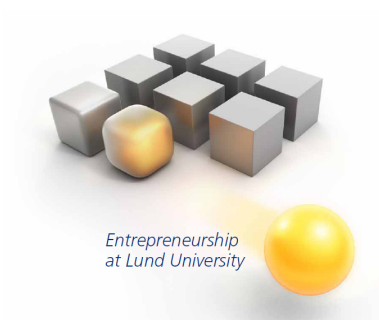**Legitimacy and Liability of Newness in New Venture Creation**

Master Program in Entrepreneurship: New Venture Creation
Theoretical Reflection: ENTN09
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Abstract

Reflecting on the theoretical as well as the practical learning outcomes of the Masters Program in Entrepreneurship: New Venture Creation, the following paper aims to examine the concepts of liabilities of newness and legitimacy and their bearing on emerging entrepreneurs as well as experienced entrepreneur crossing over to new fields of business. The paper will discuss some of the findings in entrepreneurship theories, while referring to studies in social sciences to contrast those theories and to add dimension to personal experiences relating to the topic of the essay. The main focus of the paper is to shift away from the macro conditions of firm creation and examine categories of human behaviour in order to find the intersecting point between liability of newness and legitimacy. As a conclusion, some possible remedies and strategies to alleviate liabilities of newness will be discussed.

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1. Introduction

That most start-ups do not see the light of the day after their first year of operation is a more-or-less inescapable notion for most people working with creating new firms. While there is an abundance of ad-hoc commentaries on the whys and wherefores of a start-up's demise, contemporary research in venture creation and entrepreneurship has empirically identified the threats faced by the new venture. During the Masters Programme in Entrepreneurship, several challenges to the survival of the young firm were cited throughout the lectures as well as the literature, including lack of entrepreneurial experience, shortage of funds, inability to attract external finance and liability of newness.

Liability of newness proved to be an interesting topic to for this theoretical reflection for a number of reasons. To begin with, it has it is own set of dynamics that may be linked to other challenges faced by the nascent firm, whether the venture is developed under the auspices of the Masters Program or elsewhere. Moreover, analysing newness raises a number of questions whereupon the answers can provide hands-on and concrete advice for further entrepreneurial endeavours.

At what point do liability of newness and legitimacy diverge and what point do they intersect? Is liability of newness merely a bi-product of information opacity? Can entrepreneurs overcome newness merely through disseminating information about the firm's undertakings (what in general terms is referred to as "marketing")? How important is it to comprehend the psychosocial and cultural patterns that govern the behaviour of the entrepreneur as well as the perception of her/his performance? Is gaining legitimacy and overcoming newness affected by the society in which the entrepreneur resides or the business culture he/she intends to thrive in?

Seeking an answer to these questions provides the guiding strategy and intellectual capital for this reflective paper, hence emphasizing the importance of charting the cultural and social landscape while creating a company. This particular aspect of the entrepreneurial exploit, the quest for legitimacy and overcoming newness and the

social barriers to that ends, bears strong personal ramifications for the author of this paper, for whom legitimacy has been a challenge preceding all other obstacles met on the way to achieving goals. Strikingly though, many entrepreneurs harbour the belief that perseverance and a strong will shall ultimately prevail. As admirable and necessary traits these may be, every force is always met by a counterforce, a fact that is every bit applicable to the entrepreneurial spirit and drive. Therefore, for the benefit of future enterprises, it is imperative to take a critical look of one's own action and reflect on the forces opposing the fulfillment of one's objectives.

The majority of the articles assessed for this analysis focus on managerial and structural aspects of the new firm in order to analyze legitimacy and liability of newness. However, new venture creation, like any other act of creation, is unequivocally a human endeavour. Therefore, the social dynamics surrounding the entrepreneur and the drama of the creative pursuit (sometime referred to as "the personal traits of the entrepreneur") are important tools for visualizing and analyzing the challenges of legitimacy and liability of newness. Moreover, that "liability of newness" was first coined by a sociologist is an indicative of how important it is to acquire an understanding of the social dynamics, regardless of how rudimentary it may be.

The aim of the paper, however, is not to question or arraign current findings on challenges to the survival of the new venture. Nor does a full analysis of social and cultural interactions fit in the scope of this theoretical reflection. Hence, the purpose of this reflection is to develop an intellectual framework for tackling legitimacy as well as arriving at some suggestion as to how to alleviate the liability of newness.

1.2 Purpose

The intent of the paper is to analyse the ramification of legitimacy and liability of newness and discern ways of alleviating these factors as a hindrance to growth. Further, the paper intends to look at the issue from a critical standpoint by asking a number of key questions.

1.3 Key Questions

Is it possible for a new venture, given its short and tentative age-performance relation, to gain legitimacy vis-à-vis stakeholders, clients and broader public?

Are legitimacy and liability of newness truly "natural" hurdles, ingrained in the essence of venture creation, that the entrepreneur must reckon with while developing a business? And if so, are there any tools or learned attribute that can help the entrepreneur circumnavigate these structural hinders?

