

INNOVATION IN NONPROFIT HUMAN SERVICES

THE ROLE OF INSTITUTIONAL ENTREPRENEURS

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While COVID 19 is, above all, a global health and humanitarian crisis, the collapse of U.S. GDP in the first half of 2020, and the prospect of a tepid recovery, have focused unprecedented attention on how American industries will recover from the pandemic's cataclysmic dislocations and amplified uncertainties. Unsurprisingly, theories describing how economies adapt to environmental change typically presume these changes to be evolutionary and emanating from technological, socioeconomic, or regulatory disruptions, rather than quantum changes driven by life-threatening, global events (Mithani, 2019, p. 3). In those rare instances, including the present, when change is discontinuous, incumbent firms discover that adaptation is insufficient, and only a metamorphosis driven by radical innovation will suffice.

While creativity is the product of an individual, innovation is primarily a social process. The social process by which novel ideas become radical innovations is driven by institutional entrepreneurs. The formidable challenges these entrepreneurs face, and the diverse talents and fierce determination they must demonstrate to overcome those challenges, are little understood and often unappreciated by all of us who benefit from their accomplishments.

..... INTRODUCTION

This essay considers how institutional entrepreneurs introduce innovations to incumbent firms during periods of discontinuous change, focusing primarily on nonprofit human services organizations. This topic is timely because innovations in products, processes, and business models are essential to restoring economic vitality with enhanced resilience post-pandemic. Also discussed are the second-order effects of entrepreneurial innovations on the industries and organizational fields that are the source of firms' legitimacy. Together, industries, fields, and firms constitute the enabling or restraining contexts within which institutional entrepreneurs innovate.

Organizational change has traditionally been characterized as either continuous or discontinuous by reference to the individual firm, though researchers have recently incorporated the impact of change from

the field or industry perspective. Continuous change occurs within a stable system that itself remains unchanged. Such change is incremental and is addressed by firms through corporate planning processes. In contrast, discontinuous change occurs infrequently and transforms fundamental properties or states of the system. Discontinuous change introduces destabilizing, abrupt shifts of such scope and intensity that they engender financial distress and organizational decline among industry incumbents by transforming the paths through which wealth is created and captured.

Scholars are of different minds regarding how organizations respond to decline emanating from discontinuous change. Some studies assert that distress stimulates innovation because individuals are loss averse, so loss motivates efforts directed at recovery (Gilbert, 2005, p. 741). Other studies conclude that inertia is the more common response because organizations respond to perceived distress by centralizing decisionmaking, reducing experimentation, and focusing on existing resources and markets. Due to its prevalence, incumbent firms' inability to overcome organizational inertia when threatened by discontinuous change has been a frequent topic of scholarly inquiry. This essay focuses on inertia because experience suggests this is the more common response to change exhibited by nonprofit human services organizations.

Inertia refers to a failure to alter the pattern of present and planned resource deployment in the face of significant changes in a firm's technological, political, economic, or social environment. Inertia is evidenced by *resource rigidity*, referring to the failure of an incumbent firm to change its resource investment pattern, or by *routine rigidity*, referring to the inability to change the organizational processes that use those resource investments in response to threat perceptions (Hoppmann, 2019, p. 437). Innovation is the antithesis of inertia and refers to any novel product, service, production process, or business model that departs significantly from that preceding it (McKinley, 2014, p. 91). Incremental innovations *exploit* current firm capabilities and existing customers, while radical innovations *explore* new products, consumers, or organizational competencies while disrupting the trajectory of industry change (Benner, 2003, p. 242).

Industry environments are characterized by long cycles of incremental innovations punctuated by intervals of competing radical innovations commonly introduced by firms outside the industry mainstream. Radical innovations commence an era of ferment that concludes only when a new paradigm emerges and gains widespread acceptance in a field. Once legitimacy has thus been conferred, firms within the field commence a competition to refine the newly adopted execution technologies through process management techniques focused on measuring, improving, and rationalizing organizational processes. These process management techniques applied by incumbents typically lead to incremental innovations resulting in ever greater efficiency, enhanced customer satisfaction, and increased profitability. Fields evolve continuously until an environmental jolt gives rise to discontinuous change, whereupon radical innovations are introduced that cause the cycle to begin anew.

Charting the course by which radical innovation overcomes obstacles and gains acceptance is the task of institutional entrepreneurs. These actors transform firms, fields, and industries by articulating a vision, mobilizing allies to support the vision, and implementing change (Battilana J., 2009, p. 68). This undertaking entails daunting challenges stemming from the formidable barriers to firm innovation in

institutionalized fields. These barriers, including isomorphism, path dependency, and process management, create and reinforce organizational rigidities by encouraging uniformity and discouraging variation. Paradoxically, these barriers to innovation contribute significantly to firms' legitimacy, efficiency, and profitability, and so they must be accommodated by institutional entrepreneurs rather than dismantled. This constraint adds considerable complexity to the challenges faced by institutional entrepreneurs in institutionalized fields relative to their counterparts leading newly formed ventures in emerging industries.

Nonprofit human services providers deliver behavioral health, addictions, intellectual and developmental disabilities, child welfare, foster care, special and alternative education, community housing development, or juvenile justice services. The industry exhibits many but not all the characteristics of monopolistic competition, a term used to describe industries with low entry barriers in which many firms offer products or services that are similar but not perfect substitutes. Firms within the industry expend little effort on product differentiation or market segmentation, which are unnecessary in highly regulated markets without intense competition. Indeed, such measures would be considered ill-advised given the industry's pervasive social welfare logic.

COVID-19 has impacted both the activities and assets of nonprofit human services providers. Many providers furloughed a substantial portion of their workforce in response to reduced revenues related to the closure or curtailments of services to comply with social distancing practices. Concurrently, certain property and equipment investments made during the pre-pandemic environment are no longer well-suited to their intended purposes and must be replaced. While ad hoc public subsidies have underpinned nonprofits' short-term financial resiliency, they are not intended to be a panacea. In the intermediate-term, industry fragmentation, cost pressures, and state funding constraints portend an interval during which aggregate industry growth and profitability will be pressured and potentially negative.

