of the new organizational form. In addition the effectiveness of the start up process and of the structure of the nascent new venture strengthens its reputation in context. One critical issue for divergent start ups is how to gain legitimacy and build credibility in the social context to acquire resources for establishment and growth. The new venture has to grow in an emerging field – even if it is rooted in a mature field – and for this reason the institutional entrepreneurs must have the ability to theorize and develop lines of argument that appeal to diverse stakeholders in the context.

Conclusion

Our study makes two main contributions. First, is the identification of a specific and contextualized institutional entrepreneurial process, initiated by peripheral actors within a highly institutionalized field. Second, is the definition of the specific entrepreneurial practices required to prepare the common ground and to implement the new organizational structure to bridge new legitimated organizational fields.

We recognize that results from one case study have strong limitations and cannot be generalized. However, our narrative shows a meaningful example of the development of new institutional logics within Italian local mature production systems. The emerging model of an alternative exploitation of existing entrepreneurial capabilities shows that the generation of new ventures can be a powerful opportunity for the start up of *entreprises pas comme les autres*. The new firms can be strongly divergent in respect to the established firms if their start up occurs under specific conditions, as follows.

- The existence of the purposive action of a collective peripheral actor able to develop the resource base needed to pursue a new business model. The key entrepreneurial capability is “the ability to make connections between existing organizational practices and the new practices” (Phillips and Tracey, 2007, p.316). This is the essential prerequisite for repositioning the existing skills of SMEs, through the start up corporate spin off in innovative industries.
- The creation of a divergent organizational form with a high absorptive capacity for acquiring additional complementary resources to bridge emerging fields. The institutional logics behind the new organizational processes is based on the shift from the dominant closed family model to the open competence-based model with high quality of human and social capital (Debrulle et al., 2013).

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