

The Start-Up Circuit:

How Start-Up Entrepreneurs Navigate the Dual Demands of Customer Validation and Investor Legitimacy

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Word count:

12 154

Sammanfattning

Huvudtitel: Legitimitet i Fokus: En Analys av Spänningen Mellan Kundvalidering och Investerares Legitimitet

Seminariedatum: 4 juni 2026

Kurs: FEKH99: Examensarbete inom entreprenörskap och innovation på kandidatnivå, 15 hp

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Forskningsfråga: Hur navigerar startup entreprenörer, i ett tidigt skede präglad av *liability of newness*, de kraven på kundvalidering och investerarlegitimitet? Hur påverkar entreprenörernas initiala humankapital denna hantering?

Nyckelord: Entreprenörskap, legitimitet, kundvalidering, lean-startup, investerarlegitimitet, *liability of newness*

Syfte: Syftet med studien är att utforska hur startup-entreprenörer balanserar kundvalidering och investerar legitimitet, samt hur deras initiala humankapital påverkar denna process.

Metod: Studien tillämpar en kvalitativ och abduktiv forskningsansats baserad på fem semistrukturerade intervjuer med startup-entreprenörer. Det empiriska materialet analyserades sedan genom tematisk analys för att identifiera mönster och utveckla ett konceptuellt ramverk.

Teoretisk referensram: Studien utgår från teorier om *liability of newness*, legitimitet, Lean Startup och initialt humankapital för att förstå startup-entreprenörers prioriteringar i tidiga utvecklingsfaser.

Resultat: Kundvalidering och investerarlegitimitet är ihopkopplade delar av en överlevnadskrets, där investerarlegitimitet växlas in mot kapital som blir runway, vilket möjliggör kundvalidering. Initialt humankapital avgör hur founders rör sig i kretsen. Erfarna går in på substans, oerfarna kompenserar genom impression management och soft validation.

Slutsats: Studien bidrar med Startup Circuit Model och utvidgar etablerade teorier om legitimitet, pivot och humankapital.

Abstract

Title: Charting Legitimacy Waters: Navigating the Tension Between Customer Validation and Investor Legitimacy

Seminar date: 4th of June 2026

Course: FEKH99: Bachelor Degree Project in Entrepreneurship and Innovation, Undergraduate Level, 15 University Credits

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Research questions: How do start-up entrepreneurs, facing the liability of newness, navigate the dual demands of customer validation and investor legitimacy? How does their initial human capital shape this navigation?

Key words: Entrepreneurship, legitimacy, customer validation, lean start-up, investor legitimacy, liability of newness

Purpose: The purpose of this study is to explore how start-up entrepreneurs navigate the dual demands of customer validation and investor legitimacy, and how their initial human capital shapes this process.

Methodology: This study uses a qualitative and abductive research approach based on five semi-structured interviews with start-up entrepreneurs. The empirical data was analysed using thematic analysis to identify recurring patterns and develop a conceptual framework.

Theoretical framework: The study integrates theories of the liability of newness, legitimacy, Lean Star-tup methodology and initial human capital to examine how start-up entrepreneurs navigate the dual demands of customer validation and investor legitimacy

Result: Customer validation and investor legitimacy are interdependent parts of a survival circuit, where investor legitimacy is converted into capital that becomes runway, which enables customer validation. Initial human capital shapes how founders move through the circuit. Experienced founders enter on substance, while inexperienced founders compensate through impression management and soft validation.

Conclusion: The study contributes to the Startup Circuit Model and extends established theories on legitimacy, pivots, and human capital.

Acknowledgement

This thesis marks the culmination of our studies in business administration and economics at Lund University. We would like to express a sincere appreciation to our supervisor, Joakim Winborg, for his feedback, guidance and support throughout the whole research process.

We are also deeply grateful to the entrepreneurs who participated in our interviews and openly shared their reflections and experiences, thereby making this study possible.

Finally, we would like to thank our families, friends and fellow classmates for their support and great discussions we have had throughout our studies.

