

# **The role of collaboration opportunities in strategic legitimation behavior of new ventures**

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## **Résumé :**

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In this paper we explore the phenomenon of strategic legitimation of new ventures. We depart from two assumptions: firstly, that legitimacy is an intangible resource that affects organizations' opportunities to establish resource exchange relations with external actors; secondly, that new ventures suffering from liabilities of newness and smallness are in particular need for this resource. Given that the entry requirements vary for resource exchange relations of different nature, we focus on legitimacy conferred by a specific audience, namely potential technology collaborators of a new venture. Looking at legitimacy as a product of social judgment, we explore in search of particular strategies new ventures could implement in order to manage the social judgment. Assuming different judgmental processes underlying cognitive and sociopolitical types of legitimacy, we therefore assume two broad veins by which legitimacy is conferred. We adopted the inductive case study approach to collect and analyze interview data from founders and executives of thirty-five small and medium enterprises operating in telecommunication industry sector in France. We discover that, first, new ventures gradually expand available variety of choices of legitimation strategies as their resources and success record accumulate. Second, there is a discernable pattern of priority among these strategies of legitimation. Third, a number of company- and network-specific variables affect the availability and choice of a specific legitimation strategy.

**Mots-clés :** strategic legitimation, new ventures, R&D collaboration

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## **Introduction**

Selection of a resource exchange partner is not an easy process as it involves pragmatic deliberation over potential benefits and risks associated with such partnerships. The rationales involved in the partner selection process have been studied within a number of theoretical streams. According to Barringer and Harrison (2000), these theories can be arranged on the following continuum: theories emphasizing economic rationales (e.g. transaction cost economics, resource dependency theory and resource-based view theory) on one side and theories emphasizing behavioral rationales (e.g. learning theory and institutional theory) on the other side. Given the complexities of the real world situations, it can be assumed that in practice a decision over an exchange partner is determined by a combination of forces pushing a firm into or restraining it from the partnership. That is, not a mere one-dimensional deliberation over potential benefits and risks, but a multiplicity of forces determines the choice. For example, an organization can experience institutional pressure to engage into inter-organizational partnerships in pursuit of legitimacy, being at the same time reluctant to do so due to the risk of unintended knowledge leakage. In another possible scenario a firm can be attracted by another organization's valuable resources or competences, but refrain from the affiliation because of the potential partner's low status or imperfect reputation (Milanov & Shepherd, 2013; Podolny, 2010; Shipilov & Li, 2008). Therefore, organizations are often split by antitropic economic and social rationales. In such situations organizations often act in contradiction with their economic interests in pursuit of social benefits, such as legitimacy, status and reputation (Meyer and Rowan, 1977).

Economic and social factors that drive organizations' inducements and opportunities to engage into inter-organizational relations are well researched in academic literature. However, the process of partner selection from the selecting organization's perspective is yet not entirely understood. For example, extant literature does not provide understanding of how economic and social factors in interaction determine organizations' partner selection decisions. The knowledge about social factors in exchange partner selection is particularly limited and yet non-systematized. Nevertheless, the thread of literature on organizational social judgment provides some insight into this subject (e.g. Bitektine, 2011; Jensen & Roy,

2008). According to this literature, social judgment of an organization can have three forms: reputation, status and legitimacy. Jensen and Roy (2008) proposed a model by which firms in the process of exchange partner selection firstly filter candidates by their status and afterwards evaluate candidates' reputation to make a final decision. Bitektine (2011) presented another stepwise model of social judgment process which apart from status and reputation also integrates the concept of legitimacy and takes into account circumstances of decision making, such as availability of information, importance of the decision, degree of evaluator's self-interest and the degree of institutionalization. Notwithstanding long history of research on organizational social judgment (e.g. see Suchman, 1995), these studies are predominantly theoretical and investigate social factors in isolation from economic factors. Consequently, empirical research in organizational social judgment is very scant.

