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6 Institutional Theories of Entrepreneurship

Abstract: The integration of institutional theory and entrepreneurship research has led to a growing body of literature that examines how entrepreneurial processes are shaped by institutional forces such as cultural beliefs, social norms, and government regulation. The chapter builds on existing reviews by focusing on how institutions influence the entrepreneurial stages of opportunity creation, discovery, and exploitation. Previous research on each stage is reviewed and specific points in the entrepreneurial process identified that deserve further scholarly attention from an institutional perspective. It is argued that institutional forces not only determine who participates in entrepreneurship, how they engage in it, and when they do so, but also influence the broader societal outcomes of entrepreneurship, such as its impact on inequality.

Keywords: Entrepreneurship, institutional theory

6.1 Introduction

Although the fields of institutional theory and entrepreneurship initially developed independently of each other, there has been a growing trend toward their integration. This synergy has given rise to a significant and influential body of literature. While existing reviews, such as those by Tolbert, David, and Sine (2011) and Sine, Cordero, and Coles (2022), have examined the theoretical underpinnings of this interdisciplinary literature, this chapter focuses on how the entrepreneurial process is discussed and understood within the framework of institutional theory. The primary objective of this chapter is to identify specific stages within the entrepreneurial process that warrant further scholarly attention from an institutional perspective. The chapter is not a comprehensive review but rather a roadmap for some potential research ideas.

6.2 Institutional Theories of Entrepreneurship

In the early stages of entrepreneurship research, scholars primarily explained entrepreneurial activity by focusing on the personal traits and dispositions of founders (Aldrich & Wiedenmayer, 2019; Gartner, 1988). The core assumption underlying this stream of research was that certain inherent qualities and characteristics predispose individuals to become entrepreneurs (Shane, 2000). These individual-level explanations provide valuable insights but overlook the complex social contexts in which entrepreneurial endeavors often unfold. Recognizing this oversight, organization theo-

rists developed an institutional-theory perspective on the study of entrepreneurship (for reviews, see Bruton, Ahlstrom, & Li, 2010; Sine & David, 2010).

Institutional theory, which emerged in the late 20th century, has been a crucial framework for understanding organizational structures and behaviors (Meyer & Rowan, 1977). Building on research by Philip Selznick (1949: 10), who emphasized that an “organization [. . .] has a life of its own,” and drawing from Berger and Luckmann’s (1967) social constructionism, institutional theorists—such as Meyer and Rowan (1977) and DiMaggio and Powell (1983)—argued that formal structures were infused with social worth when these were perceived as inherent in well-run organizations. This social esteem derived from both an unquestioned adherence to common beliefs about the legitimacy of these structures and external pressures from stakeholders such as customers, suppliers, and investors (Schneiberg & Soule, 2005). This perspective became important for understanding new ventures, where legitimacy is specifically important (Stinchcombe, 1965).

6.3 Institutional Theories of Entrepreneurship Across the Entrepreneurial Process

In this chapter, we aspire to build on existing reviews by exploring the entrepreneurial process through the lens of institutional theory and provide suggestions about which stages of the entrepreneurial process warrant further research. We focus on the opportunity creation, discovery, and exploitation stages (Alvarez & Barney, 2007; Shane & Venkataraman, 2000). Opportunity creation is often the beginning of entrepreneurial activity and includes various actions that create both the resources and the fundamental norms, values, and incentives that encourage entrepreneurs to form an organization. Discovery is the phase wherein entrepreneurs discern, interpret, and recognize changes and trends, resources, and underlying needs in the social or technological landscape as possibilities for creating new organizations. The exploitation stage involves capitalizing on these opportunities through various means, such as forming teams, mobilizing necessary resources, building and testing a prototype, forming an organization, establishing an identity, growing, and exiting. We review institutional research on these stages, highlighting the theoretical mechanisms used to study each and briefly discuss areas that need more research.

6.4 Opportunity Creation

Opportunity creation refers to the process through which new entrepreneurial opportunities are generated, either intentionally or unintentionally. Intentional opportunity creation involves actors purposefully engaging in social or technological innovations

that spawn new markets. Unintentional opportunity creation involves actors engaging in social or technological innovation without purposefully wanting to open new markets (Alvarez & Barney, 2007; David, Sine, & Haveman, 2013). Below we highlight institutional mechanisms that have been shown to be relevant to opportunity creation.