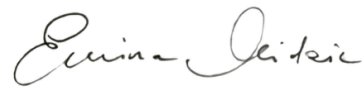
Lund, June 2026



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1. Introduction

This chapter introduces the general landscape of entrepreneurship, highlighting the challenges of launching a new business. It outlines the background of start-ups survival, followed by a problematization of the resource constraints entrepreneurs face, leading to the study's purpose and research questions.

1.1 Background

Growth in the global economy is heavily fueled by entrepreneurship and the creation of new ventures (Ordeñana et al., 2024). Despite their economic importance and disruptive potential, (Zahra, 2024), the unfortunate reality is that most new ventures do not survive their early years. Research shows that new businesses face significant failure rates, particularly in the early stages of operation (Cantamessa et al., 2018).

When start-ups fail, the explanations offered retrospectively tend to fall into a familiar set of categories. These include running out of money, ineffective marketing, poor product, flawed ideas, or bad timing (Khelil, 2016; Szathmári et al., 2024). While these specific explanations might be accurate in individual cases, a more comprehensive understanding is that, translating ideas into action in a start-up happens under conditions of high uncertainty (McMullen & Shepherd, 2006) and severe resource scarcity (Baker & Nelson, 2005). Because many start-ups face a period in which resources are needed long before stable revenue has been established (Parra & Winter, 2022) there is a fundamental need to secure capital. While some entrepreneurs initially rely on personal savings, the uncertainty combined with resource constraint frequently leads start-ups to explore external funding options during their early development (Cassar, 2004).

However, financial support alone is not enough to ensure survival. Because of their inherent resource scarcity, start-ups become deeply dependent on support from two distinct external stakeholders (Stinchombe, 1965). While entrepreneurs must mobilize resources and build credibility toward investors whose financial backing may become necessary for scale and survival (Soto-Simeone et al., 2020), they must simultaneously test whether there is actually demand for their business idea among customers (Andries et al., 2021).

Balancing these dual demands creates a practical allocation problem. Entrepreneurs must decide how much time and attention to devote to investor-oriented activities, which can build legitimacy and help secure financial resources in the short term (Delmar & Shane; Fisher et al., 2017). Simultaneously, they must decide how much effort to devote to customer-oriented activities, which generate learning, validate market demand (Shepherd & Gruber, 2021), and strengthen the start-up's prospects for future revenue generation.

Handling these two conflicting demands is a critical challenge, and how this allocation process unfolds depends on the situation as well as on the entrepreneur. Entrepreneurs enter the start-up environment with different backgrounds, education and prior experience, which together constitute their initial human capital (IHC)(Cooper et al., 1994). This IHC shapes how entrepreneurs interpret uncertainty, which activities they feel capable of executing, and which decisions they make first (Soto-Simeone et al., 2020; Ratinho & Sarasvathy, 2024). The entrepreneurs' IHC therefore becomes a key factor in how they navigate between customer and investor demands in the early stages of their start-up .

1.2 Problematicization

Within entrepreneurship research, two distinct perspectives on start-up survival are relevant. On one hand, the Lean Start-up methodology argues that survival depends primarily on achieving empirical customer validation, while considering early formal organizing to be inefficient (Blank, 2013; Shepherd & Gruber, 2021). On the other hand, institutional research emphasizes that survival depends on establishing organizational legitimacy, highlighting that formal structures and professional signals are necessary to overcome the liability of newness and secure external resources (Stinchcombe, 1965; Fisher et al., 2017).

While entrepreneurs must ultimately satisfy both of these demands, a distinct theoretical conflict exists between them in practice (Fisher et al., 2017; Wilhelm et al., 2024). Start-ups face divergent expectations and must navigate conflicting demands, as customers often prioritize functional value while investors often require structures and track record to feel secure enough to provide financial backing (Delmar & Shane, 2004; Fisher et al., 2017).