Meanwhile, the extant literature on economic factors in exchange partner selection is rich in theoretical and empirical findings. One of the key theories that explain the logic of exchange partner selection from economic perspective is the resource-based view. The theory generally states that organizations' performance and behavior, including networking aspect, is determined by resources and capabilities that are rare, sustainable, and difficult to imitate or substitute (Penrose, 1959). Within the resource-based view literature, the principle of duality of collaboration (Ahuja, 2000; Eisenhardt & Schoonhoven, 1996; Kogut et al, 1992; Shan et al, 1994) is the one that parsimoniously explains the logic of partnership formation using the notions of collaboration opportunities and collaboration inducements. According to the concept of duality of collaboration not only firms' inducements to collaborate with other organizations matter, but also the attractiveness of a firm to the potential partners (i.e. the collaboration opportunities, also referred to as linkage opportunities or linkage formation opportunities). Collaboration opportunities of a firm are determined by the firm's resource endowment (Ahuja, 2000). This implies that a firm poorly endowed with resources has lower opportunities to be selected as an exchange partner. However, the link between resource endowment and collaboration opportunities is contingent to the degree of innovativeness of a firm: that is, a firm that has introduced a radical innovation will increase its collaboration opportunities despite low resource endowment (Ahuja, 2000).

Conventional understanding of resource endowment includes commercial (e.g. assets), technological (e.g. patents and other intellectual property), and network (e.g. social capital) resources (Ahuja, 2000). Several studies have suggested that social factors, such as legitimacy, status and reputation, have significant impact on organizations' collaboration opportunities, even though the latter term has never been explicitly used together with former

three. For example, legitimacy is often considered as a necessary condition for any organization to join resource exchange relations with external actors (Starr & McMillan, 1990). Organizations are known to gain legitimacy in order to reinvest it into new inter-organizational relations (Wiewel & Hunter, 1985). Status also plays an important role in partnership formation as organizations of high social status tend to engage into partnerships with organizations of the same level (Shipilov & Li, 2008). Therefore low status actors are forced to overcome the low status liability by engaging, for example, into peripheral networks with other low status actors in order to gain visibility and attention of the high status actors (Baum, Shipilov, and Rowley, 2003). Organizational reputation has been researched and has been proven to be of crucial importance in partnership formation. Reputation is an important part of organizational identity that is based on organizations' past performance and therefore is used by external actors as a basis for evaluation of a focal organization's predictability and trustworthiness (Ring & Van de Ven, 1994; Maitland, Bryson and Van de Ven, 1985; Gulati, 1995; Nooteboom et al, 1997). The three social factors, legitimacy, status and reputation are often approached as intangible organizational resources (e.g. Amit & Schoemaker, 1993).

Organizational research has revealed a paradox that to get access to resources through network an organization has to possess resources (Ahuja, 2000). The same applies to legitimacy and other social factors – legitimacy is often based on linkages with legitimate, well reputed or high status actors, but to create these linkages a firm needs to be legitimate (Rao, 1994). Both problems are particularly acute for young and small organizations that suffer from liability of newness and smallness. Young companies encounter obstacles in their endeavors to engage in resource exchange, such as with customers, suppliers, employees (Baum & Oliver, 1995; Wiewel & Hunter, 1985; Williamson, 2000). The liabilities of smallness and newness imply shortage of all kinds of resources – tangible and intangible, economic and social. Such organizations are at the early stage of resource accumulation, have little or no record of accomplishments and therefore their reputation is nascent or neutral (Stinchcombe, 1965), their social status is intrinsically (Bitektine, 2011) low and legitimacy is not yet earned (Bitektine, 2011).

The role of new ventures in economic growth (Schumpeter, 1934; Schmitz, 1989) and technological change (Sorescu, Chandy, and Prabhu, 2003) is hard to overestimate. Therefore the research questions aiming to investigate how new ventures extricate from the low resource trap has received generous attention in organizational research. There is literature on the side of economic factors that takes strategic perspective to explain how new ventures grow and co-opt resources (e.g. Starr & MacMillan, 1990). There is also some literature that explains how

new ventures manage their reputation (e.g. Rao, 1994), gain legitimacy (e.g. Zimmerman & Zeitz, 2002) and work on their social status (Shipilov & Li, 2008). Nevertheless, the thread of research that combines strategic approach with the social judgment approach is yet emerging. A thread of research in which strategic and social judgment approaches are converging is represented by the strategic legitimation literature.