2.   Methodology

The method used in this paper adheres to auto-ethnography: the author of this paper will put his own personal experiences as the core the analysis, while relating them to facts and the literature covered for this paper. Auto-ethnography uses subjective experience as the foundation for reflection and analysis in order to add personal depth to factual observation and theoretical analysis. At times, the text may be reminiscent of what Lee Gutkind refers to as "creative non-fiction" (quoted in Caulley, 2008), a form of creative writing that embeds factual findings, thus creating a narrative out of bits and pieces of extracted facts. Even though this author has no intention of producing a novelistic text normally ascribed to creative non-fiction, auto-ethnography is a useful method to illustrate what is not immediately visible to the reader and to make characteristics of a particular culture (business, scientific or social) appealing to the curious bystander. By transforming the writer's personal experience into a bridge between the reader and academic research, the auto-ethnographer opens up for the possibility of the readers own reflections and not merely a display of the writer's opinion (Ellis, et. al., 2011). Add to that this author's background in the creative fields and his use of creative tools to analyze urgent issues for broader audiences – a sort of creative researcher.

Having stated that, empirical data is equally important to the personal narrative as it is to objective research, a fact emphasized on in most discussions and papers on

auto-ethnographic methods. The auto-ethnographic text is hereby ascertained and underlined by analysis of research literature, notes, journals (in this case the curriculum-based Learning Journals) as well as past writings (re: course assignments). An auto-ethnographic text hinges on what is referred to as "epiphanies" (Ellis, et. al., 2011), i.e. remembered fraction of events that are deemed by the writer to have a significant impact on the course of the business development. These epiphanies are the instances when the author was forced into analyzing his own actions in order to devise a better method for proceeding with venture creation.

The "fallacies of memory" (Ellis, et. al., 2011), i.e. the fading of mnemonics that invariably occur over time, is alleviated by evoking journal writing, records of business activities as well as complimentary recollections of other business development team members.

Thus, the methods of auto-ethnography for this paper are two-fold:

During the entrepreneurship program, the author was involved in developing a new venture that was initiated and owned by a fellow student. The paper's case study will therefore concentrate on the process of developing *Aquafeed Africa*, a start-up aspiring to create a bridge between the African aquaculture industries and their European counterparts. The analysis will map out the trajectory of the venture, or rather the portion of which the author was a part of, highlighting the key elements in the literature to address the questions of liability of newness and legitimacy, as well as the challenges that company may continue to face.

Secondly, the author intends to reflect on this subject matter by evoking his own quest for legitimacy as a transplanted person on multiple occasions, as well as his journey as an entrepreneur in an opaque field such as the media industry (where information is held back intentionally to hamper action of the outside actors). In this respect, the cross-cultural approach and a desire to understand social mechanism becomes an important element for this analysis. Even though the author has no

formal training in social sciences, the auto-ethnographic nature justifies seeking out explanations using the prism of cultural interaction.

In that respect, the reader may find the findings and the author's assessment too generalised and lacking tangible observational data. Yet the goal here is generizability and not generalization. Generizablity is a single narrative extrapolated from a (number of) respondent(s) and is an essential tool of auto-ethnographer's (Ellis, et. al., 2011), since it moves the issue from the author to the readers and helps the latter relate their own experience to the text presented by the author.

3.   Theoretical Overview

3.1 Summary of Theoretical Analysis

In order to find a theoretical framework for the reflective text of the essay, a number of research papers and books are summarized in this section to give an overview of the theoretical aspects of the paper's topic. The purpose of the theoretical overview is to seek out the roots of terminology, clarify the semantics and the use of the terms before attempting to apply them to the practice of venture creation. The findings and assessments will serve as benchmarks as well as a template for gauging the author's narrative of venture creation.

3.2 Summary of the Literature

 "Liability of newness", as a concept, was first introduced by the sociologist Arthur L. Stinchcombe. In his 1965 essay *Social Structure and Organisation*, Stinchcombe sets out to examine the effect of external and social factors on the inner life of an organisation. For this purpose, Stinchcombe examines how social structures inspire and initiate creation of new organisation by its members and constituents. Stinchcombe goes on to analyse the correlation between the age of the organisation and it form and performance. It is important to that note that, for Stinchcombe, liability of newness as age-performance correlative encompasses more than lack of legitimacy vis-à-vis external actors. Newness, in the strict sense of the word, entails all aspects of an organisation's age such as its relation to a role model acquisition of

knowledge and experience (Stinchcombe, A L. 1965. P- 148) as well as negotiating and working out the inner mechanisms of the organisation. The organisation's degree of accomplishment in these categories will ensure its chances of survival.

In *Managing Legitimacy: Strategic and Institutional Approaches*, Mark C. Suchman (1995) tackles the diverse literature on organizational legitimacy in order to map out what he considered to be a "balkanized" debate of legitimacy. Suchman stipulates that, despite the frequent uses of the term, there is a lack of clear definition of "legitimacy". According to Suchman, recent studies of legitimacy divide the concept into two groups: a strategic and an institutional tradition. The former depicts legitimacy as an operational process where legitimacy is gained by deploying evocative symbols that is employed when organisations pursue their goals (Suchman, 1995. P. 572). Institutional tradition, on the other hand, views legitimacy as set of constitutive beliefs, i.e. a way of looking at an organisation through a common set of beliefs and shared values. Suchman's goal is to propose a synthetic as well as an integrative approach, arguing for the need to understand social and cultural mechanism at work in order to devise strategies for managing legitimacy.

Furthermore, in Suchman's assessment of legitimacy, the role of the audience is emphasized. Legitimacy, as per this analysis, is a social construct that is manufactured by the constituents. Therefore, the needs of this group are quintessential for evaluating the actions of the organisation.