This dilemma is further complicated because customer validation and investor legitimacy can mutually reinforce each other. Empirical evidence from customers can strengthen investor

trust (Fisher et al., 2017), while investor trust can simultaneously increase customer trust (Delmar & Shane, 2004; Rutherford et al., 2009). However, because they require different activities, evidence, and communication styles (Fisher et al., 2017), entrepreneurs cannot pursue both simultaneously.

Navigating this theoretical conflict is a major practical challenge given the extreme uncertainty and severe resource constraints. Entrepreneurs lack the time and cognitive capacity to undertake all organizing actions simultaneously (Gifford, 1992; Delmar & Shane, 2004), forcing them to constantly weigh activities against each other. Despite this reality, what remains less understood is how entrepreneurs, constrained by the liability of newness, actually navigate the divergent demands of customer validation and investor legitimacy.

As noted, an entrepreneur's IHC plays a central role in how they approach such dilemmas. Furthermore, when entrepreneurs lack sufficient experience themselves, they often have to rely on the active support, strategic guidance, and mentoring of experienced investors to navigate complex markets (Politis, 2008). However, although research connects IHC to the activities entrepreneurs feel capable of executing (Soto-Simeone et al., 2020), less is known about how it specifically dictates how entrepreneurs allocate their limited attention between customer and investor demands in everyday practice.

1.3 Purpose and Research Question

The purpose of this study is to explore how start-up entrepreneurs navigate the dual demands of customer validation and investor legitimacy, and how IHC shapes this navigational process. The study has an exploratory and theory building ambition to examine how entrepreneurs manage these conflicting demands under the liability of newness. The primary objective is to develop a conceptual framework that explains these navigational movements. To address this purpose, the study is guided by the following research questions:

- *How do start-up entrepreneurs, facing the liability of newness, navigate the dual demands of customer validation and investor legitimacy?*
- *How does their initial human capital shape this navigation?*

1.4 Delimitations'

Real-world systems lack natural boundaries (Dubois & Gadde, 2002), making delimitations necessary to define the scope of this study. The research is fundamentally limited to the entrepreneurs' own experiences, interpretations, and prioritization decisions. Consequently, the study does not aim to determine whether customer validation or investor legitimacy is more important. Rather, it examines how entrepreneurs navigate these dual demands in practice.

Given this focus on practical actions, the study specifically emphasizes on customer validation rather than customer legitimacy, as the core interest lies in the empirical evidence that can emerge from customer behaviour. Conversely, when examining the investor audience, the focus is placed entirely on investor legitimacy rather than comparing specific financing alternatives or financial metrics. This is because the thesis is concerned with how entrepreneurs build the necessary credibility and acceptance to overcome the liability of newness, rather than the technicalities of the capital itself.

Furthermore, start-ups often interact with intermediary resource providers, such as incubators, accelerators, government grant agencies, and pitch competitions. The evaluative logics of these actors heavily overlap with those of investors. Therefore, this study treats them as a part of the broader investor-facing audience, rather than as a separate category. A more fine-grained typology of investor type is not pursued.

Given the study's exploratory and theory-building ambition, empirical testing and statistical validation of the developed framework fall outside the scope of this thesis and are relegated to future research.

2. Theoretical Framework

This chapter presents the theoretical framework used to examine how start-up entrepreneurs navigate the dual demands of customer validation and investor legitimacy. It begins by introducing the liability of newness and theories of legitimacy, before presenting the Lean Start-up perspective on customer validation. Finally, the chapter then discusses how limited attention and IHC influence entrepreneurial decision-making.

2.1 Defining the Start-up and the Entrepreneur

2.1.1 The Start-up

This thesis distinguishes between a start-up and a new venture based on their phase of development and organizational goals. The distinction is used as a working definition to clarify the object of study, rather than to suggest that the literature is fully settled on these terms.

A start-up operates under high uncertainty and can be understood as a temporary organization searching for a repeatable and scalable business model (Blank, 2013). In this phase, entrepreneurs rely on experimentation, customer feedback, and market learning. The start-up phase is therefore primarily concerned with discovery and validation, rather than execution of a predetermined plan.