The nonprofit segment of the human services industry serves as a point of reference throughout this essay. Perhaps no segment of American economic activity is more in need of radical innovation nor more entrenched in maintaining the status quo. Jolted by the COVID 19 pandemic, at the precipice of the 5G revolution, and thwarted by the structural constraints on capital access associated with the nonprofit corporate form, these nonprofits are immobilized by the conflicting pulls of their social services and commercial logics. Governance and management of nonprofit human services organizations face unprecedented challenges without theory, resources, or processes sufficient to the task. Only innovations leading to a metamorphosis of the field and the firms comprising it will enable nonprofits to compete effectively with the private equity platforms threatening their traditional hegemony in human services.

..... Industry Structure and Environmental Change

Factors that impede firms' capacity for innovation in response to environmental change operate primarily at the field and firm level, but industries provide essential context. Indeed, focusing exclusively on firms' responses risks missing the impact of fundamental restructuring within sectors and the shifting boundaries between them.

Theories of strategy and organization concern themselves primarily with how firms generate and sustain profitability. Porter's five forces theory asserts that *industry structure* is the proper focus of corporate strategy, arguing the source of competitive advantage lies in industry segments offering structural impediments to competitive forces¹, then creating defensible positions within the value chain. Abnormal firm profits result from forces that impede competition, and these originate at the industry level; firm-specific contributions are secondary and result primarily from scale. Neither Porter nor his adherents have ventured into how discontinuous change restructures and reconstitutes industries, leaving the impression that discontinuous change at the industry level is simply the result of Schumpeter's creative destruction –unexpected, unpredictable, and inescapable. The resource-based theory focuses instead on the *firm* as the proper focus of strategy and argues competitive advantage is based on exploiting firm-specific capabilities and assets that are valuable, rare, inimitable, and non-substitutable. From this perspective, firm profits are the product of firm-level efficiency advantages evidenced by lower costs or higher quality. These theories offer a useful starting point because they provide a context for thinking about the available avenues to firm sustainability.

Environmental jolts are unforeseen and *transient* disruptive events sufficient to drive industry transitions (Meyer A. , 1982). In some instances, these transitions are of limited duration like the environmental jolt itself, and adaptation proves to be a viable strategic response. In other cases, jolts disturb field-level consensus regarding the dominant logic and stimulate creativity and innovation such that only metamorphosis is sufficient to enable firm sustainability. In the latter instance, jolts introduce discontinuous change within an industry that encourages experimentation with new business models and organizational forms, and often affiliations that span industry boundaries (Meyer A. , 1982, p. 533). These experiments are an acknowledgment that change threatens established approaches to value creation and capture by reducing the value of the industry's core *assets* (i.e., resources, knowledge, brands, etc.) or by reducing the value of the industry's core *activities* (i.e., the activities that have historically generated profits), or both. Consequently, industry participants are presented with assessing the magnitude and pace of decline by segment and the prospects for future profitable investment within each market niche. The nature of threats confronting the industry and the speed of their impact constitutes the trajectory of change. This trajectory is important because, absent alignment with this trajectory, firms will fail to allocate capital optimally (McGahan, 2004, p. 86).

The human services industry is highly fragmented, with low barriers to entry and high barriers to exit². The industry's few national service firms' combined share of industry revenues is negligible. Services are mostly undifferentiated, and competitive rivalry is limited, in part because appearing to pursue profit maximization strategies jeopardizes legitimacy. Responses to environmental change in the human

¹ The five *industry-level* forces include entry barriers, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among industry incumbents.

² Exit barriers are especially high for nonprofits, whose corporate purpose is to advance a public purpose rather than to maximize returns to shareholders or stakeholders.

services industry have been impacted by its distinctive structure, which includes both for-profit and nonprofit firms. The participation of nonprofit corporations introduces significant market distortions because nonprofits' disavow a profit motive (depressing the pricing power of for-profit competitors), issue no equity (limiting capital access), and have no owners (directly impacting corporate governance and indirectly impacting incentives for industry consolidation). Perhaps most significantly, nonprofits' decisions to exit markets are not dictated by requirements of market returns on invested capital, and consequently, demand-supply imbalances are not restored to equilibrium via firm exits as in other industries. These factors contribute to an industry environment like the education industry, in which firms compete primarily on status rather than price.

Human services enjoyed two generations of sustained growth between 1970 and 2010 while avoiding the market forces that transformed banking and many other industries. Throughout this period, nonprofit providers experienced exceptionally low levels of bankruptcy and minimal technological disruption. While certain human services segments, including autism services and addictions, experienced significant incursions by well-capitalized for-profit competitors, the provision of human services remains a highly fragmented industry dominated by nonprofits and yielding modest returns on invested capital.

Further evidence of the impact of the industry's uncommon structure is found in human services' ability to elude the consequences of the creative destruction by which new product, process, or business model innovations have replaced outdated ones in other industries. Indeed, firms' ability to deliver superior value in the human services industry has routinely failed to dislodge entrenched incumbents. This inertia is especially regrettable in an industry where the supply of essential services for people in dire need is often asserted to be unavailable due to resource constraints.

This essay proceeds from the premise that the COVID 19 pandemic constitutes an environmental jolt that will accelerate the change trajectory of the human services industry. In its initial stage, the industry's relationships with its clients, direct care workforce, and its public payors have been disrupted and likely transformed, while the impact on the industry's assets is more limited in extent and duration. The likely intermediate-term consequences include the deinstitutionalization of the industry, experimentation with new organizational forms and business models, the emergence of new players in the marketplace, and the emergence of a long-suppressed interval of institutional entrepreneurship (Greenwood R. S., 2002, p. 60). Beyond the intermediate term, the human services industry and the entire global economy will confront a genuinely discontinuous change with the advent of 5G General Purpose Technology.

..... **Field Structure and Environmental Change**

Fields are the intermediate institutional level between individual firms and their industry and include sets of firms that produce similar services or products and governmental agencies and professional and trade associations. Fields perform essential functions that include the negotiation of boundaries between themselves and adjacent fields, the admission of field members, and the definition of appropriate behaviors by field members.

Fields play an essential role during periods of continuous change because they are the organizational level that defines and promulgates dominant institutional logics, confers legitimacy that allows firms access to

resources, and enforces compliance with field norms. During periods of discontinuous change, fields are the level at which paradigm shifts operate to reshape firm behaviors. Fields are characterized as emerging or mature, centralized or fragmented, and by their degree of institutionalization and complexity. Appreciating these distinctions requires an understanding of institutional logics and their central role in the structure and evolution of fields.