A strategy for a system to claim its right to exist, legitimacy requires to a certain degree a clear drive for justifying itself as well as a healthy dose of cultural conformity. Another way of understanding legitimacy is the cognitive approach, namely for an organisation to gain legitimacy, it has to be understandable rather than desirable (Suchman 1995, p. 573). The role of the audience in the concept of legitimacy is given proper consideration here. In fact, legitimacy, according to Suchman (1995, p. 574) , "is socially constructed in that it reflects a congruence between the behaviour of the legitimated entity and the shared (or assumedly shared) beliefs of some social group." In this way, to be legitimate requires approval

from a collective audience, but not necessary from any particular members of that audience.

Suchman identifies three types of organizational legitimacy, each with their own subcategories (Table 1):

i) *Pragmatic legitimacy* refers to legitimacy given to an organization by an audience because of the broad implications of the formers actions for the latter. The audience may lend some support to the organization based on their perception of how the organisation serves their interest (such as entrepreneurial students endorsing each other's business ideas due to shared values and aspirations).

ii) *Moral legitimacy* relies on the how the organisation is evaluated on the moral grounds, i.e. if its activity is done for the purpose of the public good. Moreover, the procedure performed by the organisation should be in tune with the evaluators' expectations and values.

iii) *Cognitive legitimacy* is gained through the comprehensibility of the organisations activity and the availability of a set of cultural and social factors that makes the organisation's actions understandable to the evaluating audience.

Pragmatic legitimacy	Moral legitimacy	Cognitive legitimacy
Exchange legitimacy	Consequential legitimacy	
Influence legitimacy	Procedural legitimacy	
Dispositional legitimacy	Personal legitimacy	
	Structural legitimacy	

Table 1. Suchman's three types of legitimacy and their subcategories

Inherent in the challenge of legitimacy is the set of issues arising from the firm's (young) age. The entrants need to dedicate a substantial amount of time to what Suchman's refers to as *sector building* (Suchman 1995, p. 586), the sense that the entrants can define their sector irrespective of the other players in the field. The second challenge of the legitimacy, however, applies equally to newcomers as well

as incumbents, i.e. creating a new constituencies as well as strengthening the existing base.

In order to manage the challenges of legitimacy, Suchman proposes three separate strategies:

i)   *Conformist strategy*, whereby the firm confirms to the social norms of the constituents and audiences.

ii)   *Selective strategy,* through which the organisation tries to choose the best environment for flourishing and developing.

iii) *Manipulative strategy,* where the organisation opts to manipulate the perception of its activities, internal make-up and purpose.

In *Performance Configurations Over Time: Implications for Growth- and Profit-Oriented Strategies*, Per Davidsson, Paul Steffens and Jason Fitzsimmons' analysis of the relation between firm's age and performance, liability of newness is contrasted with advantages of newness. Taking their cue from Schumpeter, the authors argue that a firm's newness and smallness can be a competitive advantage, since these entities are capable of innovating and introducing disruptive products, hence unsettling the market and its incumbents. Younger firms have the agility and the capability to redirect their efforts at a low cost. By contrast, as the firm grows, its internal structure may make it difficult to innovate and bring new ideas to the forth. Therefore, the authors conclude newness is not necessarily a liability for the start-up.

Similar to this analysis is found in *How Technology-Based New Firms Leverage Newness and Small to Commercialize Disruptive Technologies* (Sofy Carayanopoulos, 2009). Here, Carayanopoulos pinpoints that incumbents have intrinsic rigidities and inertia that makes them slow in responding to new threats. The article describes "disruptive technology" as one that significantly changes the price-performance ratio, i.e. the performance of the technology outweighs its costs. Moreover, Carayanopoulos analyses disruptive technologies in relation to different categories of innovation (radical, architectural, modular and incremental) . Correlating legitimacy to the age of the firm Carayanopoulos claims that a firm's young age can

benefit from its lack of legitimacy and low visibility when commercializing radical innovation. The firm doesn't have to conform to any market standards, and the incumbents are unlikely to pay attention.   However, the article proposes that lack of legitimacy is detrimental when commercializing a modular or incremental innovation.

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Other texts reviewed for this paper include the following books:
*Social Psychology: Unraveling the Mystery (*Kendrick, Douglas T. & Neuberg, Steven L. & Cialdini Robert R.) is an university textbook for understanding various mechanism is social psychology. Different theories are analysed to examine how social encounters take place and how individual integrate into a larger group.

Communicating with Strangers: An Approach to Intercultural Communication (Gudykunst, William B. and Young Yun Kim) is a study of how interaction between different cultural groups transpires. The book contributes to the understanding group dynamics, particularly when they are contrasted with another set of values, beliefs and aspirations

In a similar vein, Richard Gesterland's *Cross-Cultural Business Behavior: Marketing, Negotiating and Managing Across Cultures*, examines dealing across cultural boundaries. Although the book provides some research based analysis, it is mostly observational with the intention of producing a hands-on textbook on conducting business.

The three latter sources cast a different light on the subject of legitimacy and newness, by shifting the focus to the social and cultural aspects of integrating into a system.

4.   Analysis - A Theoretical Assessment of Venture Creation

4.1 Overview

This reflective paper uses the Suchman article as the centrepiece for analysing legitimacy, while referring to Stinchcombe for assessing liability of newness. The analysis here forth adheres to theories put forth by Suchman, his definition of legitimacy and his proposed social strategy to counter the challenges of legitimacy (and hence liability of newness). By counterpointing Suchman's analysis to the narrative of the creation of *Aquafeed Africa*, a tangible picture should emerge as to how legitimacy and liability of newness were an impediment or an asset to developing the business. Further, it will be examined how liability of newness was reflected in the make up of the group and whether it was a conundrum typical for a firm in the start-up phase.