The strategic legitimation is an approach to legitimation that involves organizations' purposive actions in pursuit of social acceptance (Tornikoski & Newbert, 2007). Strategic legitimation is sometimes contrasted with passive legitimation which involves organizations' mere conformance with institutional norms or industry standards (Rao, Chandy & Prabhu, 2008), while some other studies classify conformance as one of the possible legitimation strategies (e.g. Zimmerman & Zeitz, 2002). Organizations are known to conduct deliberate strategic behavior in pursuit of legitimacy (Suchman, 1995; Zimmerman & Zeitz, 2002; Schlenker, 1980; Delmar & Shane, 2004). This strategic behavior involves symbolic actions that intend to manage audiences' perceptions of the focal firm (Ashforth & Gibbs, 1990; Suchman, 1995). Tornikoski and Newbert (2007) suggest three ways in which young firms attain strategic legitimacy: impression management (acting "as if"), resource combination to produce tangible outputs (i.e. products and services) and networking. Zimmerman and Zeitz (2002) propose four distinct strategies new ventures can adopt in pursue of legitimacy: conformance, selection, manipulation and creation. Collective action, rhetorical influence (persuasion) and discursive means (story telling) have also been researched as means of legitimation (Golant & Sillince, 2007; Lawrence, 1999; Marguire et al, 2004; Sine, David and Mitsuhashi, 2007; Suddaby & Greenwood, 2005).

The concept of strategic legitimation still represents a nascent field of research and reveals a number of significant limitations. For example, despite consensus in the literature that definition of an organization's audience is important, scant attention has been paid to audience-specific contextualization. However, organizations are evaluated by multiple audiences at a time, but not all the audiences are equally important for the focal organizations (Clemens & Cook, 1999; Elsbach & Sutton, 1992; Meyer & Scott, 1983; Oliver, 1991; Suchman, 1995). Notwithstanding this fact, the strategic legitimation literature does not consider peculiarities of analytical processes underlying social judgment of different audiences'. Meanwhile there are vocal calls for more intensive integration of the concepts of organizational strategy and social judgment, particularly the concept of legitimacy (Suddaby, Seidl & Lê, 2013).

Another limitation of the strategic legitimation literature refers to apparent disregard of the role of collaboration opportunities in the process of strategic legitimation. Even though the literature contains a shared agreement that organizations seek legitimacy in order to facilitate formation of linkages with resource exchange partners, the concepts of linkage formation opportunities and legitimacy have never been investigated together in one study. Neither, strategic legitimation literature touches upon the role of economic factors, such as commercial, technological and social capitals and innovativeness, even though organizational legitimacy scholars generally agree that the ultimate goal of strategic legitimation is the access to resources. Given that organizations, including new ventures, may vary considerably in terms of network opportunities and resource endowment, we view the research gaps mentioned above as a significant limitation in our understanding of the process of strategic legitimation. Therefore, the objective of this study is to explore the nature of relationship between collaboration opportunities and strategic legitimation behavior in the context of new technological ventures. In this study we ask the following research questions: what is the role of collaboration opportunities and resource endowment in strategic legitimation? Does lack of collaboration opportunities induce strategic legitimation behavior? Does lack of collaboration opportunities impose any constraints on strategic legitimation behavior? Do companies adjust their strategic legitimation behavior along with their collaboration opportunities increasing?

In this paper we build on the concept of strategic legitimation, however we as well integrate the concepts of organizational status and reputation as important mechanisms of social judgment that are tightly intertwined with each other. Moreover, we take an approach of Rao (1994) who views reputation as a product of legitimation. In the subsequent chapter we define the key concept of legitimacy, present the relevant taxonomy of this concept and discuss the conceptual demarcation between legitimacy, status and reputation.

## **1. Theoretical background**

Organizational legitimacy is commonly understood as a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). However, despite that legitimacy only “exists in the eye of the beholder” (Zimmerman & Zeitz, 2002, p.416), it is nevertheless considered to be objective due to its generalized nature and is often approached in academic literature as a strategic resource that can be gained and re-invested. Thus, young organizations gain legitimacy by establishing partnerships with

better established larger companies and later "reinvest" it into new inter-organizational relationships (Wiewel & Hunter, 1985). Therefore, legitimacy represents a unique kind of resource which outstands in the row of organizational resources, such as commercial, technological and network, due to its inter-subjective nature. Whereas, legitimation is a process of "social construction of legitimacy" (Bitektine, 2001, p.152) that can be conducted by organizations deliberately as well as be driven by social environment with focal organization holding a passive role in the process.