6.4.1 Institutional Entrepreneurship

First, institutional entrepreneurs can create new opportunities. DiMaggio (1988) emphasized the role of institutional entrepreneurs, who are actors that mobilize resources to create or transform institutions to serve their own interests. These individuals play a crucial role in opportunity creation, as they are often involved in changing the structure of organizational fields, creating new categories, and shaping the norms, values, and regulations which subsequently create new entrepreneurial opportunities. For example, David, Sine, and Haveman (2013) offer an example of intentional opportunity creation through their study of the management consulting industry. They observed that early entrepreneurs in this field worked to legitimize their new entrepreneurial ideas by convincing executives of large corporations that knowledge from legitimate academic disciplines such as accounting, psychology, and natural sciences could enhance organizational efficiency and that external consultants could provide value to internal firm practices. In another example of intentional opportunity creation, Munir, Ansari, and Brown (2021) explored how the initially ascetic and spiritual yoga movement transformed into an \$80 billion global market. The yoga movement shifted from being against the market to embracing core market beliefs. This transformation was led by external entrepreneurs seeking to capitalize on the movement and internal leaders hoping to expand.

In a related example, Thornton, Ocasio, and Lounsbury (2012) introduced the concept of institutional contrast effects, which increase entrepreneurial alertness and facilitate the discovery of new ideas and opportunities (Kirzner, 1977). Individuals' involvement in different institutional orders creates cognitive contrast effects, making certain environmental aspects more prominent. This leads to an increased awareness which allows entrepreneurs to identify issues and solutions through a lens shaped by their unique experiences across various institutional settings. Such contrast effects are crucial for institutional entrepreneurship, enabling them to discern entrepreneurial opportunities by leveraging their distinct interpretive frameworks, encompassing symbols and practices inherent in their diverse institutional backgrounds.

6.4.2 Structuration

Another important institutional mechanism is structuration, which can lead to new opportunity creation by establishing norms that legitimize a nascent market and in-

crease the ease of engaging in entrepreneurship. Structuration of a field has been shown to attract resources, which in turn reduces uncertainty and may lead to the creation of additional opportunities within the new sector. For example, the establishment of evaluation criteria, in the form of certifications, has been shown to increase the legitimacy of new industries (Rao, 1994; Sine, David, & Mitsunashi, 2007). Shen, Li, and Tolbert (2023) provide new evidence that the structuration of an organizational field—by creating consensus on the evaluation criteria for firms in a new sector—increases its legitimacy and subsequent ability to attract investment, both of which typically create further opportunities for firms in the new sector. Shen et al. (2023) also demonstrate the important role of the institutionalization of measurement criteria. Future research could delve into the antecedents of such institutionalization, particularly examining the ways in which state and private actors concurrently influence the development of measurement standards for emerging technologies.

New opportunities are often very difficult to evaluate based on past criteria. For example, the automobile and the airplane faced initial skepticism, and previous criteria provided little understanding of the opportunities these innovations created. A deeper understanding of how the structuration of organizational fields may shape the evaluation of novel entrepreneurial opportunities is an important area for future research. For example, do established evaluation criteria originating from adjacent fields suffocate nascent sectors? What strategies, if any, can actors in the nascent sector deploy to avoid being measured with such outdated criteria?

6.4.3 Unintended Consequences

Third, the concept of unintended consequences provides a useful lens through which to examine the impact of institutional mechanisms on opportunity creation (Merton, 1936). Merton highlighted how institutions can have outcomes that are not foreseen or intended by the actors within those institutions. For example, the Women's Christian Temperance Movement in the early 1900s inadvertently led to a surge in the demand for nonalcoholic beverages, illustrating how cultural institutions could interact with laws and regulations to create entrepreneurial opportunities (Hiatt, Sine, & Tolbert, 2009). Similarly, the Progressive movement's ideal of efficiency indirectly led to the emergence of a new sector, the bureaucratized thrift in California in the early 1900s (Haveman, Rao, & Paruchuri, 2007). In Chapter 33 of this volume, on Social Movements, Entrepreneurship, and Innovation, Hiatt and Polhill explore these mechanisms in more detail.