One of the challenges of approaching legitimacy from a theoretical point of view is that start-ups rarely figure a prominent position in the research analysed for this paper. The quest for legitimacy is assessed from the perspective of an existing organisation. It is therefore easy to assume that, due to the start-ups young age, different categories of legitimacy do not apply to them.   But since this assumption hampers any attempt at analysis, the chosen mode of operation is that when the term "organisation" occurs in the literature, it is presumed that the evaluation and categorization of its legitimacy is still relevant for the start-up. Part of the auto-ethnographic strategy is to corroborate this assumption through empirical findings and personal experience with creating a new venture.

Defining the use of "culture" is an important first step in order to facilitate the analysis and eradicate any misconceptions that may arise throughout the paper. Culture, for the purpose of this reflection, entails a set of activities, norms and expectations that relate to ways of doing business and how outsiders and newcomers are perceived and evaluated in relation to the status quo.   As a way of better understanding the drive for gaining legitimacy, parallels are made between entering into a different or new business culture - as well as new forays by a mature

entreprenuer an unfamiliar business field - and the elements of an encounter between the individual and a new social order.   In other words, the definition of culture is not confined to the social norms and customs of a particular society or ethnic group, yet it surpasses the narrow connotation of "business culture" through an effort to understand the human elements behind the workings of the system. In order to gain a clear view of the theoretical mode at work, the author proposes a point-counter-point referencing of the important events of venture creation, the so-called "epiphanies" , with valid points in Suchman's article.

4.2 Aquafeed Africa: Launching a Business Concept into Un-chartered Domain

Conceived and initiated by the Master Student in Entrepreneurship Catherine Uju, *Aquafeed Africa'*s business idea entailed sourcing high quality fish feed from top European and Scandinavian producer and selling them to Nigerian distributors of fish feed. Catherine's goal was to capitalize on the booming aquaculture industry in Nigeria, a trade that was (and still is) experiencing a surge due to the soaring market demands for fish as a culturally neutral meal in a that diverse and populous African country. Furthermore, the need for fish feed was exacerbated by a need for know-how, which provided *Aquafeed Africa* with opportunities to penetrate the market with expertise alongside the product it was aiming to sell. The concept appeared simple from the outset, *Aquafeed Africa* would essentially act as an intermediary and would use its knowledge of the European scene and the Nigerian market to connect supply with demand.

A native of Nigeria, Catherine had in-depth knowledge of the society and governing business practices in the country. She was able to put in place proper channels for reaching out to local fish farmers with the product she wanted to sell while identifying and circumnavigating structural problems typically found in a developing economy.

The author was recruited into the business development team by Catherine Uju. This required that, in the first stages of the development, all members of the team to

synchronise their knowledge and understanding of the process. This learning process was a time consuming and yet rewarding experience, since some of the key aspects of the firm would be analyzed and turned over. During early stage actions and discussions, it was discovered, though unsurprisingly, that the founder of the company considered the firm legitimate in the sense that Suchman defines the term (Suchman, 1995, p. 574):

> ***Legitimacy*** is 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 definition. "

Even though this sense of legitimacy seems non-evidential and inconsequential, the belief was an important motivating factor that would propel the firm forward. It is, nonetheless, part of the entrepreneurial zeal to believe (or know) that the company is desirable AND understandable. It is, therefore, pertinent to concluded that the perception of legitimacy - self-legitimization- is an important first step for moving the venture forward.

The stated goal of *Aquafeed Africa* had a developmental element to it. The company foray into the field was prompted by a perceived need: that the risk for food shortage can be assuaged by boosting fish farming capabilities in Nigeria. Although the company did not profile itself as a "social enterprise", this developmental goal would make the company's action desirable. Also, the relative simplicity of the business – a mere buy-and-sell scheme – was quite understandable for the team members as well as outside observers. Therefore, it was not inappropriate for founder of the company to have an inkling of legitimacy as per the definition above.

Entrepreneurs often enter a new business field when they believe that the macro conditions are ripe for doing so. The introduction of a new technology, legislation or relocation of an incumbent may lead to a shift in the market structure that paves the way for entrants. However, as John Mullins points out with his New Business Road Test, budding entrepreneurs may confuse the macro and micro levels (quoted in

Ahlström, Söderling et al 2007, P B26), which can amount to structural problems within the firm as it is developed further.

While a road test was not conducted for *Aquafeed Africa*, it was imperative to discern whether the business was developed based on "gut-feeling", or whether actions of the entrepreneur were spurred by actual market assessment and reactions from potential clients (in form of queries, deal-memos, requests, etc), as well as a thorough understanding of the firm's operational model. When the author entered the development phase of *Aquafeed Africa,* an early version of business proposal already existed. Moreover, trade had been initiated by purchasing fish feed from a European producer and dispatching the shipment to a buyer in Africa. The movement in trade, however minimal, was indicative of an explicit demand in the marketplace.

