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ESSAYS IN NON-MARKET STRATEGY AND ENTREPRENEURSHIP

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ABSTRACT

Non-market strategy and entrepreneurship are well-established fields of research, yet there has been relatively little integration between the two. This is potentially an important oversight as entrepreneurial activity increasingly intersects with the institutional environment. This dissertation examines how the non-market environment affects new ventures and the strategies they use to enter regulated markets. Drawing on the concept of regulatory discretion, I reveal how differences between institutional actors cause entry barriers to become malleable and affect the ability of social movement activists to influence entry. I also develop a novel typology of strategies that new ventures use to enter regulated markets. In doing so, I seek to address some of the limitations in prior research and to stimulate scholarly thinking at the intersection of non-market strategy and entrepreneurship.

EXECUTIVE SUMMARY

While the field of non-market strategy—which examines how firms attempt to manage their external institutional environment to achieve favorable outcomes—and the field of entrepreneurship—which examines how, and by whom, opportunities to create future goods and services are discovered, evaluated and exploited— have become well-established as areas of research, there has been relatively little integration between the two. Entrepreneurship research has largely ignored the interactions between new ventures and the political environment, and has only recently begun to examine how other institutional actors, such as social movement activists, affect entrepreneurial activity. This is likely because historically the market environment and strategies have been more visible, more developed and more vital to entrepreneurial identity and success than the non-market environment and strategies. However, over the past decade entrepreneurial activity has increasingly collided with the institutional environment, with many entrepreneurs going so far as to make changing public policy a central part of their business model. Policymakers too are coming to the realization that the regulatory framework is a critical barrier to entrepreneurial activity that also affects the social and environmental performance of new ventures. The aim of this dissertation is to answer questions about how the non-market environment affects new ventures and the strategies they use to enter markets despite significant non-market pressures. In doing so, I seek to address some of the limitations in prior research and stimulate further scholarly thinking in this area of research.

I examine entrepreneurship in regulated markets both theoretically and empirically in a series of three essays. In the first, I explore how institutional factors affect entry into regulated markets. Although barriers to entry in regulated markets are frequently thought of as static features that must be removed or overcome if firms are to successfully enter, the differences

between the institutional actors that regulate markets (specifically, elected officials and regulatory agencies) may render these barriers more malleable than previously believed. Using data on regulatory approval of hydroelectric facilities in the United States from 1978 to 2014, I examine how regulatory discretion—that is, the flexibility that regulatory agencies have to interpret and implement public policies created by elected officials—affects outcomes for new ventures.

The second essay highlights the effect of both political institutions and social movement activists on entrepreneurship. Much of the research on institutions and entrepreneurship has highlighted the ability of social movement activists to affect firm entry, performance and survival by leveraging the state to achieve its goals, yet it has often focused on the impacts of individual activist tactics and has overlooked the effect of multiple simultaneous tactics on firms. It has also focused almost exclusively on how activists foment changes to public policy, however formal policy changes are not always necessary to affect firms. Drawing on research on radical flank effects and political opportunity structures, I explore how multiple social movement tactics interact to affect firm entry via regulatory agencies even in the absence of formal policy changes. The empirical context for this essay is also the U.S. hydroelectric power sector from 1978-2014.

In the third essay, I develop a novel typology of entrepreneurial strategies in regulated markets. Although many studies have explored how established firms attempt to influence institutional actors in their non-market environment, few studies have explored the strategies that entrepreneurs employ to enter and survive in markets with significant regulatory oversight. This is an important limitation because entrepreneurial firms often face unique challenges in confronting the institutional environment. In particular, entrepreneurs often struggle to gain legitimacy in the eyes of key institutional actors—a key factor for acquiring the resources that are essential to new firms. The typology examines entrepreneurial strategy on two key dimensions: timing of market entry and the timing of engagement with regulatory agencies.