6.4.4 Recombination

Fourth, entrepreneurs often encounter a diverse audience of stakeholders, including investors, customers, and co-founders, each adhering to their own set of institutions that can either support or obstruct the emergence of new entrepreneurial ventures. The existing literature has focused on how the recombination of different institutions has led to the creation of new organizational categories and the subsequent creation of entrepreneurial opportunities. Illustrative instances encompass the evolution of French cuisine (Rao, Monin, & Durand, 2003, 2005), the rise of community banking (Almandoz, 2012; Marquis & Lounsbury, 2007), the expansion of the soft drink industry (Hiatt et al., 2009), and the emergence of grass-fed meat markets (Weber, Heinze, & DeSoucey, 2008).

Future research could delve into the complexities faced by entrepreneurs who must reconcile contrasting institutions while carving out entrepreneurial opportunities. However, we know comparatively little about the challenges entrepreneurs face when recombining competing institutional pressures. For instance, a women's health tech startup might have trouble securing investment from a venture capital sector largely guided by male perspectives who are ignorant of the specific challenges and needs unique to women's health (Soublière & Lockwood, 2022). Similarly, social entrepreneurs advocating for renewable energy solutions may find their visions clashing with investors prioritizing immediate financial returns over long-term societal benefits. These scenarios underscore the critical question of how the clash of institutional logics influences the recognition and legitimacy of entrepreneurial opportunities. Therefore, an important question arises: how do competing institutions among audiences and entrepreneurs influence not just the attention received but also the legitimacy granted to an entrepreneurial opportunity? Addressing this question could unveil nuanced insights into how entrepreneurs successfully create opportunities.

Migrant entrepreneurship provides an exemplary context to examine recombination. Migrant entrepreneurs introduce ideas, products, and business models, rooted in the cultural and social context of their origin countries, into host environments with different institutions. Investigating how these entrepreneurs navigate, adapt, or synthesize these divergent logics can offer insights into the adaptive and innovative processes central to opportunity creation. Furthermore, the resistance to change in highly institutionalized settings poses additional barriers to socio-cultural and technological innovation, affecting the rate and nature of new opportunity creation. Through focusing on these dynamics, research can uncover the nuanced ways in which entrepreneurs leverage, contest, and reshape opportunities to create entrepreneurial avenues.

6.5 Opportunity Discovery and How Institutions Shape Where Entrepreneurs Look for Opportunities

Institutional theory offers a lens through which opportunity discovery can be understood, by considering how social structures and cultural contexts shape the attention afforded to, and therefore the recognition of, entrepreneurial opportunities. Berger and Luckmann (1967) laid the foundation for this perspective, arguing that social reality is both shaped by and shapes human behavior. In this sense, institutions shape what is perceived as feasible or attractive and, in turn, entrepreneurial actions can reinforce or alter these institutions. McMullen, Plummer, and Acs (2007) describe opportunity discovery as the recognition of circumstances that can be transformed into a venture. However, research has just begun to consider how the institutional environment might influence whether individuals search for opportunities in the first place. For example, Kacperczyk (2013) shows that the entrepreneurial actions of university peers significantly influence individual entrepreneurship rates.

6.5.1 Regulatory Mechanisms

First, regulatory mechanisms can impact opportunity discovery (Hiatt & Park, 2013). For example, Thébaud (2015) investigated how institutions that mitigate work–family conflict shape perceptions of the attractiveness of entrepreneurship as a career option for women. Thébaud suggests that when the state provides significant institutional support for women in the workforce, the gender gap in entrepreneurial entry is larger; however, the gender gap in growth aspirations and innovation is smaller. This suggests that regulatory institutions can affect the types of entrepreneurial opportunities that are discovered as well as who discovers such opportunities. Additionally, regulatory changes, such as state policy efforts, can play a vital role in shaping entrepreneurial discovery. A series of studies has demonstrated that changes in regulatory institutions can dramatically impact the rate and nature of opportunity discovery (Castellaneta, Conti, & Kacperczyk, 2020; Conti, Kacperczyk, & Valentini, 2022; Eesley, 2016; Eberhart, Eesley, & Eisenhardt, 2017). For example, Sine, Haveman, and Tolbert (2005) showed how deregulation in the electric power industry spawned new opportunities for entrepreneurship. Similarly, Assenova (2020) found that various institutional reforms that lower regulatory barriers for new firms increased the number of firms which applied for venture accelerators, suggesting that regulatory mechanisms can shape the discovery of entrepreneurial opportunities.

