ESCAPING FROM THE EMBEDDED AGENCY PARADOX: THE ROLE OF ENTREPRENEURIAL SELF-EFFICACY AND ORGANIZATIONAL POWER

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INTRODUCTION

Institutional entrepreneurship examines the manner in which actors influence their institutional environment (Maguire et al., 2004). The notion of institutional entrepreneurs—defined as actors that mobilize resources to create new or transform existing institutions (DiMaggio, 1988)—helps to account for endogenous explanations of institutional change (Battilana, 2006), and complements existing work that examines the external triggers for institutional change.

This area of research draws on and aims at reconciling two different traditions in institutional theory: one that emphasizes the institutional pressures that constrain individuals and organizations, which result in conformity, and one that focuses on the ways institutional entrepreneurs transform institutions (DiMaggio, 1988). Consequently, institutional entrepreneurship faces the paradox of embedded agency—a theoretical puzzle that relates to the structure-agency debate (Seo and Creed, 2002). To resolve this paradox, an increasing number of institutional theorists have been calling for work on the individual level (Battilana et al., 2009; Battilana & Leca, 2009). However, the vast majority of the work sought to explain how institutions can be transformed (Battilana & D’Aunno, 2009) has focused on the organization-level, rather than the individual decision maker within the organization, to understand this limited attention on the role of individual agency in institutional entrepreneurship is surprising because it is these very actors who transform and create institutions (Thornton et al., 2012).

In particular, not much is known about how cognitive aspects (i.e. self-efficacy) of institutional entrepreneurs may affect institutional change (Pacheco et al., 2010; Powell and Colyvas, 2008). Therefore, this paper focuses on the individual by considering the role of the CEO’s cognitive characteristic in the organizational response to institutional pressure. As critical members of the decision making body of organizations, CEOs in particular are able to influence the strategic decisions in their organizations (Hambrick and Mason, 1984; Finkelstein et al.,
2009). Scholars in particular have emphasized the role of self-efficacy (Bandura, 1982) in creating change and determining what CEOs will do with the capabilities (i.e., knowledge, skills and power) that they already have (Luthans & Ibrayeva, 2006).

Building on Bandura's (1982) social cognitive theory and work on institutional entrepreneurship, we examine how CEOs' self-efficacy affects the social enterprises’ strategic actions to influence institutional regulations. Social cognitive theory highlights the central role of human cognition and suggests that self-efficacy regulates behavior and activities (Chen et al., 2012). We observe organizations' lobbying activities because these involve strategic actions of firms that aim to influence the government and shape regulations in their favor (Hillman & Hitt, 1999). Given that this act of influencing existing institutional arrangements is considered an entrepreneurial task (Hwang & Powell, 2005; Battilana et al., 2009), we examine CEOs' entrepreneurial self-efficacy (ESE) to understand why some organizations and not others engage in lobbying behavior. ESE is conceptualized as individuals’ beliefs and confidence in their capabilities to affect their environment (Luthans & Ibrayeva, 2006). In addition, we further examine the extent to which CEOs with similar ESE are more or less likely to engage in institutional entrepreneurship depending on the power of the organization. In doing so, we develop a framework that explains how the interconnection between CEOs' ESE and organizational power affects organizational lobbying.

**HYPOTHESES**

Bandura (1982) maintained that task-specific self-efficacy can be generalized to another task, if these tasks are more or less interrelated (Gist, 1987). Although entrepreneurial self-efficacy (ESE) is the degree to which people perceive themselves as having the ability to successfully perform the various roles and tasks of entrepreneurship (Chen et al., 1998; De Noble et al., 1999), it can be applied to tasks of institutional entrepreneurship. On the grounds that ESE is not only crucial with respect to classical entrepreneurial outcomes, such as new venture creation, but also influences general entrepreneurial tasks (Newman et al., 2018; Obschonka et al., 2017). In particular, Hwang and Powell (2005) identified several strands of research arguing that creating change in existing institutional arrangements can be considered as an entrepreneurial task. In fact, entrepreneurship and institutional entrepreneurship processes are more intertwined than initially thought (Battilana et al., 2009). As with cases of new venture creation, shaping the institutional environment stems from entrepreneurial efforts by skilled individuals who are able to discover and exploit opportunities (Hwang and Powell, 2005). Building on this reasoning, we propose that the level of ESE is not only useful to determine the initial decision to start a business, but also the degree of effort exhibited in the face of adversity (see Bandura, 1997; Luthans & Ibrayeva, 2006). This leads to the baseline hypothesis of this paper:

*Hypothesis 1: the level of ESE of the CEO will be positively associated with organizational lobbying*

Focusing on the enabling role of individual characteristics without accounting for the fact that actors are embedded in organizations, would ignore that institutional entrepreneurship is also driven by factors at different levels of analysis. To avoid this trap, Battilana and D’Aunno (2009) suggested that researchers who explore individual factors, should also take into account...
organizational-level factors. These organizational factors affect the agent’s access to resources necessary to initiate divergent change (Battilana et al., 2009). Several studies have shown that the power position of the organization in the field (Levy and Scully, 2007; Greenwood and Suddaby, 2006; Kraatz and Zajac, 2001; Battilana and D’Aunno, 2009; Battilana et al., 2009), reflects the capability of CEOs to effectively shape the institutional environment with strategic actions, such as organizational lobbying. The decision, however, to use this power is an intentional strategic choice (Thornton & Ocasio, 2008) and thus, not all individuals are likely to employ their organizational power to shape their environment. Self-efficacious actors base their strategic behavior on their assessment of their capabilities (Bandura, 1977). In fact, efficacy influences have their greatest impact on people who have some reason to believe that they can produce effects through their actions (Bandura, 1982). We focus on three organizational-level factors broadly used in the literature on institutional entrepreneurship that assess the power of an organization to shape their institutional environment: size, age and interconnectedness. This brings us to the following hypotheses:

**Hypothesis 2:** Organizational size will positively moderate the relationship between the CEOs ESE and organizational lobbying.