The large body of research on organizational legitimacy can be clustered around three axial questions raised by scholars: *what* is organizational legitimacy, *why* legitimacy matters and *how* legitimacy is gained by organization. The research on organizational legitimacy asking 'what' question is generally aiming to develop comprehensive taxonomies of the phenomenon and to provide clear conceptual demarcation between organizational legitimacy and adjacent phenomena, such as reputation and status.

Latent nature of the concept of organizational legitimacy and its intensive application to diverse contexts ranging from social networks, marketing and political science sometimes leads to conceptual confusion, particularly with the notions of organizational reputation and organizational status. The distinction between the three concepts lies primarily in the cognitive dimension (Bitektine, 2011). In this paper we rely on the synthesis of literature provide by Bitektine (2011) and we approach cognitive legitimacy, status, sociopolitical legitimacy and reputation as distinct forms of social judgment with different analytical processes underlying evaluation. Social judgment is defined as "an evaluator's decision or opinion about the social properties of an organization" (Bitektine, 2011, p.152). The logic of social judgment is consistent with the principle of cognitive economy assuming that evaluating entities are inclined to minimize their cognitive efforts where possible. The principle of cognitive economy explains patterns of cognitive shortcuts, such as groupthink and social categorization, generally observed in evaluation processes.

Legitimacy, being a very complex and context-specific concept is often defined and classified differently. Three broad types of organizational legitimacy were summarized by Suchman (1995) and later adopted and modified by other scholars are as follows: cognitive, moral and pragmatic legitimacy. Pragmatic legitimacy is based on calculations of anticipated benefits of a firm's immediate audience (Dowling & Pfeffer, 1975; Wood, 1991). However, these benefits can have materialistic exchange-based form (Dowling & Pfeffer, 1975), as well as socially-constructed form, known as influence legitimacy (Suchman, 1995). The source of

influence legitimacy is nested in the belief that a focal firm's responsiveness to the audience's superordinate goals (see Sherif et al, 1961) brings collective benefit to the audience (Meyer & Rowan, 1991). Therefore the demarcation between these times of legitimacy is not always obvious.

Moral legitimacy involves normative evaluation of a focal firm's actions (procedural legitimacy), outputs of the firm's actions (consequential legitimacy), organizational structure (structural legitimacy), and even the firm's organizational leaders (personal legitimacy) (Scott, 1977; Scott & Meyer, 1991; Meyer & Rowan, 1991; Zucker, 1991). In general, moral legitimacy is reflected in the audience's acceptance of a focal firm as morally right, that is, promoting societal welfare (Suchman, 1995). Although, it is often difficult to differentiate purely altruistic morality-based considerations from self-interest as they are often fused (Suchman, 1995). Therefore in order to avoid the problem of blurred demarcation between moral and pragmatic legitimacy scholars often adopt the notion of sociopolitical legitimacy which encompasses both of the terms and introduce the notion of self-benefit that can be diffuse or concentrated (e.g. Bonardi, Hillman and Keim, 2005). Where concentrated benefit means that focal organization's activity has immediate impact of on the audience, while diffuse benefit assumes postponed or indirect impact.

Legitimacy can concern technical and managerial aspects of organizations' activities (Ruef & Scott, 1998), where technical legitimacy is vaguely related to organizations' product or service quality and managerial legitimacy reflects organization's ability to perform efficiently. Technical legitimacy assumes organizations' ability to perform due to possession of resources and capabilities, whereas managerial legitimacy is related to the capacity of management teams to organize in order to exploit these resources and capabilities optimally and achieve desirable result. Organizations can be high in technical legitimacy and low on managerial, as well as vice versa. Importantly, managerial legitimacy is known to substitute for the lack of the technical legitimacy.

Concerning the question 'why' legitimacy matters there appears to be a consensus in academic literature. The end reason for which legitimacy is obtained by companies is the companies' is commonly considered to be survival (Murphy, Trailer & Hill, 1966). However, the direct effects that legitimacy has on organizations' can be different. The role of legitimacy in firms' survival is commonly linked either to the firms' ability to establish resource exchange relationships with other actors, or to the firms' dependence on regulators. There is a number of studies that link legitimacy directly to company performance indicators, such as market capitalization (e.g. Rao et al, 2008) or growth (e.g. Zimmerman and Zeitz, 2002),

however interpretation of the effect is still linked to the organizations' ability to access resources via exchange partners.