Institutional logics are the set of overarching principles that guide the creation of symbolic boundaries between fields, shape how observers interpret organizational realities, understand what constitutes appropriate behavior, and form expectations regarding how success is achieved (Greenwood R. R., 2011, p. 318). Firms within a field conform with institutional logics to secure or retain legitimacy and thereby assure the flow of critical resources. Institutional logics also provide the legitimacy criteria for forming specific identities and social relationships and following certain practices within a field (Green, 2008, p. 42). Institutional logics contain cognitive components (i.e., they are considered objectively true), normative components (i.e., they point to the legitimate means for achieving a valuable end), and regulatory components (i.e., they are reflected in law or regulation) (Boxenbaum, 2005, p. 358).

Firms within a field typically confront multiple logics, and these may offer incompatible policy prescriptions leading to tensions within the organizations exposed to them. Field frames correspond to institutional logics but concerning a practice domain (e.g., human resources) within a field. Actors within a practice domain perceive field frames to guide them towards the obvious and appropriate behaviors; therefore, field frames constitute the practical manifestations of the institutional logic (Boxenbaum, 2005, p. 359).

Emerging fields are pioneering ventures in the early stages of growth operating in an institutional void and searching for legitimacy (Aldrich, 1994). Uncertainty is inherent in the institutional arrangements associated with emerging fields, which are characterized by contesting logics as proponents vie to prioritize logics favorable to their material interests or normative beliefs. In these circumstances, institutional rules defining legitimate activities, membership, and boundaries remain ambiguous, permeable, or are not widely understood (Greenwood R. R., 2011, p. 336).

In contrast, *mature fields* are distinguished by regularized organizational relationships and a comprehensible institutional structure (Greenwood R. R., 2011). Mature fields are *institutionalized* if they have a stable set of rules, norms, and beliefs constituting the accepted way of operating, comprising a dominant institutional logic (Albertini, 2016). This institutionalization process within fields constitutes a powerful force leading once disparate firms to become increasingly similar over time as practices become disseminated and reproduced. This isomorphism is noteworthy because it constrains firms' ability to change or innovate (DiMaggio, 1983). The mechanisms through which isomorphic change occur may be coercive (driven by political influence or governmental actions), mimetic (driven by a desire to minimize uncertainty by emulating more successful organizations), or normative (driven by the professionalization of a field).

Fragmentation refers to the number of uncoordinated stakeholders upon which a firm depends for its legitimacy and resources. Highly fragmented fields are those which include multiple uncoordinated

stakeholders, each advancing an institutional logic advocating disparate prescriptions (Greenwood R. R., 2011, p. 337). Conflicting institutional demands are particularly likely to emerge in fragmented fields.

Fields, and the firms that comprise them, face institutional *complexity* when confronted with conflicting and unresolved prescriptions from institutional logics. The nature and degree of complexity experienced by firms are shaped by the structure of the firms' field (Greenwood R. R., 2011, p. 334). Firms typically respond to complexities arising from conflicting institutional logics by adjusting strategy or adopting hybrid organizational structures. Strategic responses may include acquiescence, compromise, or avoidance in circumstances where institutional logics differ as to means; responses veer towards defiance or manipulation when institutional logics differ as to ends (Pache A. &, 2010, p. 462). Fields play an important role in minimizing complexity at the firm level by attempting to define responses deemed appropriate.

Discontinuous change in the industry environment leads to shifts in institutional logics and field frames and the emergence of innovative practices, strategies, and organizational forms at the field level. The ascendance of a new logic and dismantling of the previously dominant logic occurs because of their fundamental incompatibility. The process through which a new dominant logic gains acceptance and is widely adopted commences with a theory that simplifies and distills the properties of new practices and explains the superior outcomes they produce. Initially, diffusion occurs because entrepreneurs deliver a compelling presentation framing the new logic as more appropriate or functionally superior. Once established as the dominant logic, subsequent diffusion throughout the field is driven by firms' need for legitimacy, rather than efficiency (DiMaggio, 1983). Professional and trade associations facilitate and legitimize new dominant logics by hosting a discourse through which change is debated and endorsed, and later, by reframing professional identities as presented to others outside the field (Greenwood R. S., 2002, p. 59). Following their institutionalization, the new logic can be sustained uncritically for generations as firms mimic the practices, both structural and procedural, legitimized by the new dominant logic, and a revamped field isomorphism evolves.

Fields within the mature yet fragmented human services industry perennially contend with the conflicting policy guidance offered by the social welfare and commercial logics advocated by their diverse constituencies³. Nonprofit human services organizations are embedded in social welfare logic by virtue of their missions, professional staff, and legal status; they are embedded in commercial logic because most of their resources are derived from commercial activities. The dueling logics within human services are experienced at the field level as dilemmas about fundamental strategic choices such as cooperation, competition, cooptation, or as conflicts related to organizational performance and impact. These dilemmas and complexities are exacerbated by the presence of both nonprofits and for-profit firms within the field.

Nonprofit human services organizations' missions demand that they engage with various stakeholders advocating often incompatible logics while dependent on a comparatively small number of resource providers (primarily Medicaid and other public payors). When conflicting demands emerge in fragmented fields like human services, their imposition on individual firms is a function of their respective adherents'

³ This is not to suggest these are the only competing institutional logics. Western society broadly has been described as a system comprised of "the capitalist market, bureaucratic state, democracy, nuclear family and Christian religion" (Greenwood R. R., 2011, p. 321).

ability to enforce their preferred institutional logic. Within the human services field, payors establish coercive regulatory regimes tending to standardize organizational forms, while trade associations and professional organizations influence behaviors through normative socialization and accreditation processes. This power structure encourages homogenization and discourages variation. It has been suggested that the combination of high fragmentation and moderate centralization that characterizes human services generate the highest level of institutional complexity (Pache A. &, 2010).

.....Firm Structure and Environmental Change

Firms must continuously adapt, exploit, and fit with the multiple and ever-changing forces they confront in their external environments. Strategic planning is the primary tool employed during continuous change intervals, but discontinuous change poses significant challenges to established firms because it renders existing capabilities and assets obsolete. Organizational responses to discontinuous change commonly require an onerous and risky corporate metamorphosis involving the development or acquisition of new capabilities or entry into new markets (Hoppmann, 2019, p. 437). In practice, this requires firm management to compete for a time both in its disrupted and declining markets while transforming itself to prepare to compete in a different one. Success depends on simultaneously exploiting existing resources and technologies to secure efficiency benefits while creating variation through exploratory innovation (Teece, 1997).