As *Aquafeed Africa*'s trading was about to take form, it looked like the company was poised to develop **exchange legitimacy** in that it was trying to affect the lives of its constituents with the services it wanted to provide. While it was difficult at that stage to foresee a "power – dependence relation" (Suchman, 1995, p. 578) between *Aquafeed Africa* and its constituents, the business idea was formed around a putative and popular notion of what needed to be done to address the food problem in a populous African nation. In that way the company reflected the values of a core constituency. But since the venture is still its start-up phase, this only serves as a prediction, one that is contingent on the fact the *Aquafeed Africa* pursues the stated aim of feeding into the constituents common belief, i.e. the flow of quality fish feed will improve the quality of food and life for the people, and it becomes a crucial factor in sustaining that structure so that it bears and effect on the lives of its audience.

Assessing the company's creation, it was important to discern whether there were any efforts to bring forth any category of pragmatic legitimacy. In her latest trips to Africa, Catherine conducted in-depth interviews with fish farmers to gain first-hand insight into their needs, modus operandi as well the farmers' thoughts on improving

their output. This sort of face-to-face information gatherin not only enhances *Aquafeed Africa*'s understanding of its market, it also creates a feeling in the constituents that they are actually participating in the making of the business, akin to what is fashionably referred to as "crowdsourcing". Such strategy, if sustained and intensified, will help *Aquafeed Africa* gain what Suchman refers to as **Influence legitimacy** (Suchman, 1995. p. 578). This form of legitimacy arises when the company incorporates constituents into their policy making and ensures the ongoing commitment to the listening to and nurturing the needs of its end-users. Furthermore Meyer & Rowan (quoted in Suchman, p 578) stipulate that displaying such responsiveness on the part of the organization is more important than achieving results, since it is the outward action that is gauged and evaluated by the constituents.

However, this category requires that the company is perceived as having an ongoing commitment to the well being of the constituents (Suchman, 1995 p.578). As an aspect of the liability of newness, it is not plausible to claim that the new venture has evidently achieved that status. Moreover, the narrative of this commitment must be lucid to the constituents, so that they are aware of the company's endeavors and what it has "done for them" and so they can "legitimize" its activities. This form of information opacity will be overcome as the firm ages and the value created for the constituents will become apparent.

Suchman claims that the aim of seeking legitimacy can be divided into two catergories: (a) pursuing continuity versus credibility, and (b) between seeking active support and passive support (Suchman, 1995. Page 574). Yet again, it is hard to discern at this stage whether *Aquafeed Africa* will succeed in either of the above mentioned categories. But the initial strategy of the company was to turn active support to passive support, or to convert **exchange legitimacy** to **moral legitimacy.**

A fact that made this transition harder was that *Aquafeed Africa* was not born out of a similar company. It did not model itself after a recognizable and legitimate organisation. The lack of role model – considering the sometimes-symbiotic

relationship of company's founders with that role model – rendered any reference to similar organisation useless. In some cases, the entrepreneur brings out a product or service akin to that of the role model, only to quickly show what sets them apart from the older organisation. This would be a common way of gaining legitimacy, since an important message is being transmitted to the constituency: i.e. the firm is involved in tackling a problem in innovative ways.

4.3 Aquafeed Africa: "Doing the right thing".

As mentioned earlier, one of the principle goals of *Aquafeed Africa* as a newborn venture was that it was "the right thing to do" , which was paired with the founders' perception the action of the company had greater societal bearings. But as Suchman putatively stipulates, it is a claim by most companies that their activity is intended for the sake of the greater good and are willing to offer symbols and gestures to buttress such claims. For this proposition to work, there must be a strong belief by the entrepreneur that his /her venture in particular and venture creation in general has inherent utilitarian values, prompting the entrepreneur to transmit those values to the general public even ahead of launching products and services.

Further, it is noted that **moral legitimacy** takes one of the following three forms (Suchman 1995, p. 579) :

  i)   evaluation of outputs and consequences,

  ii)   techniques and procedure, categories of structure and, to a lesser extent,

  iii)   evaluation of principles and representatives of the company.

Due to *Aquafeed Africa's* young age, it was practically impossible for any observe to understand and discern any of those categories. The only aspect visible to the public was the firm's stated goals and their proclaimed desire (or lack thereof) to address a particular societal issue and to partake in activity with moral ramifictions. Moreover, there were no direct or indirect efforts by *Aquafeed Africa* to plant any gestures or symbols in the mind of the constituents, an arduous process that takes time and effort on part of the entrepreneur. The likely explanation for this is that for most

entrepreneurs, the key to success is "marketing" a product to a buyer rather than *building* a community (which is larger that mere customers), hence resorting to activities out of marketing handbook.   In *Aquafeed Africa*, a substantial sum of money was set aside to acquire merchandising to "get the brand known". Although there is no doubt that spreading the word about the product and service does no harm to the venture, it may prove to be a rather dubious effort as far as gaining legitimacy goes. Another age-based factor that plays a part is that the performance of *Aquafeed Africa* is not yet known to the public. Therefore, **Consequential legitimacy**, i.e. legitimacy awarded to an organization based on its performance (Suchman, P 580), will not be relevant in this connection.