As it was stated earlier, organizations are evaluated by multiple audiences at a time, but not all the audiences are equally important for the focal organizations (Clemens & Cook, 1999; Elsbach & Sutton, 1992; Meyer & Scott, 1983; Oliver, 1991; Suchman, 1995). Three broad categories of audiences can be discerned in the extant literature on the organizational legitimacy: general public, government regulators, and current and potential resource exchange partners. The empirical studies on legitimacy with general public usually employ media legitimacy as an approximated indicator of general public's approval (e.g. Bansal & Clelland, 2004; Deephouse, 1996; Hybels, 1994; Lamertz & Baum, 1998; Pollock & Rindova, 2003). Empirical research on the legitimacy with regulators relies on measurements approximated by account of voluntary and compulsory certifications and organizations' compliance with industry standards. Coercive power of regulators through sanctioning is considered to be the main driving force of compliance (e.g. Baum & Oliver, 1991; Deephouse, 1996; Pfeffer & Salancik, 1978; Rao, 2004; Singh et al, 1986). The literature on legitimacy with resource exchange partners deals with organizations' acceptance by influential groups of stakeholders, such as investors (Certo, 2003; Rao et al, 2001), advocacy groups (Rao, 1998; Rao, Morrill & Zald, 2000), organization's insiders (Kostova & Zaheer, 1999) and others.

Nevertheless, there is little context differentiation in the empirical research. That is, the extant research does not make explicit distinction between new organizations' legitimation in the eyes of investors or in the eyes of potential technology collaborators. While some scholars suggest that definition and operationalization of organizational legitimacy can and should vary depending on the purpose of a study, few empirical studies with context-specific definition of legitimacy are observed in the literature.

The research on the general question on 'how' organizations gain legitimacy can be classified into two threads. The first thread is the research that focuses on the mimetic isomorphism phenomenon and perceives organizations' passive conformance to institutional norms as the main source of legitimation. The second thread is the research that focuses on organizations' purposive actions in pursue of legitimacy. Thus, the literature has paid attention to impression management (e.g. Tornikiski and Newbert, 2007), networking (e.g. Dowling & Pfeffer, 1975), collective action (e.g. Sine, David & Mitsuhashi, 2007; Suddaby & Greenwood, 2005) and

discursive means (e.g. Suddaby and Greenwood, 2005) as the strategies organizations implement in pursuit of legitimacy.

Nevertheless, the extant literature on legitimacy, particularly the thread of research dealing with strategic deliberate legitimation, is rich in theorizing, but still poor in empirical findings (Rao et al, 2008). Thus, empirical research on the concept of legitimacy largely relies on one-dimensional generic measures of the concept (Deeds et al, 2004). Moreover, despite general agreement on the importance of the type of an actor involved evaluation discussion of social judgment in exchange partner selection is still very general. Despite general consensus that legitimacy represents a special kind of organizational resource, no attention has been paid in academic literature to the interaction of legitimacy with other organizational resources. We addressed this gap by conducting a qualitative study aiming to explore the nature of relation between collaboration opportunities and strategic legitimation behavior within the context of new technological ventures. The next chapter concisely describes the methodological approach adopted in this study.

## **2. Methodology**

This study is aiming to investigate the phenomenon (i.e. strategic legitimation) that is not completely understood and the interrelationships (i.e. between strategic legitimation and collaboration opportunities) that are unclear. This made the choice of a qualitative research approach the most appropriate (Carson & Gilmore, 2000; Hill & Wright, 2001; Parkhe, 1993; Riege, 2003). Since the theoretical area of this study is underdeveloped, we consider inductive case study-based approach as the most suitable methodology (Eisenhardt, 1989; Santos & Eisenhardt, 2005). Inductive multiple case study approach involves a process of continuous and iterative comparison of each subsequent case to previous ones (Eisenhardt, 1989). Each case serves to test the theoretical insights generated by the analysis of previous cases, to refine the theoretical insights and to modify the interview protocol (Yin, 1994).