Historically, firm metamorphosis typically commences in response to poor firm performance stemming from environmental jolts associated with technological upheavals, regulatory revisions, changes in the organizational lifecycle, or dramatic shifts in strategy. The COVID 19 pandemic has engendered renewed interest and urgency in understanding how firms cope with catastrophic change due to the litany of corporate collapses that, in retrospect, can be viewed as failures to adapt to significant environmental adversity.

The behavioral theory of the firm suggests that decision makers assess the need for change in firm policies by comparing actual firm performance with expectations and searching for policy adjustments when faced with performance shortfalls. Inertia in response to performance deterioration results from a decision to focus on firm survival rather than performance targets. This reaction impairs firms' ability to recognize and adopt innovations but may be appropriate when the environmental threat constitutes a rapid and disconcerting fluctuation within a stable market. Inertia is maladaptive when the environmental threat is evidence of a durable, radical, and destabilizing market shift requiring a more flexible, innovative response.

Flexibility is an organizational feature in short supply in established firms confronted with discontinuous change. Under the rubric of path dependence, studies have highlighted the persistence – *and seeming irreversibility* – of organizational strategies, designs, and competencies. These studies generally focus on the importance of past events for future actions, and more specifically, on ways that historical decisions and actions tend to foreclose options available to current and future decision makers. This insightful observation has significant ramifications because it questions the once common assumption that the

choices available to rational actors were unconstrained. If historical precedents instead limit the range of future actions, then the system is potentially inefficient because it offers limited capacity to adopt innovations in response to environmental change.

Given the presence of formal authority in organizations' hierarchical structure, the notion that rigidities attributable to path dependencies tend to make firms impervious to change seems incongruous. While acknowledging that path dependencies constitute an influence and not an imperative, it is widely recognized that it is exceedingly difficult to change organizational behaviors despite formal authority. The reason change is so difficult at the firm level is clear: path dependencies originate in and are sustained by decisions and actions of firms that generate increasing returns, and so are self-reinforcing⁴. Four mechanisms have been identified as particularly likely to contribute to the formation and durability of path dependencies:

- *Coordination effects* refer to efficiencies derived from rule-guided behaviors. Such behaviors enable actors to anticipate others' behavior, so the more broadly these rules are followed, the greater the benefit. While rule-based behaviors have created important benefits, they have also been blamed for adaptation failures, such as the difficulties that newspapers have experienced exploiting online opportunities.
- *Complementary effects* pertain to efficiencies derived from routines or practices that are interconnected such that the cost of performing them together is lower than performing each separately. While complementary effects have created important benefits, they have also been blamed for adaptation failures, such as the difficulties that auto manufacturers have experienced exploiting electric vehicle opportunities.
- *Learning effects* pertain to growing efficiencies derived from performing the same operation repeatedly, and so an activity is performed faster, with fewer errors, and at decreasing cost per unit. Learning effects tend to extend the economic benefits derived from coordination and complementarities but have been blamed for driving out exploration in favor of exploitation and thereby "converting a formula for success to a path toward failure" (Miller., 1992, p. 116).
- *Adaptive expectations effects* refer to individuals' tendency to prefer a product or service because they expect others to choose it. Adaptive expectations effects can create economic benefits by facilitating the timely diffusion of a dominant solution but have been blamed for unconsciously advancing and sustaining vicious cycles.

The constraints these mechanisms place on firms' ability to adapt and innovate is exacerbated by the process management practices associated with performance improvement programs such as total quality management. Process management views organizations as a system of interlinked processes rather than a collection of different departments with separate functions and outputs (Benner, 2003, p. 238). These processes link activities that collectively produce outcomes to satisfy customer needs. Process management employs statistical methods to improve organizational processes through variation-decreasing and efficiency-oriented adjustments to existing routines.

⁴ This discussion of path dependencies relies extensively on [Organizational Path Dependencies: Opening the Black Box](#) (Sydow, 2009).

Process management techniques can improve firm performance and profitability during continuous change intervals by focusing on incremental, exploitive innovations within the existing technology trajectory that enhance efficiency in serving current customers. As firm performance improves, a self-reinforcing cycle commences in which increasing amounts of capital are allocated to exploiting existing capabilities and serving existing customers. At the same time, the uncertain payoff of exploratory innovation investments becomes ever less attractive. The diminished allocation of capital to exploratory innovation risks precluding the firm from subsequent exploratory activities because it lacks the relevant knowledge base – much as path dependence theory would predict.

Discontinuous change transforms competitive dynamics, altering the capabilities required for effective firm governance. Securing these new capabilities requires boards to modify their composition because the ability to judge strategic issues is a precondition of effective governance. Unfortunately, this need for reconstitution of boards occurs when studies suggest boards become more assertive due to their firm's deteriorating performance. Absent the actions of an experienced board chair, entrenched directors' mismatched capabilities and self-interested behaviors lead to increased conflicts between directors, and between boards and management, rendering boards ineffective (Hoppmann, 2019, p. 440).

Inertia stemming from path dependency, process management, and ineffective governance may not threaten firms' sustainability during continuous change intervals but likely prove fatal in the face of discontinuous change. The intricate task of delivering innovation despite these complexities is the challenge presented to institutional entrepreneurs, who typically are deeply embedded in the very system they seek to overturn.

Faced with discontinuous change, nonprofit firms engaged in the low-margin human services industry often lack sufficient capital to invest in new assets and capabilities while simultaneously competing in their current, disrupted markets. Further, nonprofits confront a formidable competitive disadvantage relative to their for-profit competitors, whose governance is comprised of a small cadre of highly incentivized industry experts capable of reassessing strategic alternatives, reallocating capital, and monitoring management execution. In contrast, while volunteer trustees of nonprofits often include sophisticated and well-intentioned professionals, their lack of human services industry expertise usually means they are not well suited to engage in strategic planning, capital allocation, and performance monitoring. Additionally, nonprofits' typical decisionmaking process is more inclusive than the more hierarchically structured for-profits, so nonprofits' response to complexities is often hampered by difficulties securing widespread agreement on a course of action. Therefore, nonprofit management seeking metamorphic change must overcome the risk-aversion of boards inclined to prefer inertia and retrenchment to innovation and strategic reorientation when faced with uncertainties. For this reason, nonprofit managements faced with the financial distress that accompanies disruptive change will pursue innovation only if senior executives believe that (1) the decline is attributable to controllable causes, (2) those causes are permanent, and (3) the senior executives have the power to take such actions as necessary to achieve metamorphic change (McKinley, 2014, p. 96). Absent these conditions, management's typical responses to discontinuous change can be expected to include all the following:

- Senior executives will seek to reduce complexity stemming from communication overload driven by the torrent of new information on the disruptive change. They accomplish this by assimilating the new information into familiar precepts, which may or may not be relevant to the new environment.
- Increased formalization of procedures will lead to more centralized decisionmaking.
- Resource conservation efforts focused on cost-cutting will commence as survival, rather than efficiency, becomes the guidepost.