However, the most interesting aspect of *Aquafeed Africa* building legitimacy comes from its *comprehensibility:* the fact that the business concept was relatively easy to understand. If outside observe understand the presumptive *raison-de-étre* of the company, i.e. the fact the its action can supposedly help ensure the survival of a portion of the aquaculture industry in Nigeria, the *Aquafeed Africa* could fall within what Suchman describe as "predictable and meaningful" (p. 578),

Personal legitimacy (or what Suchman refers to as "charisma of the leader" p. 581), is also a culture-based factor. For a Western audience of evaluator, some of the many factors' involved in assessing a business idea is the entrepreneur's passion and skill. In the presentations of *Aquafeed* Africa, the founders' skills, competencies and commitment to the "cause" they were pursuing were somewhat muddy and incoherent. Encountering experts with in-depth knowledge of the field, they did not find the business group interesting enough to engage with, hence the company was rendered "illegitimate". This was an unfortunate aspect of the process, since it is the author's belief that necessary skills were in place, albeit hidden from the viewer. This problem could have been assuaged if the company principles clearly demonstrated what knowledge they were bringing to table, which is incidentally an important tenet of the effectual process.

Even though *Aquafeed Africa* could not be classified as a "disruptive" firm as per Carayanopoulos' (2009) definition, the company did carry certain traits that made it prone to advantages of newness. Since the volume traded was so small*,* incumbents were not taking notice and could not identify the company as a threat in need countermeasures. This way, *Aquafeed Africa* could carry on business "under the radar" while building its own niche and consolidating relationships with buyers and suppliers. Being small and new enabled the company to counter potential external threats in a quick and costly manner by taking necessary actions such as relocating the business or changing alliances without incurring huge losses.

On the other hand, as the business was developed during the course of the Programme, liability of newness started to manifest itself as a challenge to be reckoned with. Catherine's stated goal was to create value for the fish farmers in Nigeria by allowing them to circumvent the country's painstakingly slow financial system. Because of the monetary policies of Nigeria, chartered banks impose limits on amounts of currency transactions and foreign money transfer. This, in turn, forces a large number of smaller operators to shy away from doing business with offshore entities.

In response to this obstacle, *Aquafeed Africa* would give the local buyers of fish feed a chance to devise a payment plan that could facilitate their dealings with their financial institution, where the locals could payment for the received shipments in smaller increments. More than an act of charity, the ultimate goal was to beat a latent trade barrier that was put in place by the economic policies of the country.

The implementation of this goal put a new spin on the planning of the business as an unexpected (and perhaps unintended) element arrived at the table: *Aquafeed Africa* would had to become a *de facto* financial service for the benefit of its own customer. In other words, the company would be in (dire) need of a strong cash base in order to finance and cash-flow the discrepancy caused by the late paying customer and the demand for a steady purchase and inflow of stock.

This was a sudden jolt for the business planners as they learned about a new organisational aspect of the business, realising that they had limited resources and knowledge to deal with the issue. The admission of this internal problem put the burgeoning firm at the head of the learning curve and made the company liable to newness, exacerbated by the lack of a role model to emulate or seek advice from. Stinchcombe (1965, p. 148):

> "New organizations, especially new types of organizations, generally involve new roles, which have to be learned…The process of inventing new roles, the determination of their mutual relations and of structuring the field of rewards and sanctions so as to get maximum performance, have high cost in time, worry, conflict, and temporary inefficiency".

In other words, to alleviate liability of newness, in the near future *Aquafeed Africa* not only needs to address the new challenge, it must also be aware of its organisational short-comings due to its age in order to chart the choppy waters of new venture creation. This could be the single most important hurdle to the desired course for this company.

4.4 Legitimacy in a Transnational Business Environment

One of the interesting aspects of working with *Aquafeed Africa* was its international perspective and how legitimacy was being created for the firm from a global perspective. Since the venture had its roots in two very different cultures, it was interesting to find out if there was a cultural discrepancy and whether it had an impact on the way business was conducted. While this was never discussed in the business development group, it was an inevitable fact that the companies global beginnings was both an asset as well as challenge to its founders. The lack of discussion during the actual engagement was due to the putative notion that a moral legitimacy already existed for the business. Furthermore, business relationships were being built according to a two-tiered track:

In *Cross-cultural Business Behavior,* Richard R. Gesterland categorizes business cultures according to their geographical areas. According to his analysis, Nordic and Germanic Europe (along with North America) are classified as "Deal-Focused Cultures". This means that constituents are open to discussing business possibilities with people and entities that they have never done business with. However, most of Africa, along with Latin America and Asia, are categorized as "Relationship Focused". In this sphere, business will rarely be done without an already established relationship in place. (Gesterland 1999, p. 20).

Since Catherine had allied herself with her brother's company in Nigeria as the import arm of *Aquafeed Africa*, legitimacy was being created through familial relationship. Even though Gesterland's analysis can be questioned and discussed, it was quite apparent that Catherine could gain traction through her family connections in Nigeria.

The other legitimacy-seeking track pertained to European stakeholders, collaborators and suppliers. Since the initiation of the company, legitimacy did not exist in the eyes of fish feed producers. They did not know *Aquafeed Africa* and were not aware of its potentials. However, this was immaterial at the time since the company was not negotiating for favourable suppliers' contracts and therefore did not need to be acknowledged by them in order to steer negotiations to its own advantage. As long as the supplier had their ware ready for sale, *Aquafeed Africa* could gain traction by carrying on selling the product to its customer in Nigeria. Thereby, as the company aged, so would the perception of legitimacy by observers and external actors.

