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Legitimate to whom? The challenge of audience diversity and new venture legitimacy

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ABSTRACT

We examine how entrepreneurs manage new venture legitimacy judgments across diverse audiences, so as to appear legitimate to the different audience groups that provide much needed financial resources for venture survival and growth. To do so, we first identify and describe the different mechanisms by which entrepreneurs can establish new venture legitimacy across diverse audiences. We then account for the institutional logics that characterize different new venture audience groups, and use this as a basis for uncovering how and why the legitimacy criteria for a new technology venture may vary depending on the audience. We then consider how leaders of entrepreneurial ventures may use framing as a means to manage legitimacy judgments across various audiences, and thereby improve their chances of accessing critical financial resources for venture survival and growth.

To successfully launch a new venture, entrepreneurs depend on marshaling resources and support from a diverse array of external actors. Success in garnering such inputs can have a significant impact on the survival and sustainability of a new venture (Barney, 1991). For members of an external audience to provide a new venture with resources and support, they need to perceive the venture as legitimate (Aldrich and Fiol, 1994; Fisher et al., 2016; Lounsbury and Glynn, 2001; van Werven et al., 2015; Zimmerman and Zeitz, 2002). A venture is perceived as legitimate if others view it as “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 574). Perceptions of legitimacy enable new ventures to overcome their ‘liability of newness’ and to access inputs that increase their otherwise limited chances of survival (Singh et al., 1986; Stinchcombe, 1965). It is therefore not surprising that new venture legitimacy has been the focus of a wealth of research over the past two decades (see Überbacher, 2014 for an extensive review of the research on new venture legitimacy). However, despite the breadth of research in this area, some significant gaps remain in our understanding of new venture legitimacy judgments; one of which stems from our limited understanding of how new venture legitimacy judgments differ across various new venture audiences (Überbacher, 2014).

Entrepreneurial ventures depend on resources and support from a diverse range of audiences including individual supporters, venture capitalists, government agencies and corporations (Denis, 2004; Hanlon and Saunders, 2007). Different audiences have differing norms, beliefs, rules, and procedures for assessing a venture (Fisher et al., 2016). Since legitimacy assessments represent social judgments that reside in the eye of the beholder (Ashforth and Gibbs, 1990; Bitektine, 2011; Webb et al., 2009), such

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assessments are audience dependent (Suchman, 1995). Golant and Sillince (2007: 1161) echo a similar sentiment when they point out that to secure legitimacy, an organization "must be perceived as a valid and plausible *representation* of the interests, values and beliefs of these targeted audiences." However, Überbacher (2014: 674) reports that in prior new venture legitimacy research, audiences are "theoretically and empirically collapsed into the aggregate concept 'organizational environment' (Singh et al., 1986)." Studies "either do not systematically distinguish the legitimacy judgments of the different audience types that a new venture faces (Zott & Huy, 2007), or they focus on how new ventures achieve legitimacy with one specific type of audience (e.g., with investors) and seek to theoretically generalize their findings to other types of audiences (Martens, Jennings, & Jennings, 2007)" (Überbacher, 2014: 674). This deficiency in venture legitimacy research, has resulted in calls for future research to explore how legitimacy judgments differ across various audience contexts (e.g., Navis and Glynn, 2011; van Werven et al., 2015). Überbacher (2014: 684) suggests: "Future research should go beyond this simplistic assumption (of a single venture audience) by more directly studying how different types of audiences actually make legitimacy judgments and resource allocation decisions (because) the stakeholder environments of organizations are increasingly complex and heterogeneous."

We seek to address this gap by asking the research questions: *How do new venture legitimacy criteria vary across different new venture audiences, and how can entrepreneurs establish venture legitimacy among different audiences when seeking resources for a new venture*? To address these questions, we account for differences in the institutional logics governing the audience groups that provide financial resources to new technology-based ventures, and invoke framing as a perspective that enables entrepreneurs to manage legitimacy judgments across different audiences.