These restrictions in information process and control may become pernicious depending upon the nature of the threat. While learned responses to performance shortfalls may be remedial during continuous change intervals, a mutation in cause-effect relationships stemming from discontinuous change requires diversity in input and variety in response to ensure survival (Staw, 1981, p. 517).

There are additional strategic, organizational, and ideological factors that impact the probability of successful nonprofit metamorphosis. Nonprofit firms whose *strategies* are product-focused and target predictable growth in local markets, whose *organizational structure* is centralized and focused on efficiency, and whose *values* center on harmony and paternalism, can be overwhelmed by discontinuous change absent slack financial resources. Nonprofit firms whose *strategies* are diversified and target rapid growth in multiple markets, whose *organizational structure* is ever-changing and decentralized and accepting of chaos, and whose *values* center on self-reliance and variable performance-based compensation, may thrive despite discontinuous change if they can secure the requisite financial resources. Securing sufficient capital for their nonprofit human services organizations requires that institutional entrepreneurs be creative and innovative.

..... Creativity, Innovation, and Constraints

Creativity in organizations refers to the generation of novel, useful and valuable ideas that, when implemented as products, processes, or business models, constitute innovations (Perry-Smith, 2017). Creativity and innovation are the foundation of organizations' competitive advantage (Acar, 2019), and theorists have opined these capabilities are anchored in a firm's ability to both exploit and explore.

Early studies of entrepreneurship focused on individuals' conduct, but more recent research has centered on innovation's collective dimension. This essay conceives that creativity is mostly the product of an individual, while innovation is primarily a social process⁵. The journey from idea to innovation has been conceptualized as consisting of four phases: idea generation, idea elaboration, idea championing, and idea implementation. The social processes accompanying these phases demand different and sometimes contradictory interactions between the creator and the relevant social networks. This reality necessitates that creators change interpretations and shift the framing of ideas during the idea journey. This undertaking's extraordinary complexity explains in part why innovation – and especially disruptive innovation – is so rare.

Discussions of creativity and innovation make frequent reference to network theory so that a brief review may be useful. A network is a set of actors or nodes and ties that link them together. These ties may be

⁵ This discussion of creativity and innovation relies heavily upon, and steals copiously from, the insightful 2017 journal article co-authored by Perry-Smith and Mannucci.

strong or weak. Strong ties exist between actors with close relationships and frequent interactions, while distant relationships and infrequent interactions typify weak ties. Weak ties are the most likely source of novel information because weak ties enable actors to reach populations and audiences that are not accessible via strong ties. A structural hole refers to a link between one actor and a second actor that is not connected to any of the first actor's other connections. Occupants of structural holes are more likely to receive nonredundant information providing them with the capability to perform better or be perceived as the source of new ideas. Network theory refers to the mechanisms and processes through which network structures yield specific outcomes for nodes, which may be individuals or firms (Borgatti, 2011). In essence, network theory poses that opinion and behavior are more homogeneous within than between groups. Hence, people connected across groups are more familiar with alternative ways of thinking and behaving, which gives them more options to select from and synthesize. New ideas emerge from this process, and a small number of these ideas are creative (Burt, 2004).

Needs are the fuel that drives the journey from idea to innovation. During the idea generation phase, creators produce different ideas before self-selecting one as more promising. At this stage, creators require cognitive flexibility sufficient to enable the creator to integrate content from the social environment (especially content related to needs) to generate novel ideas. The idea itself amounts to a vague concept arrived at serendipitously to be elaborated upon during subsequent phases.

The assessment, clarification, and development of a novel idea's potential value begin during the idea elaboration phase. For new ideas to gain widespread acceptance, they must be "theorized." Theorization entails creating categories and elaborating cause and effect relationships that distill concepts and explain the outcomes they produce. In general, theorization must effectively achieve two tasks: it must specify a general organizational failing, and justify why the proposed innovation is the solution to the failing (Greenwood R. S., 2002, p. 60). This idea elaboration phase concludes when and if the creator decides to present an idea that has retained its novelty to a broader audience. During this phase, creators require both emotional support and constructive feedback from their networks, delivered in a manner that does not undermine the idea's novelty nor result in premature abandonment.

Network structure and tie strength are integral to discussions of the journey from creativity to innovation. Weak ties – preferably many of them - are essential to the creator during the idea generation stage because they afford access to nonredundant knowledge and enable the possibility of recombination, and ultimately, creativity. In contrast, a limited number of strong ties facilitate the idea elaboration stage because trust reduces concerns regarding opportunistic behaviors and increases the probability that the creator will disclose, discuss, and modify their idea rather than abandon it.

The championing phase entails the active promotion of the novel idea to obtain approval and resources. To accomplish these goals, the creator begins presenting the idea before the field's decision makers and articulating a compelling argument about its beneficial impact on the firm or field. Success at this stage is highly uncertain as the idea's champions must be perceived as competent and legitimate to protect them from criticism and encroachment by incumbents whose interests may be adversely impacted.

Occupying network positions that span structural holes becomes critical during the championing phase. The creator's ability to effectively employ their direct relationships to champion the novel idea is limited. The limitation arises because novel ideas are characterized by questionable legitimacy and high uncertainty due to the absence of benchmarks to measure their efficacy. Given this circumstance, championing requires leveraging both the creator's structural holes and those of the creator's contacts. Inherent in the notion of "borrowing" contacts is that the relationship with these structural hole brokers is sufficient to lend their structural holes to the creator. The endorsement of brokers helps creators establish positive impressions of their ability and the efficacy of their ideas.