Interestingly enough, a clear redundancy in product data and information during the early presentation of the company may have been a conscious strategy to make up for the palpable lack of firm's principle's expertise in the subject of fish farming. Disclosing detailed "scientific" data on the products and services was perhaps meant to demonstrate the entrepreneur's knowledge in the field, yet whether it functioned

as a strategy to create legitimacy was highly dubious. While this may impress on an African fish farmer, the effect on a Norwegian researcher in the field may be a completely different matter. In fact, the situation is worthy of a full ethnological survey.

In other words, the strategy devised to disseminate information about the entrepreneur's experience and knowledge must be customized based on the intended audience if legitimacy is at stake. It should be always kept in mind that, while the entrepreneur may consider herself to possess sufficient knowledge about the product and the market, the stakeholders and collaborators are usually people with high level of expertise in their fields and will therefore gauge the entrepreneur based on their own achievements and experience.

Entrepreneurs should be open to an ongoing analysis of their legitimacy in the eyes of the units they want to impress and influence, as well as the internal factors that comes with their company's young age. While one should let oneself be limited by these factors, understanding them will help the entrepreneur chart the waters with enough preparation to tackle the challenges head on.

4.5 A Personal Approach to Legitimacy and Liability of Newness

Before entering the Masters Program in Entrepreneurship, the author lacked a proper terminology for a challenge he faced my professional and personal life. This challenge be characterized by a number of personal and professional projects that required crossing borders and transplanting oneself into new environs in order to develop and establish ideas and ventures. With the change of environment came the task of acclimatizing to new settings, its rules and norms as well as familiarizing oneself with its constituents. Inherent in that process was the need to prove the legitimacy of one's credentials as well as one's character. Therefore, being new grew to be a part of the author's identity and re-enforcing the fact that being new in a system one has to struggle to gain legitimacy. At the same time, the author was endowed with the "outsider's syndrome", i.e. the need to question and analyze the

ways of the status quo and all the social mechanisms one encounters, matters that may seem trivial and too ordinary to the natives of that particular system.

Secondly, the author partly came to the Masters Programme in order to learn ways of "doing business". I other words, the expectation was that the Programme would teach tangible methods to impress upon the "money guy", since lack of start-up fund was, to the author like to many other entrepreneurs, the perennial obstacle for starting and running a business. During the course of the Programme, a point was proven to the students that big money assumption was wrong. Various methods of effectuation were empirically presented. This was one of the biggest personal transformations during the Programme; to build the process of creation from inside out, as opposed to a wild goose hunt for sources normally unavailable to emerging ventures. Yet the issues of legitimacy and newness loomed large over the current as well as future endeavours: if the aspiring entrepreneur was not going to endear his/herself to various stakeholders, as it was earlier assumed, why is newness then a liability when starting a business?

It was known from the outset that liability of newness and legitimacy do not solely arise in an entrepreneur-stakeholder relationship. Liability of newness is also an integral part of rapport building between the entrepreneur and a wide range of evaluators, from peers to suppliers to potential customers to the general public. Circumventing hurdles to being accepted, either through manipulating the outside perception of oneself or by conforming to the norms of the system one is about to enter, is a survival tactic that is mirrored in many other endeavours than venture creation. It has a clear bearing on all professional undertakings, where parallels between business endeavours and personal struggles seem too obvious to ignore.

Legitimacy is often described as the system's belief that the entrepreneur has a capability to develop and deliver as expected (Dribell, et al 2009). But there is also a self-affirmative aspect to legitimacy. The truth is in the eye of the beholder, as the saying goes, and the beholder is looking for affirmation and confirmation as he/she evaluates a prospective member of the system. In other words, the beholder - and

by-and-large the system - is looking for signs of itself in the individual willing to enter the field. To the author's experience, in order for a conformist strategy to be viable, the entrant must have a very good understanding of the system he or she is entering into, must be able to decipher the social codes and the discern the points of identification that the evaluating constituents may be looking for.

As method of making the self socially acceptable, various ingratiation strategies and impression management enables the individual as well as the organisation to encompass the values of the beholder in the constructed self-image (Kendrick, et al. P. 117). It is a common advertising strategy, as well as a personal branding method, to gain cognitive legitimacy by allowing the evaluator to recognize him/herself in the make-up of the organisation or the individual behind it. The strategy seems to be close to what Suchman (1995, P. 587) refers to as *Manipulative Strategy.*

In other words, gathering information about incumbents and the constituents is an important task for selecting the apposite strategy (as it will appear in the following section, this was one of the author's weaknesses working with *Aquafeed Africa*). During an interview with *Framtidslyftet's* C.E.O Mats Johansson, a venture capital firm with the stated mission of supporting start-up firms, he was queried about how they managed to circumvent information asymmetry in order to invest in nascent enterprises. The question seemed nearly irrelevant to him, since they tracked entrepreneurs and companies and engaged with as they saw it fit. When the entrepreneur acts and gains traction, information asymmetry is diminished and liability of newness is reduced as a threat. In other words, the protracted entrepreneurial action in-itself is the most powerful remedy for overcoming information opacity and gaining cognitive and moral legitimacy (Butt, et. al, 2011). This view corresponds to the Suchman's analysis that perceptions of legitimacy arise when there is enough information to assess firm, emphasizing the importance of evaluators' access to information on the inner workings of the organisation.