A new venture, by contrast, represents a later phase in the company's development. In entrepreneurship research, a new venture is often defined as a business that has survived its initial inception and is between one and eight years old (Shepherd & Gruber, 2021). At this stage, the organization has typically moved beyond the initial search phase and focuses instead on executing a more established strategy, scaling operations, and pursuing growth. This study is concerned with the start-up phase. The term start-up is therefore used throughout the thesis to refer to firms that are still engaged in the early search for a functional business model.

2.1.2 The Entrepreneur

Entrepreneurs are commonly defined as individuals who exploit market opportunities through technical or organizational innovation (Schumpeter, 1965). Within start-up environments, they operate under conditions with high uncertainty and resource scarcity, requiring continuous strategic decision-making regarding resource allocation, stakeholder management and venture development (McMullen & Sheperd, 2006).

While creativity and innovation are central to entrepreneurship, the success of a venture also depends on the entrepreneur's competencies. Entrepreneurs who possess capabilities such as strategic thinking, leadership, confidence, commitment and opportunity recognition are more likely to achieve strong business performance and long term success, than those who do not acquire these skills (Man et al., 2002).

Previous research further highlights the importance of human capital in entrepreneurship. Human capital refers to the skills, knowledge and experiences that individuals can apply to venture creation and management (Moog, 2002). Entrepreneurs with relevant industry expertise, board networks and entrepreneurial knowledge are often better positioned to acquire resources for their venture, address challenges and seize new opportunities (Davidsson & Honing, 2003). Variations in human capital may influence how entrepreneurs approach strategic decision-making, particularly during the early stages of venture development.

2.2 The Liability of Newness

2.2.1 The Start-up as an Unproven Organization

Starting a new business is difficult because unproven organizations are inherently fragile. Stinchcombe (1965) defines this vulnerability as the liability of newness, a concept later expanded upon by Singh, Tucker and House (1986). The concept explains the heightened risk of failure that young ventures face because they lack established routines, historical track records, and stable stakeholder relationships. Because start-ups have not yet developed internal procedures or accumulated external recognition, stakeholders are left with little objective ground to stand on (Aldrich & Fiol, 1994). This creates a dual challenge, resulting in a resource allocation dilemma where the entrepreneurs must allocate limited time validating the business idea with early customers while simultaneously building a credible

facade to persuade financial investors that the venture is worth supporting (Zimmerman & Zeitz, 2002).

The external side of this problem is particularly critical. Drawing on Akerlof's (1970) classic concept of adverse selection, Rutherford et al. (2009) explain that the absence of historical track record produces "*information opacity*". Under these conditions, outsiders cannot easily distinguish promising start-ups from those that will ultimately fail. Focusing on financiers in particular, Cassar (2004) demonstrates that this opacity prevents investors from using past performance as a reliable signal of quality, significantly reducing their ability to forecast future returns. As a result of this uncertainty, potential backers, both investors and early customers, are naturally hesitant to commit their money, time or trust to an unproven entity (Fisher et al., 2017; Lounsbury & Glynn, 2001). Unless the founder actively manages these disadvantages, Shane and Cable (2002) warn that the start-up faces a high probability of failure.

2.2.2 The Legitimacy Threshold

To survive these initial vulnerabilities, a start-up must achieve a basic level of external acceptance. Zimmerman and Zeitz (2002) define this critical point as the legitimacy threshold, a survival line below which new ventures typically perish and above which they can acquire further resources. A start-up usually crosses this threshold the moment a significant external actor, such as a major investor or a key customer, decides to actively trust and support the venture (Pfeffer & Salancik, 1978). As Rutherford and Buller (2007) explain, securing this first major endorsement sends a vital signal to the market that the firm is viable. This creates a cascading effect where the early legitimacy begets further legitimacy (Rutherford & Buller, 2007). Delmar and Shane (2004) point out that attaining this initial baseline of acceptance is the absolute primary task in the early days of a venture. They further dictate that this obstacle must be cleared long before the company is able to demonstrate any actual financial results. Tornikoski and Newbert (2007) conclude in their article, that survival depends on the founder actively engaging in behaviors to win the trust of outside actors, before the start-up has anything proven to show them. Since securing financial resources is one of the most critical steps in crossing this threshold, the specific demands of the investor audience require closer examination.