Idea implementation involves both a production segment and an impact segment. During the production segment, the idea is converted into a tangible product, service, or process. During the impact segment, the innovation must achieve "taken-for-granted" status and be widely recognized and accepted within the field. Whatever its objective merits, if an idea is not translated into a shared vision during the production segment, it may be dismissed and forgotten during the impact segment. An idea that gains acceptance will succeed in overcoming resistance from entrenched field interests.

While spanning structural holes is critical in the championing phase, it is not helpful in the implementation phase's production segment when executing an idea is paramount. Instead, a small, close-knit team promotes normative pressure to work collaboratively and share information during this stage. Network structure is important during the impact segment of the implementation phase when ties to dense external networks create the highest probability that innovations will be widely implemented in a field.

At the firm level, the focus of creativity and innovation tends to be incremental, seeking to exploit existing capabilities to drive near term profits by enhancing existing products or services to support existing customers. The risks implicit in the pursuit of disruptive innovations tend to discourage reallocations of capital for this purpose. Yet to remain competitive for the long term, firms must both continually exploit existing capabilities and products while simultaneously exploring new markets, technologies, and opportunities. To this end, firms strive to maintain dynamic environments within which creative minds can flourish and eradicate constraints that impede creativity and innovation.

Constraints impacting creativity and innovation can operate at the individual, team, firm, field, or industry levels. These present as *input constraints* (referring to the unavailability of necessary resources such as capital, talent, time, etc.), *process constraints* (referring to procedures or rules that restrict creativity and innovation), or *output constraints* (referring to limitations on the results such as minimum performance standards, etc.) The underlying mechanism through which these constraints operate may be motivational, cognitive, or social. The motivational route refers to mechanisms that impact motivations to generate ideas, take risks, or experiment. The cognitive route refers to mechanisms that impact the cognitive processes of creativity, limiting opportunity identification. The social route refers to mechanisms that impact creativity and innovation via the relationships between individuals or teams in firms. In each instance, these mechanisms alter how information is transformed and recombined to generate creative and innovative outcomes (Acar, 2019).

Most research highlights the adverse effects of constraints like limited resources and time pressures on creativity and innovation. In contrast, other research suggests the opposite, arguing that slack resources breed complacency and deter the adoption of risk-taking strategies. To reconcile these conflicting theoretical perspectives, scholars have theorized a curvilinear relationship through which constraints advance creativity and innovation to a point, after which constraints become an impediment (Nohria, 1996).

Autonomy enhances employees' intrinsic motivation and efficacy, and consequently, their creativity (Liu, 2016). Yet process management techniques seeking to increase efficiency by reducing variation and standardizing routines constitute an additional source of constraint on creativity and innovation. Over time, execution proficiency increases but at the price of discouraging exploration of new practices, markets, or organizational structures. Exploration is dampened because a change in highly integrated systems is costly since alteration in any system attribute has ramifications for many others (Abernathy, 1978, p. 41). Failure to explore new technological innovations excludes the firm from subsequent evolutions because the firm has no relevant knowledge base (Benner, 2003, p. 246). Consequently, incumbent firms operating in stable industry environments and guided by a process improvement logic tend to perform well, while those working in dynamic environments experiencing discontinuous change and technological ferment more likely will fail to recognize and adapt to the environmental dislocation. An inherent conflict exists between activities focused on productivity improvement and cost reductions, and activities focused on exploration and flexibility.

The isomorphism and institutional logics of firms in mature fields also constrain firms, limiting their ability to perceive, change, or innovate new products. For these reasons, new products that require a reorientation of corporate goals, production facilities, or processes have tended to originate in small, entrepreneurial organizations rather than in institutionalized settings. The considerable uncertainties related to both the markets and performance requirements for new products give an advantage in their innovation to small, adaptable organizations with flexible technical approaches. Further, the economies of scale that otherwise create a competitive advantage for larger firms are of limited importance in developing new products because new products change so rapidly in their introductory phase that production technology designed for a particular product is quickly made obsolete. Indeed, if new products originate within institutional environments, they tend to be rejected. This rejection occurs because a change is costly in highly integrated systems as modifications to one process have ramifications for many others. Instead, institutionalized firms' innovations are typically incremental and have a gradual, cumulative effect on productivity that can eclipse the gains derived from the original product innovation. Thus, it seems the motivations of firms within a field to innovate shifts based upon their stage of development, with new entrants likely to focus on new product development, while mature incumbents are focused on process improvements that enhance near-term profitability. The different motivations of institutionalized incumbents impact their coordination and control methods, which become increasingly focused on standardization to reap the benefits of scale economies. These economies create value, but at the cost of diminished flexibility, increased vulnerability to demand shifts, and technical obsolescence (Abernathy, 1978, p. 41).

Nonprofit human services organizations face additional constraints on creativity and innovation stemming from the nonprofit form's structural characteristics. These include restricted capital access, which leaves nonprofits without slack resources to invest in explorative innovation, and a lack of motivational tools available to for-profit firms like stock options to incentivize creative teams. Further, the growing focus within the highly regulated human services industry on outcome measures and value-based payments tends to limit opportunity identification to prospects for exploitive innovation, as does the field's preoccupation with evidence-based practices. Collectively, these constraints hamper cognitive search processes that lead to novel associations between existing ideas and concepts that are the primary source of virtually all innovation, and so constitute a formidable challenge to would-be nonprofit institutional entrepreneurs.

..... The Role of Institutional Entrepreneurs

The preceding implies that the constraints stemming from field isomorphism and firm inertia are so formidable that it is unlikely that an aspiring institutional entrepreneur can overcome them. The task seems yet more overwhelming when one considers that the entrepreneur is typically embedded in the institutional field they seek to upend, inviting questions about how entrepreneurs generate novel ideas, let alone convince others to adopt the innovations derived from them (Hardy, May 2017).

While indeed formidable, these barriers can be overcome in rare instances. These successes are associated with the presence of enabling conditions and the position of the entrepreneurs and their firms within the field (Battilana J., 2009, p. 67). Discontinuous change abruptly breaks the established frames of reference in an industry and concurrently reshuffles or redefines viable niches. These conditions precipitate uncertainties for firms that enable institutional entrepreneurs by unhinging institutional inertia, forcing the adoption of unorthodox experiments, and precipitating new competitors' entry into the organizational field.