We ultimately develop a framework that accounts for differences in the framing that entrepreneurs employ to influence legitimacy judgments of various resource providing audiences of new technology-based ventures. To do this we first identify mechanisms used to establish and manage new venture legitimacy. Following that, we distinguish between different audience groups that provide resources to new technology-based ventures, and describe the institutional logics governing each audience group. We link identified legitimation mechanisms with different institutional logics to outline the legitimacy factors that are likely to impact new venture resource providers operating with different institutional logics and we introduce emphasis framing as a perspective for entrepreneurs to manage legitimacy perceptions across various audiences.

We address our research question within the constraints of two clear boundary conditions. Firstly, we focus exclusively on *technology-based ventures*, and secondly we focus on legitimacy judgments for the purpose of providing *financial resources*. Limiting the scope of our theorizing to *technology-based ventures* allowed for the identification of relevant new venture audiences. Researchers specifically distinguish technology-based venturing from mainstream entrepreneurship, by emphasizing its focus on science- and technology-driven innovation as the basis of new entrepreneurial opportunities (Beckman et al., 2012). Technology based ventures are new ventures that are developed to exploit a unique technical insight or breakthrough, and if successfully commercialized, they have the potential for significant disruption, growth and competitiveness (Hsu, 2008). Technology-based ventures generally emerge from settings rich in technical knowledge and depend on support from others with technical expertise (Fisher et al., 2016). Developing arguments specific to technology-based ventures enabled us to identify the specific audiences that evaluate such a venture and thus be clear in our theorizing. Other types of new ventures (e.g. social, family or corporate ventures) draw on resources and support from different types of audiences and hence the legitimacy judgments for such ventures may differ slightly.[1]

Our specific focus on audience groups that plan to provide new ventures with *active support* in the form of *financial resources* was informed by Suchman's (1995) observation that organizational legitimacy judgments are made for the purpose of providing active support or passive acquiescence: "Legitimacy may involve either affirmative backing for an organization or mere acceptance of the organization as necessary or inevitable based on some taken-for-granted cultural account" (Suchman, 1995: 582). In this study we don't account for mere taken-for-granted legitimacy judgments because such passive acquiescence does not provide a venture with the financial support it needs to survive and grow. New ventures need active support such as the provision of financial resources to survive and grow (Hanlon and Saunders, 2007; Zimmerman and Zeitz, 2002).[2]

1. New venture legitimation mechanisms

The prior literature on new venture legitimation reflects a wide array of mechanisms that may be employed by entrepreneurs to establish or manage the legitimacy of a new venture. Überbacher (2014) identified, coded and reviewed 60 articles, published between 1986 and 2012, that focused on new venture legitimacy. Using the same search process and criteria as Überbacher, we identified and coded an additional 10 articles covering issues of new venture legitimacy published between 2013 and 2015. From all 70 articles on new venture legitimation published between 1986 and 2015, we identified a variety of things that an entrepreneur might *do* to enhance and manage the legitimacy of a new venture; these include storytelling (e.g., Aldrich and Fiol, 1994; Garud et al., 2014; Lounsbury and Glynn, 2001; Martens et al., 2007), sensegiving (e.g., Aldrich and Fiol, 1994; Navis and Glynn, 2010; Wry et al., 2011) forging ties (e.g., Certo, 2003; Haveman et al., 2012; Higgins and Gulati, 2003, 2006; Stuart et al., 1999); attaining certification (e.g., Rao, 1994), engaging in symbolic actions (e.g., Starr and MacMillan, 1990; Zott and Huy, 2007), developing a business

[1] Although our examples and assertions are specific to technology-based ventures, the overarching theory is generalizable to other entrepreneurial settings. The specific audience categories and associated legitimacy judgment criteria may differ in other settings (e.g., for social ventures, family ventures or corporate ventures), yet the challenges and opportunities associated with multiple new venture audiences are applicable in those settings.

[2] Perceptions of legitimacy are a *necessary condition* for acquiring such active support from an external audience. However, legitimacy *may not be a sufficient condition* to ensure venture support – just because an external actor perceives a new venture as legitimate, does not necessarily mean that the actor will actively support the venture with financial resources. Other factors such as venture attractiveness, distinctiveness or appeal might also be considered when making support decisions (Chen et al., 2009; Martens et al., 2007; Mitteness et al., 2012; Navis and Glynn, 2011; van Werven et al., 2015).