A consistent theme throughout these essays is that, in regulated markets, the institutional structure and relationship between institutional actors plays a significant role in influencing firm outcomes and firm behavior. Specifically, the various characteristics of the institutional environment create political opportunity structures can strongly influence firms but which may be malleable in nature. Although the literature on political opportunity structures emphasizes how they create constraints, possibilities and threats for social movement activity, the series of essays in this dissertation illustrate that these structures may be equally relevant for entrepreneurial firms as they seek to enter regulated markets. New ventures may benefit from political opportunity structures derived from greater regulatory discretion and may be harmed when antagonistic social movement activists use discretion to shape new opportunity structures that help them prevent market entry. The political opportunity structures that firms face may also affect firms' entry and regulatory engagement strategies. Thus, attention to institutional structures and the relationships between institutional actors are important considerations for future scholarship at the intersection of institutions and entrepreneurship.

Essay 1: State Agency Discretion and New Venture Outcomes: An Examination of the U.S. Hydroelectric Power Sector, 1978-2014.

In highly regulated sectors of the economy, such as pharmaceuticals, biotechnology, finance or energy, barriers to entry, in the form of regulatory policies that influence entry both directly and indirectly, can impose significant costs on regulated firms. Established firms in these sectors actively seek to persuade policymakers to erect regulatory barriers to entry that give them a competitive advantage over new entrants and protect their market position. While new ventures would also like to influence policymakers, they generally lack the financial resources, and political connections to be able to do so. Once erected, these entry barriers are typically treated as relatively static features of the institutional environment that must be removed or overcome if firms are to successfully enter. One reason for this is the common assumption that the institutional environment is relatively monolithic: regulatory policies are enacted or repealed by the government and firms respond by attempting to shape policies to their favor or by adapting to new policies. However, government institutions often consist of multiple levels (for instance, elected officials and regulatory agencies) that have different incentives and exist in tension with one another. Because of this tension, elements of the institutional environment that are commonly viewed as fixed may be rendered malleable. In a regulatory context, this suggests that the relationships between the various actors involved in creating and implementing regulatory policies may affect firms' outcomes even in the absence of changes to formal policies. Hence, a focus on barriers to entry as relatively stable elements of the institutional environment may obscure important strategic and institutional factors that affect entry.

In this essay, I take a more nuanced view of the institutional environment by exploring the role of regulatory agency discretion—that is, the freedom that regulatory agencies have to interpret and implement policies written by elected officials—on new venture entry. My central argument is that regulatory agency discretion promotes entry by new ventures for two reasons. First, it reduces the effectiveness of incumbent firms' efforts to inhibit entry by influencing regulatory policies via corporate political activities. Although elected officials are responsive to corporate political activities (such as lobbying or financial contributions) because they increase their likelihood of reelection, regulatory agencies cannot be influenced in the same manner: they are not elected, and cannot legally accept financial contributions. Therefore, their discretion in implementing policy may level the playing field for new ventures relative to incumbent firms. Second, regulatory agency officials are often motivated by an institutional logic of public service. This logic emphasizes service to public welfare and the common good and objects to corporate influence on policymaking. Without discretion, regulatory agencies are constrained to implement policies as written by elected officials, therefore they cannot make decisions based on their own logic of public service. Greater regulatory discretion, however, enables them to embody this institutional logic which benefits new entrants because, relative to other firms seeking regulatory approval, regulators may see them as a disadvantaged group that merits favorable treatment on the grounds that it produces more equitable outcomes.

Empirically, I examine regulatory approval of new facilities in the U.S. hydroelectric power sector from 1978 to 2014. This market provides a useful setting to explore the impact of regulatory discretion on new ventures because, while the Federal Energy Regulatory Commission ultimately grants all licenses to operate, individual states have significant authority over approval, resulting in significant variation across states in how regulatory policy is implemented with respect to new facility licensing. My data support the theory that regulatory discretion has a significant and differential effect on new facility licensing. The results indicate that in when regulatory agencies have little discretion, corporate political contributions benefit incumbent firms; however, with greater agency discretion, the effect of political contributions is reversed and the likelihood of incumbent firms obtaining a license is decreased. The data also show that while greater regulatory discretion has no discernible effect on licensing of established firms, it does benefit new entrants.