2.3 Investor Legitimacy and Impression Management

2.3.1 Defining Legitimacy

If the liability of newness describes the problem, legitimacy describes the response. To clarify this concept, this section relies on Suchman (1995), who provides the definition. According to Suchman (1995), 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 definitions*”. Building on this foundation, Fisher et al. (2017) emphasize that legitimacy is ultimately a social judgment residing in the eye of the beholder. Translating this into a start-up context, Zimmerman and Zeitz (2002) note that a company must be accepted by its surroundings to successfully attract the resources it needs to survive.

While legitimacy must be sought from multiple actors, this section specifically focuses on investor legitimacy. Because prospective financiers suffer from the previously established information opacity, they cannot confidently use past financial performance to forecast future returns, leaving them highly exposed to risks of moral hazard and adverse selection (Cassar, 2004; Parra & Winter, 2022). To mitigate this uncertainty, investors rely heavily on assessments of organizational legitimacy. Achieving a base level of legitimacy serves as a crucial signal of viability and competence that substitutes for actual financial results during the early stages of a venture (Zimmerman & Zeitz; Delmar & Shane, 2004).

2.3.2 Institutional Logics

Research highlights that start-ups rarely interact with just one uniform audience. Instead, they depend on support from a variety of external groups (Fisher et al., 2017). These different audiences are governed by what Thornton et al. (2012) call different *institutional logics*. An institutional logic can simply be described as the unwritten rules, norms and values that dictate how a specific group of people thinks, makes decisions and judges the world around them (Thornton et al., 2012).

Applying this general concept to the start-up context, the broader investor-facing audience typically operates under a *professional logic* (Pahnke et al., 2015). Under this logic, financial backers focus heavily on rapid growth, entrepreneurial experience and financial returns. Because acquiring capital is critical for survival, successfully adapting to and aligning the venture with these specific professional expectations becomes a primary task for the founder

(Delmar & Shane, 2004; Zimmerman & Zeitz, 2002). To satisfy these institutional demands and project the required image of competence, entrepreneurs must actively manage how the venture is perceived (Bolino et al., 2008; Nagy et al., 2012).

2.3.3 Impression Management and Symbolic Action

To actively shape the required image of competence and meet the trust expectations of financial backers, entrepreneurs often engage in impression management. Bolino et al. (2008) define this concept as the conscious actions an individual uses to “create, protect, maintain, or alter an image of oneself held by a target audience”. Nagy et al. (2012) explains that entrepreneurs often attempt to deliberately control the information that stakeholders receive. Therefore, start-up entrepreneurs use specific tactics to highlight their own abilities and project an image to these groups (Nagy et al., 2012; Rutherford et al., 2009).

Nagy et al. (2012) outline three specific impression management tactics that entrepreneurs commonly use during early interactions. The first tactic is ingratiation, which means acting overly helpful or giving compliments to make the target person like them more. The second tactic is self-promotion, where the entrepreneur purposely draws attention to their past successes and talents so that others will see them as highly skilled professionals. The third tactic is exemplification. Through exemplification, an entrepreneur tries to project an image of an ultimate hard worker, creating the impression that they are willing to sacrifice their own personal free time and do much more than what is normally expected for the sake of the venture (Nagy et al., 2012).

While these tactics are useful for building personal credibility across stakeholder groups, relying on them alone is insufficient. Since different audiences are guided by distinct institutional logics, entrepreneurs must also utilize a communication technique known as emphasis framing (Fisher et al., 2017). This means that an entrepreneur strategically adjusts their language, symbols and overall message to highlight the specific aspects of the business that a particular audience values most (Fisher et al., 2017). When pitching to financial backers, entrepreneurs frame their impression management tactics (Nagy et al., 2012) to emphasize competitive advantages and financial milestones (Fisher et al., 2017), aligning their presentation with the professional logic (Delmar & Shane, 2004; Fisher et al., 2017; Pahnke et al., 2015).