6.5.2 Institutional Alignment

Second, while regulatory mechanisms can shape entrepreneurial discovery, recent research has begun to explore the factors that condition whether regulatory mechanisms successfully spur entrepreneurship (Eberhart, 2023). For example, researchers have begun to explore how informal institutional elements are crucial in explaining the impact of policy on entrepreneurship (Armanios & Eesley, 2021; Carlos & Hiatt, 2022; Eberhart & Eesley, 2018; Eesley, Eberhart, Skousen, & Cheng, 2018). Some researchers have argued that informal institutions serve as interpretive filters for policy efforts that shape the cognitive perceptions of policy (York, Vedula, & Lenox, 2018). These institutions influence how actors perceive and interact with the world and can shape expectations about entrepreneurial potential and opportunities, including policy. For example, York et al. (2018) found that policy efforts that provided government incentives for environmentally friendly ventures had divergent impacts depending on local informal institutions. In areas with a strong market logic, the new policy aligned with local focus on economic rationality, self-interest, and profitability, amplifying its effect. However, in communities with strong community logics, policy efforts were filtered as less relevant to local goals, which were not focused on profit maximization but instead were more interested in environmental goals, muting the policy's impact. This example illustrates how informal institutions can shape cognitive perceptions of new policies based on perceived alignment or misalignment with prevailing goals and interests or logics in the community. When policies align with informal institutions, responses are reinforced or magnified due to cognitive mechanisms. But when there is misalignment, policy may be filtered out or perceived as less relevant by targeted actors.

Other researchers have also considered how normative mechanisms can shape the social legitimacy and perceived viability of entrepreneurial ventures in light of policy changes (Eesley et al., 2018; Lee & Lounsbury, 2015). Normative frameworks dictate whether community members view a policy initiative as aligning with their values and goals. If a policy is at odds with prevailing normative institutions, it may be dismissed or even actively opposed by a community, irrespective of any financial incentives the policy might offer (Eesley et al., 2018). Through a study of Science Parks in China, Armanios and Eesley (2021) underscore that the effectiveness of entrepreneurial policies is conditional on the level of normative support present in a particular community. They find that 'institutional carriers,' entities that facilitate the development of shared norms and standards, are a critical factor in shaping the impact of regulatory changes on entrepreneurial action. Absent institutional carriers, policy enacted to encourage entrepreneurship may fail to do so if local normative institutions, which define acceptable business practices within a community, discourage entry. Future research could attempt to clarify under which conditions the cognitive versus normative mechanism is at play. This understanding could be important for

governments to understand how to design policy efforts that result in intended entrepreneurial outcomes (Grandy & Hiatt, 2020).

Additionally, most research in this area has focused on environmental and high-tech entrepreneurship (Armanios & Eesley, 2021; York et al., 2018). Future research might explore how these theories could explain entrepreneurship in other contexts, such as female or minority entrepreneurship (Delecourt & Fitzpatrick, 2021; Guzman & Kacperczyk, 2019; Hwang & Phillips, 2024; Kacperczyk, Younkin, & Rocha, 2023; Thébaud, 2015). This topic gains significance in light of numerous policy initiatives designed to boost entrepreneurship among minority groups (e.g., Chatterji, Chay, & Fairlie, 2014), coupled with the influence of the cultural legitimacy of entrepreneurship on entry (Thornton & Klyver, 2018). Such investigations could offer valuable perspectives on how regulatory policies and informal institutions intersect to shape inequality in entrepreneurship, especially due to the likelihood that formal policies that support entrepreneurship among minority groups could be inconsistent with informal institutions. For example, Raines, Polhill, Hiatt, and Coles (2024) demonstrate how an institutional change in Mexico, aimed at reducing entrepreneurship barriers, paradoxically widened the gender gap in entrepreneurship. This change, while interacting with entrenched gender norms and beliefs, also resulted in a higher percentage of women engaging in unpaid work within family businesses.