Not all actors within a disrupted field are equally likely to emerge as institutional entrepreneurs. For example, dominant actors are unlikely to recognize unfulfilled needs within their existing institutional environment or be motivated to generate novel ideas because their interests are aligned with current practices. Conversely, less privileged and embedded actors operating in low-status organizations at the periphery of a field have more to gain from change, albeit typically without the power and resources to implement the new approach. Notably, actors embedded in multiple fields may be more likely to act as institutional entrepreneurs (Battilana J., 2009, p. 77). Importantly, while the presence of enabling conditions and the field position of the entrepreneur and their firm can facilitate institutional entrepreneurship, they are necessary but insufficient to predict it. Other not fully understood individual characteristics of the entrepreneur are critical.

For our purposes, institutional entrepreneurs are the focal actors who leverage resources to lead firm metamorphosis that dislodges existing practices and related field frames by replacing the dominant institutional logic. They undertake this herculean task because they believe they have the necessary resources to realize interests they value highly. To be regarded as an institutional entrepreneur, the actor must initiate and implement the divergent change (Battilana J., 2009, p. 68).

Research on institutional entrepreneurship tends to focus on two distinct narratives, one actor-centric that typically portrays the entrepreneur as possessing unique insights into opportunities, and the other a process-centric view that characterizes entrepreneurial activity as the product of dispersed actors who overcome considerable difficulty to achieve effective collective action (Hardy, May 2017, p. 27). This essay adopts the former framework while acknowledging evidence that agents of change can be multiple.

Institutional entrepreneurship is distinguished from traditional entrepreneurship in various ways. Institutional entrepreneurs typically work in mature fields, while traditional entrepreneurs typically operate in new or emerging fields where there are few established patterns of activity to mimic, and power is diffused. Institutional entrepreneurs do not necessarily launch new ventures, while traditional entrepreneurs do. Both entrepreneurs create new business models that diverge from the predominant model in the industry or field.

For the institutional entrepreneur to transverse the idea journey to innovation, they must develop a vision, frame the rationale for institutional change, mobilize people and other resources in support of the new institutional logic, and forge new patterns of thought and behavior by others sufficient to constitute a new dominant logic. Framing refers to the art of defining the conditions that determine how a subject matter will be understood. Through framing, entrepreneurs influence others' perceptions and beliefs and their subsequent interpretation and understanding of data and events. For novel ideas to emerge as innovations adopted as the basis for a new institutional logic, entrepreneurs must win a framing contest with forces preferring inertia instead. In this effort, establishing the new logic as "legitimate" is crucial.

Legitimacy is a generalized perception that an organization's actions are desirable, proper, or appropriate within a socially-constructed system of norms (Suchman, 1995, p. 574). Legitimacy is essential because it is typically the sine qua non for obtaining resources from stakeholders. The analysis of how legitimacy is gained, maintained, or repaired references three primary forms of legitimacy: pragmatic, moral, and cognitive. Pragmatic legitimacy is a type of exchange in which legitimacy is conferred on an organization by a constituency because of some benefit the constituency expects in return⁶. Moral legitimacy entails assessing whether the organization adheres to conventionally accepted standards of conduct and promotes the general welfare. Cognitive legitimacy is the result of pursuing goals that society deems to be proper and desirable, and when fulfilled, is evidenced by "taken-for-granted" status by stakeholders.

When introducing innovations, institutional entrepreneurs must overcome the "liability of newness" to gain acceptance. Entrepreneurs can attempt to influence their targeted stakeholders by stressing the positive attributes or opportunities related to their innovation or alternately by highlighting the status quo's negative attributions – and by implication – the dominant logic's legitimacy. These different frames are not mutually exclusive, and the choice of one over the other may be dictated by the stakeholders being targeted and the stage of the idea journey. Whichever approach is adopted, the institutional entrepreneur must in sequence (1) make explicit the benefits of the innovation or the dysfunctional consequences of current practices for the firm or field, (2) promote the entrepreneur's novel idea as superior to the enshrined logic supported by entrenched interests, and (3) motivate others to cooperate in the promulgation and adoption of the new vision better aligned with advancing their interests. Typically, these goals are pursued by characterizing change as normal and progressive and framing the

⁶ For example, a professional services firm partner might accept a nonprofit board appointment, hoping that her firm would be engaged by the organization thereafter.

reluctance to change as unusual and counterproductive. Framing ability and social skills of the institutional entrepreneur and resource mobilization are paramount in these efforts because social capital and financial resources can be deployed to encourage key stakeholders to support institutional change. Notably, the early adopters of innovations are typically motivated by a desire to improve performance. However, once new practices spread beyond a certain threshold, adopters pursue legitimacy rather than performance improvement (DiMaggio, 1983, p. 148).

One strategy that has proved useful for institutional entrepreneurs in regulated markets entails avoiding resistance initially by aligning with a dominant frame of regulators (e.g., framing an effort as advancing the expansion of community-based, non-institutional care), and only thereafter introducing a new frame (e.g., growth through business combinations) as a legitimate means for pursuing a proper end. Ultimately, framing is the strategy, and framing contests are the mechanism through which institutional entrepreneurs effectuate institutional change – initially and intentionally in their firms as they intend, and subsequently and often serendipitously, across the field and industry. (Gurses, 2015, p. 1709).

..... Institutional Entrepreneurs in Nonprofit Human Services Firms

Institutional entrepreneurs in the nonprofit human services industry confront all the formidable challenges of their for-profit counterparts while also contending with limited capital access and impaired governance. The exogenous shock of COVID 19 creates a unique environmental context in which to pursue nonprofit innovation. History suggests crises arising from discontinuous change may be conducive to organizational metamorphosis – even in mature firms plagued by institutional inertia - because they surface contradictions and tensions and make apparent problems that require innovative solutions (Hardy, May 2017). A crisis driven by an unprecedented event adds urgency. Urgency allows consideration of not only different alternatives but of entirely new ones. The pandemic enables nonprofit entrepreneurs to frame their firm's present as unsustainable because COVID 19's impacts will include significant performance shortfalls while simultaneously diverting attention from vast opportunities presented by emerging 5G technologies that for-profit competitors will leverage. Overcoming these existential challenges demands new strategies and organizational structures.