This essay offers several theoretical contributions. First, it contributes to the institutions and entrepreneurship literature by highlighting the mechanisms by which institutional actors substantively shape the success of market entry by new ventures and incumbent firms. The prevailing logic assumes that regulated markets present significant obstacles for new venture entry. Nevertheless, entrepreneurs do in fact enter these markets, yet prior research has not theoretically or empirically examined the institutional factors that facilitate entry. Second, it contributes to the non-market strategy literature by highlighting a common but inaccurate assumption about the workings of the state as a single uniform entity. While insightful, this literature has focused largely on how firms affect and are affected by public policy outcomes at the legislative level. How firms affect and are affected by the *implementation* of public policy by regulatory agencies has received significantly less attention. This is an important area of investigation because public policies are interpreted and executed by regulatory agencies rather than elected bodies, and regulators are often the primary and more frequent point of contact for businesses. The findings of this study enhance our understanding of the field by illustrating how variation in policy implementation differentially affects new and established firms.

Essay 2: State Agency Discretion and the Radical Flank: An Examination of Stakeholder Opposition to New Hydroelectric Facility Foundings

As external stakeholders, social movement activists can play a significant role in firm entry, performance and survival. They can cause organizations to flourish by championing their legitimacy or to fail by tarnishing their reputations through boycotts and protests. Recent research illustrates how activists also use tactics like lobbying, lawsuits and congressional testimony to use the state as a fulcrum to achieve movement goals and affect changes in firms. Through such tactics social movement activists induce changes to public policies that enable or constrain firms' economic activities and promote new organizational practices. However, research in this area predominantly focuses on how a single social movement tactic (usually protests or lobbying) leads to policy change, yet often multiple social movement organizations form coalitions that use multiple tactics to enhance the power of their collective action towards firms and policy makers. Furthermore, this literature is largely focused on how activists foment policy change; little research to date has explored how activists influence firms via the state in the absence of changes to formal policy. This is potentially an important omission: by focusing only on the final or imminent adoption of a particular law and its impact on firms, many prior studies have overlooked the effect that the implementation of public policy by regulatory agencies may have on both firm behavior and social movement tactics.

In this essay, I create a theoretical framework, drawing on the literature on radical flank effects to explain how multiple social movement tactics interact to affect firm entry via regulatory agencies and without formal policy changes. Radical flank effects, which may be either positive or negative, occur when both radical and moderate elements of a broader social movement coexist. A positive effect occurs when the position of moderates is enhanced by the presence of radicals. Because radicals' tactics are extreme and sometimes violent, or because they advocate for politically unpalatable changes, they are perceived by both the targets of activism and third parties (such as the media, the general public, or the state) as particularly threatening. As a result, moderates and their more restrained tactics become more appealing partners. A negative effect, on the other hand, occurs when radicals weaken the ability of moderates to gain resources and legitimacy from third parties because moderates are tarred with the same brush as radicals, to whom third parties are less sympathetic due to the nature of their tactics.

While prior research has theorized about both positive and negative radical flank effects, little empirical work has found evidence of the latter, nor has it examined the conditions that lead to one effect over the other. A possible reason for this may be inattention to political opportunity structures—the constraints, possibilities and threats that are external to social movements, but which affect the strategic repertoires available to them and their ability to achieve their collective interests and goals. In this essay, I argue that regulatory discretion creates a political opportunity structure which has a differential effect on the radical flank leading to either positive or negative effects conditional on the amount of regulatory agency discretion.

The empirical context for this essay is also the hydroelectric power sector. Although hydropower is considered a relatively 'clean' energy technology because it is renewable and has no harmful emissions, many environmental groups actively oppose the founding of new hydroelectric facilities due to their environmental impacts, including damaging riverbanks, reducing water quality, preventing fish passage, and directly killing fish in power generation turbines. Environmental movement activists use a number of tactics to oppose new hydroelectric facilities: moderate tactics include mobilizing members to attend public meetings and provide formal input during the public comment period of the licensing process; radical tactics include protesting new facilities and tarnishing regulators' reputations by calling attention their failure to consider the social and environmental impacts of new facilities.