Framing shapes how a venture is perceived, but entrepreneurs can also draw on who they are connected to. Because of the liability of newness, Stuart et al. (1999) show that startups can ease this by borrowing legitimacy, building ties to prominent actors such as established partners or prestigious investors. These affiliations act as a form of market certification. When a young startup secures a relationship with a partner known for capabilities, they benefit from a “transfer of status”. The borrowed legitimacy works as an endorsement that signals reliability, which Stuart et al. (1999) argue lowers the perceived risk for other evaluators and skeptical audiences.

2.4 The Lean Start-up and Customer Validation

2.4.1 The Search for Market Evidence

To gather empirical evidence, entrepreneurs must prioritize active experimentation over traditional planning. According to Blank (2013), a fundamental mistake many entrepreneurs make is spending months writing static business plans and developing fully featured products in complete isolation. The Lean Start-up methodology challenges this traditional approach by arguing that the primary goal of a new venture is not to execute a predetermined plan. Instead, its primary goal is to actively search for a repeatable and scalable business model through continuous customer validation (Blank, 2013). To achieve this, entrepreneurs must adopt a highly iterative process of testing their ideas in the real world (Blank, 2013; Shepherd & Gruber, 2021).

The first step in this methodology is for the entrepreneur to recognize that all early concepts are essentially just unproven guesses, which must be treated as strictly as hypotheses that require empirical testing (Blank, 2013; Shepherd & Gruber, 2021). To verify these assumptions, Blank (2013) suggests a process called “*customer development*”. This concept requires entrepreneurs to “*get out of the building*” and interact directly with potential buyers to gather real-world data instead of relying on intuition (Blank, 2013).

2.4.2 Soft vs. Hard Validation

While customer development emphasizes the importance of gathering feedback from potential users to provide evidence of market demand and potential usage, not all forms of validation provide the same level of confirmation.

Soft validation refers to positive indications of interest that do not require a strong commitment from potential customers, including survey responses, interviews, social media engagement and expression of interest. While such feedback provides meaningful insights and helps entrepreneurs refine ideas and strategies at a relatively low cost, it does not necessarily demonstrate and showcase actual market demand, since customers can express support without taking further action (Blank, 2013; Shepherd & Gruber, 2021). Soft validation is therefore particularly useful during the early stages of venture development.

Hard validation, on the other hand, requires real commitment from customers. This may include completed transactions, pre-orders, signed contracts or recurring customers who are willing to pay for the service or product. As it requires customers to commit resources such as time, money or organization commitment, it provides stronger evidence that customers perceive value and that the start-up is creating a solution for a genuine market need (Wertenbroch & Skiera, 2002; Bijmolt & Schmidt, 2020).

According to Blank (2013), the distinction between soft and hard validation is particularly relevant for gaining knowledge. Entrepreneurs should continuously test assumptions through interaction with the market rather than relying on intuition when planning and making strategic decisions.

2.4.3 Feedback, MVP and Pivots

To extract this important customer feedback as quickly and cheaply as possible, the entrepreneur creates a Minimum Viable Product, commonly known as an MVP (Blank, 2013; Shepherd & Gruber, 2021). Shepherd and Gruber (2021) explain that an MVP is the most basic, stripped-down version of an idea that can still be tested. The purpose of an MVP is not to impress the market with a flawless final release. It is to serve as a tool for “*validated learning*” for entrepreneurs. By observing how users interact with the MVP, the entrepreneur gathers concrete evidence about what the market actually values (Shepherd & Gruber, 2021).