We conducted interviews with founders and executives of thirty-five young technological ventures operating in telecommunication industry sector in France. Within each case company we gained access to the most informed person who was directly involved in making strategic decisions the venture's development since its establishment till the present time. In the vast majority of cases these were (co-)founders of the ventures who have also been running the companies till the present day. The interviewing process was carried in semi-structured in-

depth format with each interview lasting for 30-120 minutes (M = 50 minutes). Since organizations are evaluated as well as evaluate other organizations, we adopted dual approach to structuring the interviewing process – we investigate how a new venture selects partners for technological collaboration in case if any choice is available, while we also inquire what measures an organization undertakes to maximize its chances to enter a collaborative network or bilateral collaboration. We also inquire what factors (in informant's opinion) determined admission to collaboration. Preliminarily we also determine the level of inducement of an organization to establish collaborative relations with external actors as well as perceived difficulty of such endeavor.

All the interviews were tape-recorded and transcribed in verbatim format. Themes in the data were identified through comparison and contrasting interviewees' statements within and afterwards across cases (Ryan & Bernard, 2003). We adopted Glasserian school of thought (e.g. Strauss and Corbin, 1990) to structure verbatims through carefully encoding of every relevant excerpt of text. Qualitative data analysis software Atlas.ti was used for coding and patterning of the data.

### **3. Findings and discussion**

Despite limited variation in size, age, industry and principal business activities across new ventures in our sample, we discovered large, almost polarized, variation in collaboration opportunities. Many organizations distinctly fell into the category of collaboration seekers who, with varying degrees of success, were constantly looking for opportunities to enter a technological collaboration. While another distinct group of new ventures we categorized as collaboration receivers, who were receiving more invitations to join collaborative projects than what they could handle due to limited attentional resources. Collaboration seekers, therefore, were more concerned with maximization of their collaboration opportunities and, being unable to increase their organizational resources in a short time span, were more induced to engage into various strategic legitimation activities. While collaboration receivers were regularly, sometimes even daily, involved in evaluation of potential collaborators and therefore were very skillful in social judgment. Interestingly, the logic of social judgment assumed by collaboration seekers did not differ significantly from the logic implemented by collaboration receivers.

We encountered two challenges during the empirical phase of this research. Firstly, a challenge was to segregate the role of institutional logic from the economic logic and mere visibility in the “strategizing-evaluating” dynamics. Qualitative research design and direct access to the organizations’ founders and executives allowed us to attain the true meanings of the organizations’ actions. We largely relied on critical incident technique and *ceteris paribus* preference questions (Boutilier et al, 2004) during interviews in order to assess the perceived significance of social and economic factors in the organizations’ strategic legitimation endeavors and evaluation of potential partners.

Secondly, presence of advanced public innovation support system on regional, national and European level appeared to be an important contextual peculiarity that significantly shaped the course of interview discussions in vast majority of cases. Most of technological collaborative projects in which new ventures were involved were organized as publicly-subsidized projects within regional competitiveness clusters (*pôle de compétitivité*), that constitute the most important part of the French national innovation system and play crucial role in R&D collaboration of French enterprises. Vast majority of interviewed organizations were members of one or several clusters. Being aware of this contextual limitation that could undermine generalizability of our findings, we controlled for this effect at the stage of interviewing as well as at the stage of data analysis.

We found that generally strategic legitimation behavior is more common for new ventures with little resource endowment. Despite that variation in commercial and technological resource endowment is limited for new ventures, variation in initial network resources and possession of a radical or unique innovation is still large. Resource endowment variation in our sample in many of cases, although not exclusively, is due to different founding conditions. The founding conditions that are generally associated with larger resource endowment include foundation as a corporate venture (i.e. corporate spin-off), foundation as a university venture (i.e. university spin-off) and foundation by a multiple entrepreneur.

Accumulation of resources, including network resources, is generally accompanied by decline in new ventures’ inducement to engage into strategic legitimation and at a certain point of resource saturation legitimization activity drops to zero for new ventures. This reveals instrumental and targeted nature of new ventures’ strategic legitimization activity. This finding is in line with a view of organizational legitimacy as a dichotomous variable (e.g. Suchman, 1995). That is, at some point a new venture passes the threshold of social acceptance as a legitimate collaborator and does not experience a need to gain it any more,

unless it loses legitimacy or expands its target audience by expanding geography of operations.