My data supports the notion that regulatory discretion creates a political opportunity structure that has a differential effect on the radical flank. When regulatory agencies have more regulatory discretion, the presence of both radical and moderate activist tactics have a negative effect on the likelihood of new facility licensing, which suggests that regulators with more discretion are more responsive to activists' demands. This is likely because it allows social movement activists to call into question the legitimacy and reputation of regulations and regulators. When regulatory agencies have less regulatory discretion, however, the presence of both radical and moderate activist tactics has a positive effect on the likelihood of facility licensing. This is likely because when there is little regulatory discretion, regulatory agencies rule according to what formal policy dictates; thus, the responsibility for regulatory decisions lies more on the elected officials who craft policy than on regulators. Elected officials, however, are less vulnerable to reputational damage from social movement tactics and the presence of radical tactics provides them with an easy way to dismiss the demands of *all* activists by tarring moderates with the same brush as radicals.

This essay makes several contributions to the literature at the intersection of institutions and entrepreneurship. First, it enhances our understanding of the effect of multiple, simultaneous social movement tactics on firm entry. By looking directly at how multiple tactics interact, this study answers calls to pay closer attention to the interdependencies between movement tactics and explore how the connections between movement tactics can drive systemic change. Second, I add to a burgeoning literature on how social movements use the state as a fulcrum to affect changes in firms without changing formal policy. Relatively few studies have examined how social movements use the state to affect other targets and fewer still have examined how social movements target regulatory agencies to affect firms.

Essay 3: Fighting on Two Fronts: Market and Non-Market Strategies for Entrepreneurial Entry into Regulated Markets.

While prior studies have examined a variety of non-market strategies available to established firms, few have explored the strategies that entrepreneurial firms employ to influence their non-market environment. This is a significant limitation because entrepreneurial firms often are limited in their ability to implement the strategies of successful incumbent firms. They lack the size, experience, capabilities and legitimacy to favorably shape their institutional environment and they often lack the financial resources required to implement the political influence strategies of established firms because venture capital tends to avoid new ventures that are prone to regulatory risk. Furthermore, incumbent firms use various market strategies to hinder entrepreneurial entry; as a result, entrepreneurs in regulated markets face unique challenges, not just in building and entering new markets in the face of incumbent opposition, but also from powerful institutional actors—such as elected officials, regulatory agencies, and the courts—who can enable or constrain the ability of new ventures to enter and succeed.

Although little research has explored entrepreneurial entry into regulated markets, studies have identified legitimacy as an important factor that can enable entrepreneurs to acquire key resources necessary to enter markets and succeed. Government actions, industry associations, consumer associations, and social movement activists all have roles in the legitimation of firms. However, acquiring legitimacy is often an acute challenge for entrepreneurs due to their nascent identities and lack of resources. In regulated markets, it is particularly challenging due to the combined resistance of incumbent firms and regulatory institutions. While research has begun in this area, it has yet to receive significant attention, prompting calls for additional studies that explore how entrepreneurs build legitimacy in regulated markets.

In this essay, I develop a typology of strategies that entrepreneurial firms use to enter markets and succeed. I explore two dimensions of entrepreneurial strategy that affect entrepreneurs' ability to gain legitimacy in the eyes of key stakeholders: the rate at which new ventures build and enter markets and the timing of engagement with key institutional actors. Due to the limitations associated with their newness, entrepreneurial firms often implement unconventional and less resource intensive strategies on each of these dimensions that ultimately aim to overcome resource and legitimacy constraints while operating in regulated markets. On the timing of market entry dimension, these strategies range from slowly working to overcome entry barriers or resolving exogenous uncertainties before expansion, to quickly deploying symbolic and rhetorical tactics to directly create cultural resources or cognitive legitimacy that help them attract financial resources. On the timing of institutional engagement dimension, strategies range from delaying engagement by operating in regulatory voids or selectively disregarding regulations while slowly gaining legitimacy, to proactively engaging regulators to exert cognitive and normative influence in order to obtain favorable regulatory decisions.

By identifying the strategies by which a new venture can overcome resource and legitimacy constraints, this chapter contributes to literature at the intersection of institutions and entrepreneurship. Despite burgeoning interest in this area, scholars have yet to explore how institutional factors associated with regulated markets affect and are affected by entrepreneurial strategies nor how the timing of market entry and regulatory strategies combine to enhance a new venture's legitimacy. This essay addresses this limitation and suggests directions of future empirical research that build on the theoretical framework.