If inbound and outbound information flow is the nemesis of liability newness and, by extension, legitimacy, then disseminating and absorbing information is vital for a

young firm in order for it to thrive. However, in spite of the wonders of the information age (or perhaps because of it), the flow of information is often entrapped. One's activities do not easily permeate through the collegial environment and information doesn't easily flow back, unless it happens to come through officially sanctioned channels. In a way, maintaining opacity is a safeguard against the onslaught of competition, a mode to guarantee survival of the self by keeping trivial as well as vital information close to oneself and to one's most trusted audience. And this is perhaps one area where liability of newness intersects with legitimacy: being a new firm/entrepreneur may shut one out of the flow of information that could enable one to devise strategies for gaining legitimacy. Once the entrepreneur is left out of the loop due to her/his newness, the task of both selective and manipulative strategies become considerably more difficult.

5 Conclusion

5.1. Legitimacy in Relation to Liability of Newness

Analysing various categories of legitimacy in a start-up corroborates the assumption that was made in the introductory section of the paper: that legitimacy is one of the first casualties of liability of newness. The research material covered for this paper, along with empirical evidence as well as the author's personal experience, point to the fact that it is difficult to garner most categories of legitimacy during the start-up phase due to informational opacity, i.e. the fact the constituents have no proof of the firm's performance in order to deem it legitimate. In the firm's age-performance ratio, information will be less opaque as the firm ages and the entrepreneur gains traction. Therefore, there may be a "natural" path to gaining legitimacy as the firm makes progress and enters the growth phase.

Apart from ad-hoc endorsements and various forms of early stage exchange legitimacy, there is very little proof of firm's value or performance for the evaluator to base their perception on. Moreover, as per empirical evidence as well as information compiled from the research articles, it is plausible to conclude that legitimacy is a derivative of the actions of the firm as opposed to the perception of

its goals and aspirations. And as the firm has little or no opportunity to perform, legitimacy in its various forms will be hard to obtain. As Suchman points out, **taken-for-granted legitimacy**, i.e. legitimacy automatically awarded to an organization since it is seen as the only alternative in the cognitive chaos of a society, is a form of legitimacy available to only a few lucky entrepreneurs and managers (Suchman, 1995 p 583).

In order for constituents to realize the value of the firm and hence award it legitimacy, it is important for the entrepreneur to make the venture **understandable**. This means that not only the stated goals of the firm should be clearly transmitted to evaluators; the assets and competencies of the company should be made visible to the constituents.

5.2 Possible Actions to Alleviate Legitimacy Issues and Liabilities of Newness

In order to create to toolbox for assuaging challenges of legitimacy as well as those posed by liability of newness, Suchman's three strategies for managing legitimacy prove an apt source considering its synthesis of social and firm theories. To reiterate, Suchman's proposes three categories for managing legitimacy: conformist, selective and manipulative strategies.

However, implementing a solution based on this assessment requires a clear understanding of the social as well as the macro condition one is about to enter into, which is in turn contingent on the individual entrepreneur's introspection, insight and willingness to engage with the conditions facing his/her travails.

While trying to gain legitimacy and build knowledge in and around the nascent firm, it is important to focus on those elements and constituents who are most likely to comply with the entrepreneur's stated goal.

A selective strategy is perhaps the least costly approach to gaining legitimacy. Choosing the proper environment for launching for one's entrepreneurial activity

should be taken into account from early stages. The entrepreneur should select a setting where it maybe easier to obtain pragmatic legitimacy from other constituents, since they can identify with the entrepreneurs' aspiration and share certain goals and values. This was obvious during the Masters Program when participants in the program endorsed and encouraged each other's entrepreneurial activities, merely due to identifying with the goal as well as hoping for reciprocation.

Even though getting acknowledged from friends and family can be a boost to the morale of the entrepreneur, it may not carry much professional weight. But the process is akin to the bird-in-hand principle of effectuation in that the entrepreneur starts with what he or she has available to them. However, the composite of initial constituents can be expanded into a larger network of evaluators that can endorse and in some cases actively support the entrepreneurial quest. This is evidenced by a number of successful crowd sourced ventures that managed to build their legitimacy from ground up.

This could possibly mean that the entrepreneur should shift their focus from marketing, which can be costly for the new firm, to value creation pared with telling the story of the process to the expanding forum of evaluators, constituents and potential customers and end users. In order words, one should focus entirely on the act of creation, aware of yet undeterred by the challenges that lie ahead, while telling those who are willing to listen about the value that one's work may have for them and their expanded network.

6. Suggestions for Future Studies and Reflections

Case studies can sometimes by valuable educational tools. If drafted properly, they can highlight strengths and weaknesses of entrepreneurial action without purporting to the hero-worshipping often seen in popular media's coverage of successful ventures. Looking at how some companies gain legitimacy when the world seems to be going the other way could provide for interesting learning outcomes, such as the genesis and the development of the Austrian company *Lomography*.

Born from a group of friends and photo enthusiasts, *Lomography* has now an expanding product line of throwback film cameras and replicas with a large appeal to professional photographers, amateurs and "prosumers" alike. How can a company like *Lomography*, involved in reverse modular innovation, build their market from ground up and slowly gain legitimacy for their products, i.e. film based cameras, where the consumer market has shifted completely to digital cameras and mobile phones for at least a decade and film has been proclaimed a dying species expect for a clique of professional photographers?

Is crowdsourcing a viable option for building Legitimacy and well as gaining knowledge that can limit the challenges of newness?

Another interesting study would be looking into how available resources, such as business incubators, help entrepreneurs in overcoming challenges of newness, and whether distinctions and awards such as Venture Cup add to the legitimacy of a company.

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