

## INSTITUTIONAL THEORY IN WOMEN ENTREPRENEURSHIP

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### ABSTRACT

Entrepreneurship is one of the most essential factors for the development of a country where the involvement of women as entrepreneurs has grown in popularity and may be considered the world's fastest rising entrepreneurs around the world. It has drawn the interest of numerous academics due to the fact that women can contribute significantly to entrepreneurship activities and economic growth. However, the participation of women in entrepreneurship can be influenced by the supports that they received. The supports could be from formal and informal institutions which should be explained better using institutional theory. Institutional theory could be used to investigate women entrepreneurship as formal institutions may be able to influence women to venture in entrepreneurship while informal institutions may encourage or prevent their engagement in business activities. This paper is expected to be useful in enriching the understanding of formal and informal institutions and women entrepreneurs.

**Keywords:** Institutional theory; Women entrepreneurship; Women entrepreneurs; Entrepreneurship.

### INTRODUCTION

Entrepreneurs are often seen as national assets that should be nurtured, encouraged, and fully rewarded to the fullest extent possible. Entrepreneurs can create jobs, boost innovation, increase competition, and respond to changing economic opportunities and trends. Becoming an entrepreneur or self-employed can be a rewarding career path and a viable option to waged work or unemployment. It shows that entrepreneurship is the best strategy to assist in improving the economy, whether for individuals, families, local communities, or the country (Ridzwan et al., 2016). It demonstrates how entrepreneurship has evolved into a crucial aspect of business across the board and has gained acceptance in all sectors where it has emerged as a key engine of economic growth.

Women-owned enterprises have aroused as the fastest growing sector of entrepreneurship globally. Since 2014, the percentage of women entrepreneurs worldwide has increased by 10% (GEM, 2016). The number of women founders in companies worldwide also increased from 117 people in 2009 to 555 people in 2014 alone (Teare & Desmond, 2015). Almost 9.5% of new businesses had at least one women founder, and that percentage doubled to 18% in 2014 (Aggrawal, 2016). Moreover, in 59 economies around the world, around 231 million women started or operated their own enterprises (GEM, 2018). Therefore, it is not surprising that women entrepreneurship has started to receive a lot of attention lately (Ali Jafri & Khurram, 2019).

Women have been given a lot of support to foster them to venture in entrepreneurship. Government including non-governmental organisations, and private sector has worked hard to promote women entrepreneurship through investment in education, training, and entrepreneurship as well as financial assistance.

Apart from supports from the government, women entrepreneurs use other supports to assist and develop their business that include informal network of family and friends. Family and friend are one of the main factors which support the successful of women entrepreneurs by providing supports in financial, emotional and spiritual (Brindley, 2005; Dhaliwal, 2010; Rashid et al., 2015; Fernandes & Mota-Ribeiro, 2017).

As a result, it shows that the supports from formal and informal institutions should be considered as important tools to help women entrepreneurs in business. However, it also can hinder or discourage women entrepreneurs' development. Hence, institutional theory is prominently needed to explain in further about formal and informal institutions in entrepreneurship, particularly women entrepreneurship.

## **INSITUTIONAL THEORY**

Institutional theory is very much related to entrepreneurship which it is one of the popular theoretical frameworks used in entrepreneurship studies (Bastian et al., 2018; Bruton et al., 2010). The use of this framework spans a wide range of managerial topics. Many recent studies have shown the importance of institutions for entrepreneurship (e.g. Liedong et al., 2020; Amankwah-Amoah et al., 2019; Parente et al., 2019). Institutional theory involves aspects that are intimately tied to social structure. It concerns the process by which structures like norms, rules, patterns, schemes and routines are established as credible guidelines for social behaviour (Scott, 2008).

In defining institution, Scott (1995, 2001) commented that “there is no single and universally agreed definition of an ‘institution’ in the institutional school of thought”. However, North (1991) and Williamson (1975) stated that institutions are defined as “rules of game” which determine and inhibit the preferences and choices of individuals. Institutions can be broadly defined as formal and informal constraints created by humans that structure political, economic, and social interaction (North, 1990).

Moreover, Alaydi (2021) posited that institutions are rules, habits, and norms that govern political, economic, and social interactions, and providing meaning and stability to social life.

Scott (2005) stated that institutions could be formal or informal, and some well-known examples are the family institutions, religious institutions, legal systems, and economic systems. Formal institutions consist of tangible, legal, political, and economic-related framework, rules and regulations.

Formal institutions concern themselves with property ownership, regimes, securities, and legal which are established by the government to regulate the behaviour of individuals (North, 1990). They are primarily built by the government in order to regulate the organisational and

individuals' actions and create or inhibit entrepreneurial opportunities (Welter, 2011; Dheer, 2017).