Discontinuous change associated with emerging 5G technologies¹⁷ impact will surely be vast, but it remains uncertain about applications and timing. Certainly, a new dynamism is about to replace the lethargy of the nonprofit human services environment, along with openings for institutional entrepreneurs able to navigate the daunting path from creativity to innovation. As in other industries globally, the revolutionary impact of 5G technologies can be expected to create performance gaps that necessitate management innovation. Management innovation entails the invention of novel management practice, process, structure, or technique new to state of the art and intended to further organizational goals (Birkinshaw, 2008, p. 825). Management innovation is vital in nonprofit human services because adequate capital and effective governance will be essential to acquiring the new 5G

⁷ Emerging technologies enabled by 5G General Purpose Technology will include not only the internet of things but also big data, artificial intelligence, augmented reality, machine learning, autonomous vehicles, smart farming, and other technologies that will remake and revitalize industries including education, healthcare, energy, entertainment, manufacturing, construction, and agriculture.

product and process technologies and building the scale necessary for making them affordable so nonprofits can compete successfully with private equity platform providers.

Nonprofit human services firms are not without strategic advantages. Foremost among these is the massive amounts of "free" equity capital entrapped within by the vast (albeit fragmented) national nonprofit service network. Additionally, nonprofit organizations' social welfare logic affords them a priori legitimacy that enables nonprofits to adopt aggressive commercial practices. In contrast, their commercial competitors must adopt predominantly social welfare practices because they suffer from an a priori legitimacy deficit (Pache A. C., 2010). Lastly, nonprofits tend to deliver diversified services, unlike their for-profit counterparts, which typically diversify geographically but focus on a single service such as substance abuse or autism. Nonprofits thereby benefit because firms engaged in multiple fields reduce institutional embeddedness by exposing staff to incompatibilities between institutionalized fields, increasing their awareness of alternatives.

Driven to respond to their firms' specific core problems, it is unsurprising that business model innovation is the current focus of nonprofit human services entrepreneurs. Business models establish the value creation logic on which strategy is built, while strategy focuses on securing competitive advantage in the marketplace (Magretta, 2002, p. 89). New nonprofit business models must overcome nonprofits' incompatible prescriptions from their conflicting social service and commercial logics, mitigate nonprofit's limited capital access and impaired governance, and facilitate the adoption of product and process innovations emerging from 5G.

These conflicting requirements invite consideration of network organizational structures that, among other things⁸, buffer exploratory activities from process management activities by compartmentalizing them into separate organizational units. Sometimes referred to as ambidextrous organizations, these network structures are composed of highly differentiated but weakly integrated subunits (typically consumer services affiliates). The exploratory units (typically the C-Suite and a narrowly defined corporate infrastructure entity) are small and decentralized with loose cultures and processes, while the exploitation units are larger and more centralized with tight cultures and processes. Within subunits, the tasks, culture, individuals, and organizational arrangements are consistent, but across subunits, tasks and cultures are inconsistent and loosely coupled.

Tactically, these tightly coupled, internally inconsistent architectures must be uncoupled, while strategically, these inconsistent units must be integrated by the senior team to drive innovation. To successfully manage ambidextrous structures, senior executives must be consistently inconsistent as they steer a balance between the need to be small and large, centralized and decentralized, and focused both on the short term and long term simultaneously. While politically challenging, ambidextrous organizational forms permit a firm with highly differentiated units to simultaneously advance exploitation and exploration (Benner, 2003).

Heterogeneous senior team capabilities coupled with complex organizational architectures offer the most promising path to nonprofit sustainability in the face of discontinuous change – if nonprofit entrepreneurs can implement them. Nonprofit entrepreneurs work with two groups of individuals to shape the innovation process: *internal change agents*, who are employees proactive in promoting, modifying, and

⁸ Network organizational structures can mitigate nonprofit's limited capital access and impaired governance. See *Business Model Innovation for Nonprofit Consolidators: The Practitioners' Perspective* at <https://www.anglerwestconsultants.com/principal/>

validating the innovation, and *external change agents*, who are actors external to the firm – often consultants, trade associations, academics or industry gurus who make essential contributions by influencing the development and legitimization of new management practices (Birkinshaw, 2008).

There are obvious and significant differences between business model innovation and technological innovation that complicate their adoption process in institutionalized settings. Business model innovations are always disruptive and have a systemic impact. The higher levels of subjective interpretation associated with them are more likely to engender widespread staff anxiety due to a lack of understanding about how innovation will create value. This reaction leads institutional entrepreneurs to introduce innovations to organizational units likely to be most tolerant of uncertainty and ambiguity. Thereafter, they seek external validation of the legitimacy of the business model innovation. Business model innovations are generally driven by institutional entrepreneurs from the C-Suite because of their relevant human and relational capital⁹, while process and technological innovations are more likely the product of institutional entrepreneurs from clinical or technical organizational units.

During the idea generation stage, external change agents perform a useful role in identifying new threats and opportunities in the business environment and linking them to management attention. Internal change agents make meaningful contributions during the idea elaboration phase by connecting the problems being addressed to the entrepreneur's novel idea in communications with internal audiences. Additionally, they assist the entrepreneur in refining the idea through a hypothetical trial and error process. When the entrepreneur proceeds to introduce the refined innovative concept to a broader audience, external change agents assist in the theorizing process while commencing the process of establishing moral and cognitive legitimacy. The role is crucial because cognitive legitimacy may be sufficient to adopt innovations in commercial settings, but normative justifications are essential for diffusion among nonprofits.

During the championing phase, nonprofit entrepreneurs must contend with the board and staff's generally negative response to new management practices. This reception may be due to the technical complexity of the innovation or to the initial difficulty quantifying (or even observing) the benefits of the innovation. In other instances, the reaction may be negative because innovation threatens entrenched interests. There are both technical and rhetorical responses required to overcome these challenges, which constitute the foremost challenge to implementing and adopting the entrepreneur's innovation. Ultimately, implementation of management innovations is a dialectical process in which the entrepreneur and internal and external change agents collaborate to build the case that the innovation constitutes the preferred response to the presenting problem.

The social process by which novel ideas become radical innovations presents formidable challenges to the entrepreneurs that guide the process. This essay has sought to outline the diverse talents and fierce determination institutional entrepreneurs must demonstrate to overcome those challenges, which have been underappreciated by all who benefit from their accomplishments.

END

⁹ C-Suite executives, and especially CEOs of nonprofit organizations, are likely to have more weak ties and occupy structural holes than their colleagues, and not infrequently have held positions in government or trade associations prior to becoming a chief executive.

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