However, we have also identified a significant factor that interferes into the relation between resource endowment and strategic legitimation activity. We discovered a pattern that suggests that limited cognitive and attentional resources can have constraining effect on new ventures' strategic legitimation behavior. This implies that new ventures might not conduct any strategic legitimation activities even despite urgent shortage of this resource in cases when the organization's team's attention is absorbed by more vital business challenges or opportunities. The shortage of cognitive and attentional resource is particularly common for new ventures at the stage of rapid growth or business transformation. This finding is in line with the established socio-psychological postulate that diminished attentional and cognitive resources trigger revision of the priority levels of objectives and activities (see e.g. Macrae, Bodenhausen & Milne, 1995). Therefore we put forward the following two propositions related to the antecedents of new ventures' strategic legitimation behavior:

**Proposition 1a.** New ventures are more induced to pursue strategic legitimation when collaboration opportunities are low.

**Proposition 1b.** New ventures are more induced to pursue strategic legitimation when cognitive and attentional resources are high.

We have discovered that the particular strategies of legitimization applied by new ventures in order to maximize their collaboration opportunities fall into four distinct categories. Moreover, we found that new ventures clearly prioritize among these four types of strategies, that is, organizations assume different effectiveness of these strategies and are willing to adopt the most effective ones. However, their available repertoire of legitimation strategies is limited by the burden of low resource endowment and short record of accomplishments. These strategies are the following in ascending order of priority: need-based discursive strategy, peripheral networking strategy, strategy based on high-status linkages and the strategy based on collaborative accomplishment.

The lowest priority strategy is based on organizations' institutional embeddedness. By emphasizing community adherence and commitment to the superordinate goal of collaborative society firms with low collaboration opportunities rely on an assumption of "social debt" held by high status organizations. That is, purposive overt manifestation of an inducement to collaborate via active civil involvement and frequent interaction with public

institutions is already a legitimation strategy *per se*, actively practiced by low collaboration opportunities ventures. New ventures adopting this approach are usually aiming at hetero-status collaborative relationships by emphasizing their low status as a sufficient condition to legitimate them as collaborators. While their conformance with the collaborative society norm (manifested through their institutional embeddedness) serves as a necessary condition. However, this way of legitimation is essentially need-based and therefore represents the lowest priority strategy common for new ventures at the very early stage of their development, when other ways of legitimation are not available. We label this approach of new ventures' to strategic legitimation as '*need-based strategy*'.

The importance of the social debt phenomenon is recognized in the social contracting literature (e.g. Starr and MacMillan, 1990), however its normative aspect is unfairly overlooked. As any other social norm, an expectation of social debt held by high-status actors goes through stages of institutionalization. That is, the degree of social acceptance of the norm will vary across institutional contexts as well as within institutional contexts across actors. This highlights an important role of public authorities on all levels acting as institutional entrepreneurs promoting the norms of collaboration, intermediating between potential collaborators and emphasizing large enterprises' civil responsibility. An example of public authorities' efforts to stimulate large enterprises to involve new ventures into technological collaboration is the official policy that requires at least one small enterprise be a member of a collaborative project for the project to be eligible for subsidy. Apart from that cluster managers organize regular events that gather representatives of large and small enterprises where large enterprises disclose their current R&D projects as well as plans for future projects and suggest the domains where small companies' involvement would be welcomed.

Therefore the data reveals that the mental dichotomy "*donor - recipient*" is often associated with hetero-status technological collaborations and this leads to perception of new ventures and large incumbents as entities holding different social roles. According to the role theory in sociology (e.g. Biddle, 1986; Coser, 1975; Merton, 1968) social roles determine individuals' behaviors due to role-specific norms, expectations and sanctions that can take form of punishment as well as reward. However, the expectations connected to specific social roles are contingent to specific social situations. Integration of the elements of social role theory into our analysis aided interpretation of the discovered patterns. Thus, we interpret the efforts of public authorities to integrate new ventures into large incumbents' R&D activities as a process of institutionalization of large incumbents' role as donors in respect to new ventures in

the situation of technological collaboration. This process of institutionalization is conducted by the authorities, for example, via subsidy-based reward mechanism. Overall, this discovered pattern confirms our ex ante proposition that analysis of the process of exchange partner selection via social judgment is incomplete without integration of economic factors and situation-specific expectations.