6.6 Opportunity Exploitation

Opportunity exploitation refers to the actions taken by entrepreneurs to transform an identified opportunity into an enterprise. This includes subprocesses such as informal organizing, resource mobilization, formal organizing, growth, and exit strategies (Sine et al., 2022). Institutional theory suggests that whether and how entrepreneurs exploit opportunities is significantly shaped by the institutional context in which they operate. These institutions, with their set of norms, rules, and structures, can either support or obstruct various steps in making the most of an opportunity. We begin by examining previous research that uses institutional theory to explain both how opportunities are exploited and how this affects outcomes and performance.

6.6.1 Informal Organizing

One of the first processes of opportunity exploitation is informal organizing. Informal organizing refers to the ways in which new organizations, entrepreneurs, and their early employees structure themselves, including the local group and interpersonal dynamics among its members (Barnard, 1938; Selznick, 1957). The institutional environment influences a new venture's informal organizational structure. For instance,

Ruef, Aldrich, and Carter (2003) explored how individual and social factors affect the composition of founding teams. Entrepreneurs tend to form teams with individuals who share similar backgrounds and characteristics. Even though diversity within a team could be beneficial for a new organization, entrepreneurs often prioritize homophily over diversity. Informal organization also is a mechanism that shapes exploitation. Bird and Zellweger (2018) showed that spousal founding teams perform well because they are bound by shared norms and values that lead to high trust, which in turn increases cooperation, dedication to the venture, and the sharing of resources, all of which enhance venture performance. Hiatt, Carlos, and Sine (2018) analyzed how informal ties to different types of state actors impact the performance of new ventures in volatile institutional environments. Their study across 10 countries showed that ties with political actors are beneficial during economic instability, while ties with military officials are beneficial during political instability. This suggests that the institutional context, including the political and economic environment, influences which types of relationships and networks are most beneficial for a venture's performance.

6.6.2 Organizational Identity

Organizational identity is another significant mechanism that plays an important role in shaping entrepreneurial exploitation. Organizational identity was initially conceptualized to describe how an organization views its own core and enduring attributes (Albert & Whetten, 1985). However, more recent research has used organizational identity to describe the perceptions of outside audiences about an organization (Hsu & Hannan, 2005). Glynn and Abzug's (2002) work on organizational name changes demonstrates how external pressures and the desire to align with institutional norms can significantly shape an organization's identity. They find that when firms change their name, they do so in a way that is more closely aligned with the norms prevalent in their environment than with their previous name. This suggests that organizational identity is not solely an internal construct but is heavily influenced by external expectations and pressures. Moreover, the impact of organizational identity challenges traditional notions that economic rationality predominantly guides entrepreneurial decisions. For example, Dupin and Wezel (2023) find that new ventures choose locations where prior firms with similar identities had previously located. Additionally, they find that some new ventures prefer locations closer to competitors with different identities, demonstrating a departure from purely economic considerations.

6.6.3 Resource Mobilization

How a firm gathers resources—financial, human, or material—can be heavily influenced by institutional norms and structures. One key mechanism that has been shown to impact resource mobilization is the use of cultural elements to favorably position new ventures vis-à-vis their competitors (Hiatt & Carlos, 2019). Lounsbury and Glynn (2001) argue that an entrepreneur's ability to garner resources is closely linked to their ability to use culture to create a compelling story about their firm's identity. This storytelling process helps build the legitimacy of the firm in the eyes of potential investors, partners, and customers by aligning with the values and expectations of the institutional environment. For example, Hiatt and Park (2022) showed how wood pellet entrepreneurs mobilized consumer demand for their product through coordinated narratives that framed wood pellets as sustainable, renewable energy products. However, uncertainty is an important part of audience evaluations, particularly when objective information is scarce (Giorgi, 2017). In entrepreneurship, uncertainty is high, outcomes are unpredictable, and information is often incomplete (Stinchcombe, 1965; Sine et al., 2005). Despite its importance in entrepreneurship research, the impact of uncertainty on cultural entrepreneurship is not well understood. Uncertainty could have contrasting effects on cultural entrepreneurship. On the one hand, uncertainty may increase the emphasis audiences place on cultural entrepreneurship and resonance, as cultural resonance becomes a valuable tool when objective evaluations are challenging (Zott & Huy, 2007). On the other hand, companies in uncertain environments may struggle to gain legitimacy, weakening the effectiveness of cultural entrepreneurship. In such cases, efforts to align with cultural norms may be perceived as a superficial facade of conformity and fail to impact resource mobilization (Hewlin, 2003). Future research could explore how uncertainty shapes the impact of cultural entrepreneurship on resource mobilization.