Based on the empirical data collected from these tests, the entrepreneur can face critical decisions regarding the future of the venture. The iterative process frequently exposes that the initial business assumptions rarely survive their first encounter with real customers (Blank,

2013). Because the MVP test often reveals that the entrepreneurs' original hypotheses were flawed, the entrepreneur must decide if they should revise and keep going with their current plan, or make a major change to their strategy, which is known as a "pivot" (Blank, 2013; Shepherd & Gruber, 2021). If the customers show real interest and are willing to pay for the MVP, the venture can move forward. However, if the market rejects the product, the entrepreneur is forced to pivot and test a new direction (Blank, 2013; Shepherd & Gruber, 2021).

By repeating this cycle of building an MVP, measuring customer reactions and learning from the feedback, the entrepreneur ensures that the venture is firmly grounded in actual customer validation, and not unproven assumptions (Blank, 2013).

2.5 Navigating Dual Demands and Initial Human Capital

2.5.1 The Resource Allocation Dilemma

The processes of building legitimacy and gathering empirical evidence through customer validation both demand significant effort. At the same time, entrepreneurs face resource constraints. Delmar and Shane (2004) emphasize that entrepreneurs lack the cognitive capacity to undertake all organizing actions simultaneously. Relying on the work of Gifford (1992) and Simon (1976), they argue that a start-up entrepreneur's attention represents one of the scarcest resources in any new venture. Therefore, entrepreneurs cannot devote equal focus to all competing demands. Because of this inherent limitation, entrepreneurs have to face a resource allocation dilemma. Fisher et al. (2017) explain that entrepreneurs are forced to navigate divergent demands to secure resources from various diverse stakeholders. Because audiences are governed by different institutional logics, requiring different activities and evidence, satisfying them simultaneously is practically difficult.

The institutional perspective argues that establishing a formal legitimacy must be the highest priority for a new venture (Delmar & Shane, 2004). According to Delmar and Shane (2004), entrepreneurs should begin their journey by writing plans and legally incorporating the company. These administrative steps act as vital proof that the business is serious, responsible, and follows established societal rules (Delmar & Shane, 2004). Importantly, Delmar and Shane (2004) emphasize that this formal credibility is a requirement for creating social ties with any external party, which includes both financiers and early buyers. They

point out that consumers are generally avoiding to buy from a company that lacks legal status, and early clients typically demand to read a formal business plan before they trust a new supplier (Delmar & Shane, 2004). In this institutional view, crafting a professional and legitimate facade is the primary method to earn the market's trust (Delmar & Shane, 2004).

As previously mentioned, the Lean Start-up methodology rejects this traditional perspective of prioritizing static business plans and administrative paperwork (Blank, 2013). Because everyday users only care about practical solutions to their problems, spending time in an office trying to predict the future is considered a waste of resources (Blank, 2013). Instead, the lean approach suggests that entrepreneurs must allocate their energy towards validating the MVP directly with real users (Blank, 2013; Shepherd & Gruber, 2021).

This theoretical disagreement creates a tension for the entrepreneur regarding how to allocate their limited time and resources. If an entrepreneur strictly follows the institutional advice to build a formal legitimacy first, they might succeed in convincing investors and customers that the business is reliable and legitimate (Delmar & Shane, 2004). However, because this formal planning happens “in the building”, the entrepreneur faces a risk of draining their limited resources on building a product that nobody actually wants to use (Blank, 2013). On the other hand, if the entrepreneur completely ignores the formal administration and pours all their effort into testing prototypes to satisfy real users, they might succeed in creating a highly demanded product (Blank, 2013; Shepherd & Gruber, 2021). Yet, by doing so, they risk lacking the professional structures and formal documentation required to make investors feel secure enough to provide financial backing (Delmar & Shane, 2004; Fisher et al., 2017). How start-up entrepreneurs navigate this theoretical contradiction in practice remains a critical challenge.

2.5.2 Initial Human Capital

Start-up entrepreneurs navigate the resource allocation dilemma differently depending on their background. This background is defined as initial human capital, which includes the education, skills, and previous experiences (Cooper et al., 1994). IHC dictates how an entrepreneur processes information and allocates limited resources under uncertainty (Ratinho & Sarasvathy, 2024; Soto-Simeone et al., 2020).