New ventures' disappointment with the behavior of high-status actors and absence of the precedents of hetero-status technological collaborations (the case recurrently observed in the data) do not annihilate, but confirm the institution of '*social debt*', as unfulfilled expectation does not abort the expectation itself. Conclusion on the effectiveness of this strategy is unfeasible in the frames of this study, however it appears logical and consistent with the extant literature to suggest that the effectiveness will depend on the extent to which the norm of 'social debt' is shared by the society. In other words, the degree of the norm's institutionalization will determine the level of institutional pressure imposed on high-status actors. Therefore, we put the following two propositions forward:

**Proposition 2.** New ventures rely on institutional embeddedness as a means of legitimation in absence of record of successful collaborations, high-status or peripheral affiliations.

The following two strategies that are the easiest to obtain are both relying on linkage legitimacy. However the data suggest that peripheral linkage with low status actors, even if the linkage is collaborative, is perceived as less effective than affiliation with a high-status customer or collaborative relationship with a high-status public university or research laboratory. Collaborative relationship with a high status organization is perceived as the most effective legitimating factor. Therefore we make the following propositions:

**Proposition 3.** New ventures rely on signaling their low status collaborative relations in the absence of high-status affiliations and record of successful collaborative accomplishments in pursuit of legitimacy.

**Proposition 4.** New ventures rely on signaling their high-status affiliations in absence of record of successful collaborative accomplishments in pursuit of legitimacy.

As being a legitimate collaborator assumes possession of specific properties, experience with collaboration is valued higher than anything else. Therefore, we propose:

**Proposition 5.** New ventures rely on signaling their collaborative achievements in pursuit of legitimacy.

Further, we discovered that the density of a network in which a new venture is striving to gain legitimacy affects organizations' inducement to engage into strategic legitimization activities and determines the choice of a legitimization strategy. This is explained by the fact that information diffuses more easily through networks of higher degree of closure and therefore such conditions render costly efforts of strategic legitimization unnecessary. In such conditions new ventures pass the threshold of social acceptance earlier and/or rely on lower priority strategies of legitimization.

For example, collaborative partnership of a new venture A with an organization B of low status but good reputation is more likely to be a sufficient endorsement of collaborative legitimacy in a dense network where scrutiny of organization B is easy. While in sparser networks low status linkages have weaker or even negative endorsing power since their meaning is perceived as ambiguous or even negative due to impossibility to attain complete information. The same logic applies to past collaborative accomplishments of a new venture – they appear more visible in a dense network and therefore a new venture under such circumstances does not need to apply extra efforts to signal these accomplishments. This finding is perfectly in line with the cognitive economy principle (Rosch, 1978) and generally supports the social judgment literature (Jensen & Roy, 2008; Bitektine, 2011) while in the same time introduces a new context-focused approach to it. Therefore, we propose:

**Proposition 6.** New ventures are more induced to pursue strategic legitimization when the density of the targeted audience's network is low.

**Proposition 7.** New ventures are more inclined to pursue low-priority legitimization strategies rather than high-priority when the density of the targeted audience's network is low.

## 4. Conclusions

In this paper we have explored the phenomenon of new ventures' strategic legitimization. We specifically focus on legitimacy conferred by new ventures' potential technological collaborators. Analysis of qualitative data suggests that the theoretical lens of institutional theory does not reveal the full picture of the mechanisms of social judgment in the context of exchange partner selection. Our findings point on the importance to analyze social factors (e.g. institutional pressures) in interaction with economic factors (e.g. innovativeness and tangible resources) in order to understand the rationales of partner selection. We have also found that the notions of norms and expectations should be treated not only as specific to

certain institutional environments, but also as specific to certain social roles. These general findings have important implications to the strategies that new ventures implement in order to increase their opportunity to be selected as exchange partners. Thus, new ventures can benefit from the social role differentiation if they manage to create an appropriate organizational identity. We have also discovered that along the process of growth and resource accumulation new ventures not only improve their reputation and legitimate themselves in the eyes of various audiences, but also change their strategies of legitimation. We interpret this pattern by the role of economic factors in social judgment that has been so far overlooked in academic literature. Managerially these findings are potentially beneficial for new ventures as they can be integrated into impression management and public communication practices.

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