6.6.4 Organizational Growth

The institutional environment can shape decisions about whether and how to grow a new venture or to exit (Hiatt & Sine, 2014). For example, some family businesses may curtail growth as they instead focus on funding family activities or retaining family control over the firm. The institutional environment may shape decisions about growing through acquisition, mergers, or joint ventures. As new ventures grow their market presence, considerations of organizational growth come into play. This involves activities such as recruiting and training employees, focusing on revenue growth, and expanding into new markets. In one recent example, Eberhart, Rottner, and Lounsbury, (2020) argue that stakeholder versus shareholder logics shape the growth behaviors of new ventures. Specifically, they find that while the shareholder logic emphasizes and prioritizes financial growth, stakeholder logic emphasizes employment

growth. In the context of Japan, they find that as a venture becomes engaged in its local community, an increasing employment-growth priority develops because the stakeholder logic becomes more dominant. This study provides important insights in understanding how institutions can explain the growth of new ventures. In a related study, Greenwood, Díaz, Li, & Lorente (2010) find that family-managed firms, that carry a dominant family logic, are influenced by norms that mitigate the impact of the market logic. Thus, when confronted with the pressure to downsize, they are less likely to participate than non-family-managed firms.

Relatedly, recent research has also begun to explore the processes through which firms scale (Lee & Kim, 2024). These scholars find that firms that try to grow early are often more likely to fail. This finding prompts the question that if early growth and scaling leads to failure, why do so many firms follow this path? For example, DeSantola, Gulati, and Zhelyazkov (2023) find that venture capital firms shape the growth strategies of ventures in which they invest. Because the choice to grow and scale a young firm is connected closely to the firm's values and norms, institutional theory could provide important predictions and explanations for organizational growth, especially among high-growth startups, a path that has become increasingly institutionalized due to the growth of venture capital (Souitaris, Zerbini, & Liu, 2012). Similarly, we could expect that venture capital firms would impose or impart what the optimal growth strategy should be for a focal firm. The main assumption in the push for more high-growth entrepreneurship is that economic growth requires entrepreneurs whose ventures grow quickly, internationalize, and make a very profitable exit. Thus, future research could explore how the 'taken-for-granted' norms and values within a field, in this case from venture capital, exert pressures on firms to conform. These can manifest as mimetic pressures and lead startups to imitate successful high-growth firms; coercive pressures might come from venture capitalists who have significant influence over the startups they fund; and normative pressures could stem from the broader entrepreneurial culture that glorifies rapid scaling and global expansion.

This research stream is particularly important because recent studies have shed light on the potential unintended consequences of an overemphasis on high-growth entrepreneurship. Kim and Kim (2022) suggest that such growth (rapid geographic expansion) does not always have positive local spillover effects, for example long-term job creation. Kwon and Sorenson (2023) delve into how the growth of the high-tech sector affects local economies, discovering that an increase in venture capital within a region leads to a decrease in non-high-tech establishments and employment, and a corresponding rise in income inequality. Therefore, it becomes crucial to understand how institutional changes shaping the nature of entrepreneurship and growth may influence societal-level outcomes, such as inequality. This line of inquiry is in harmony with the work conducted by Eberhart, Lounsbury, & Aldrich (2022), who have focused on examining the social effects of entrepreneurship. More research in institutional theory needs to examine how institutions shape the type and goal of entrepreneurship and its subsequent impact on societal outcomes. For example, an impor-

tant unanswered question is how the normative pressure for rapid new venture growth emerged. How do new ventures reconcile the tension to grow fast toward an IPO versus prioritizing the creation of jobs? And how has the professionalization of venture capital shaped these norms? Relatedly, for family firms, in which owners are often concerned with the family's legacy and socio-emotional wealth, exit may only become an option under the most extenuating circumstances, for example imminent bankruptcy.

6.7 Conclusion

This chapter has aimed to provide an overview of the growing stream of literature that explores entrepreneurship through the lens of institutional theory. By examining the connection between institutional theory and the different stages of the entrepreneurial process, we have highlighted the significant role that institutions play in shaping entrepreneurial behaviors across the various stages of this process. We hope our chapter provides a few useful ideas for a richer understanding of how entrepreneurship is embedded within a complex fabric of institutional forces.

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