**Hypothesis 3:** Organizational age will positively moderate the relationship between CEOs ESE and organizational lobbying.

**Hypothesis 4:** Organizational interconnectedness will positively moderate the relationship between CEOs ESE and organizational lobbying.

**DATA AND METHODOLOGY**

To develop an understanding on the relationship between the ESE of CEOs and organizational lobbying, we examine the Flemish work-integration social enterprises (WISE) which were confronted with a political reform called the Maatwerk Decree (MWD) aiming to professionalize the Flemish WISE sector. On the 12th of July 2013, the Flemish government adopted this new decree which was planned to enter into force on the first of April 2015.

A study using surveys was conducted in the Flemish WISE sector to test the hypotheses. The survey was sent out to the all CEOs of the Flemish WISEs by post on the beginning of April 2016. In order to maximize response rate, a modified Dillman (1991) mail survey method was used. This resulted in questionnaire responses from 103 CEOs which were sufficiently complete and received in time to be included (total population is 136). The overall response rate was 76% of the full population. Furthermore, ex-ante and ex-post suggestions from Chang et al. (2010) and Podsakoff et al. (2003) were utilized in order to reduce the possibility of common method bias.

**VARIABLES**

Building on Clemens and Douglas (2005), we operationalized our dependent variable organizational lobbying by means of two items representing bargaining tactic and two items representing the influence tactic. We performed a principal component factor analysis using varimax rotation and extracted one factor that exhibited eigenvalues greater than 1 on which all four items load (factor loadings >0.76) (α =0.85).
We adopted the four-items of Zhao et al (2005) to measure our independent variable entrepreneurial self-efficacy. We asked subjects how confident they were in successfully identifying new business opportunities, creating new products, thinking creatively, and commercializing an idea or new development ($\alpha = .86$).

Building on Clemens and Douglas (2005), we operationalized interconnectedness through four questions that asked the degree to which the firm cooperates with other sheltered workshops, social workshops, regular companies and sector associations.

RESULTS

We performed ordinary least squares regression analysis to test our hypotheses. We find evidence that entrepreneurial self-efficacy positively affects the likelihood to engage in organizational lobbying ($p<0.001$). In addition we find that organizational power (measured as firm size, age and interconnectedness), moderates the relationship between entrepreneurial self-efficacy and organizational lobbying ($p<0.05$).

DISCUSSION AND CONTRIBUTIONS

The results support our central hypothesis that entrepreneurial self-efficacy of CEOs is positively associated with organizational lobbying. This finding contributes to the literature on institutional entrepreneurship by highlighting the critical role of agents’ cognition in the institutionalization process. Specifically, by incorporating the social cognitive theory into institutional theory, we emphasize the importance of ESE of the CEOs who can leverage their formal authority and leadership to mobilize resources for their institutional change projects. Thereby we answer to calls to explore the relationship between institutional entrepreneurs as leaders of organizations and the organizations itself (Kraatz, 2009; Levy & Scully, 2007). In doing so, we bring back the individual into institutional entrepreneurship literature.

Second, the results also support our theoretically multi-level framework of institutional change which explains how organizational power moderates in a positive direction the relationship between self-efficacy and organizational lobbying. These finding contributes to the literature by providing a more nuanced insight into the effect of power on institutional change. In particular, entrepreneurial self-efficacious CEOs will unleash this potentially powerful position to engage in organizational lobbying. These findings complement existing research that investigates the enabling conditions for institutional entrepreneurship (Levy and Scully, 2007; Greenwood and Suddaby, 2006; Kraatz and Zajac, 2001; Battilana et al., 2009) and help resolve the paradox of embedded agency.

Third, our focus on mature fields that have been exposed to some significant political shock answers the call to examine the influence of institutional entrepreneurs on policy change (Pacheco et al., 2010). In particular, we investigate the role of the CEO in the lobbying activity of social enterprises to change the political context in which they operate. This lobbying activity to change regulations resonates with corporate political activity as it corresponds with organizational attempts to shape government policy (Hillman et al, 2004). In so doing, we respond directly to calls for deeper insights into individual level antecedents of corporate political activity (Lux et al, 2011), especially of the influence of top management on an organization’s corporate political activity (Hillman et al, 2004). Focusing on the role of the CEO provides the opportunity to examine why organizations engage in lobbying behavior (Ozer,
Furthermore, our study also answers the call for more empirical quantitative work on the study of organizations and their interaction with the government (Lawton et al, 2013).

Fourth, our study also contributes to the entrepreneurship literature and the concept of entrepreneurial self-efficacy in particular. We respond to recent calls for examining the role of entrepreneurial self-efficacy beyond entrepreneurial outcomes such as venture creation (Newman et al, 2018). Entrepreneurial behavior should not be limited to classical entrepreneurial outcomes since entrepreneurial skills are part of a general skill set (Savickas et al, 2009). For example, Forbes (2005) found that the level of entrepreneurial self-efficacy also predicts the extent to which their firms engaged in comprehensive decision-making and developed strategic plans. We propose that creating change in the institutional environment requires entrepreneurial behavior (Hwang and Powell, 2005). As a result, we extend the conversation by developing new insights into the influence of entrepreneurial self-efficacy of CEOs on the extent to which social enterprises engage in lobbying to change their institutional environment.

REFERENCES AVAILABLE FROM AUTHORS