On the other hand, informal institutions refer to intangible, implicit, slowly changing, culturally transmitted and socially built institutions such as attitudes, values, norms, and code of conduct that are deeply embedded in the culture (Horisch et al., 2017; Stephan et al., 2015). In addition, informal institutions also influence opportunity recognition by potential entrepreneurs, as well as access to resources and opportunity exploitation (Welter, 2011).

Several studies have used institutional theory to investigate women entrepreneurship (i.e. Aidis et al., 2007; Nguyen et al., 2009). Most of the studies have discovered that while formal institutions can establish an enabling environment for entrepreneurship, informal institutions can have a strong influence on how individuals view the opportunities of entrepreneurship (Aidis et al., 2007). They suggest that with regard to women entrepreneurs, formal institutions can influence not just the extent to which women entrepreneurship can be developed, but also the types of firms in which women can engage.

Meanwhile, informal institutions may promote or hindered the participation of women in entrepreneurial activities (Gimenez-Jimenez et al., 2020). They also suggest that looking at the interaction between formal and informal institutions is essential to grasp women entrepreneurship and understand how the engagement of women in entrepreneurship varies among nations.

Accordingly, Scott collected and summarised the institutional theory, which includes both formal and informal institutions as three pillars of institutions in 2007 (Lawan, 2017). Scott (1995, 2008) differentiates two types of informal institutions: social-normative and cultural-cognitive, which arguably correspond to the concept of practices and cultural values in cross-cultural studies (Javidan et al., 2006; Stephan et al., 2015). He then further categorised formal and informal institutions into three institutional pillars: regulative, social-normative, and cultural-cognitive. As their names suggest, they have different functions of institutional application.

Furthermore, while each institution (i.e. formal and informal institutions) is different in nature, most institutional forms have diverse combinations of components of all three pillars at work rather than solely from one single pillar (Scott, 2008).

Each of the three pillars has contain both formal and informal components (Khan, 2020). These three pillars of institution have an impact on a firm's legitimacy and are regarded to be particularly relevant in the study of women entrepreneurship (Bruton et al., 2010). In fact, whatever the classification of institutional factors, they can be incentives to act entrepreneurially (Hoogendoorn et al., 2019; Baumol et al., 2009) or/and challenges and barriers that impede the entrepreneurial process (Hoogendoorn et al., 2019; De Soto, 2000).

On the whole, institutions can either support or stifle entrepreneurship. Khan (2020) assert that formal and informal institutions are interdependent. Institutional theory has formed a basis for understanding how entrepreneurs must seek legitimacy for their new business venture in

addition to creating new products and services (Bruton et al., 2010). Therefore, in researching women entrepreneurs, it is critical to understand the role of institutional factors in addition to social context because local norms and traditions that influence how they do businesses are enforced by the existing institutions such as families as well as cultural and legal institutions (Welter, 2011).

Notwithstanding, the three pillars of institutions have been extensively employed in entrepreneurial research that employs institutional theory as a theoretical lens (e.g. Spencer & Gomez, 2004; Busenitz et al., 2000), the literature on women entrepreneurship and institutions is still regarded fragmented (Gimenez & Calabro, 2020). One of the critiques was that just six theoretical frameworks were employed in the 29 publications reviewed, with institutional theory appearing three times, were insufficiently used (Itani, 2020). Thus, it is important to have proper understanding of institutions (i.e. formal institutions and informal institutions) with the three pillars to promote entrepreneurship especially among women entrepreneurs.

## CONCLUSIONS

As a conclusion, in institutional theory, institutions can be defined as formal and informal institutions created by humans which can affect the development, extent of entrepreneurship and the way entrepreneurs behave. For examples, financial institution and family institution. Subsequently, formal and informal institutions are categorized into three pillars: formal institutions (regulative pillar) and informal institutions (social-normative and cultural-cognitive). These pillars, along with related activities and resources, give stability and significance to social life.

Therefore, the investigation of formal and informal supports could be perceived through these formal and informal institutions, and the three pillars. This theory could assist in identifying and investigate how formal and informal institutions affect the business performance of women entrepreneurs. The knowledge gained from this paper is expected to help enrich the understanding of formal and informal support for women in entrepreneurship. Table 1 shows the dimensions of institutions.

**Table 1: Dimensions of institutions**

Degree of Formality (North, 1990)	Examples	Supportive Pillars (Scott, 1995)
Formal institutions	Rules, law, regulations	Regulative
Informal institutions	Culture, norms, ethics, values, beliefs	Social-normative and Cultural-cognitive

Source: Peng (2016); Peng et al., (2009); Valdez & Richardson (2013)

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