An entrepreneur with extensive market experience develops strong absorptive capacity, the ability to locate new external ideas and incorporate them into processes to improve performance. This enables them to interpret customer feedback effectively (Cohen & Levinthal, 1990). This specific experience influences how the entrepreneur navigates these competing demands, and how they interact with each external stakeholders.

However, possessing relevant experience does not automatically grant the venture trust. Legitimacy must be actively granted by external stakeholders (Suchman, 1995). To translate IHC into actual legitimacy, entrepreneurs often rely on impression management as a complementary mechanism (Nagy et al., 2012). An entrepreneur with strong commercial or corporate background can leverage their actual credentials and formal organizing activities to secure early trust from both investors and prospective customers (Delmar & Shane, 2004; Nagy et al., 2012). Ultimately, an entrepreneur's ability to navigate the conflicting demands of customer validation and investor legitimacy hinges on both their IHC and their capacity to signal that competence.

3. Methodology

This chapter presents the methodological approach used to explore how start-up entrepreneurs navigate the dual demands of customer validation and investor legitimacy. It presents the research design, data collection, sampling methodology, operationalization, research challenges, analysis methodology, criteria in qualitative research, ethical considerations and the usage of AI tools. Together, these aspects will help answer the research questions and ensure transparency throughout the study.

3.1 Research Approach and Design

This study employs a qualitative research design combined with an abductive approach. A qualitative design is ideal for capturing the context and complexity of social phenomena, providing the necessary depth to understand the subjective meanings entrepreneurs attribute to their experiences (Bryman & Bell, 2017). Coupled with an abductive approach, this design provides a way to handle the empirical surprises by continuously alternating between theoretical frameworks and empirical observations in a dialectical shuttling (Dubbois & Gadde, 2002; Bryman & Bell, 2017).

In terms of philosophical assumptions, this study adopts a constructionist ontology and an interpretivist epistemology. A constructionist ontology implies that social phenomena, such as the dual demands of customer validation and investor legitimacy, are not objective facts. They are continually being accomplished and revised by social actors (Bryman & Bell, 2017). Complementing this view of reality, an interpretivist epistemology was adopted. This epistemology is based on the premise that the social world must be understood from the perspective of the individuals who inhabit it, rather through objective, law-like generalizations (Bryman & Bellm 2017). This provides the necessity to grasp the subjective meaning of how entrepreneurs navigate these dual demands in practice (Bryman & Bell, 2017). Within this paradigm, the research follows a hermeneutic logic, which emphasizes understanding the parts in relation to the whole. In the context of this study, the researchers continuously oscillated between the entrepreneurs' individual experiences and the developing theoretical framework. This process is known as the hermeneutic circle, which drives the abductive approach (Alvesson & Kärreman, 2007; Bryman & Bell, 2017).

Initially, the study relied on a conceptual framework consisting of articulated perceptions from the chosen theories (Dubois & Gadde, 2002). While the original ambition was to apply the conceptual framework, synthesizing the Lean Start-up methodology and institutional theory, the collected data later revealed unexpected patterns in the entrepreneurs' actions. These findings could not be explained by the initial theories and therefore constituted an empirical puzzle, or anomaly, which is the classic starting point that triggers an abductive reasoning process (Mantere & Ketokivi, Bryman & Bell, 2017).

The study therefore required a redirection of the research focus, which is an expected and central feature of abductive research (Dubois & Gadde, 2002). As researchers must reorient their analytical frameworks when confronted with new empirical discoveries (Dubois & Gadde, 2002), the theoretical framework was allowed to evolve alongside the empirical data. This principle of systematic combining enabled the researchers to generate plausible explanations for the anomalies and develop a new conceptual understanding of how the resource allocation dilemma is navigated in practice (Dubois & Gadde, Sætre & Van de Ven, 2021).

3.2 Literature Selection

The literature selection in this study is not an isolated initial phase. Instead it is an ongoing and iterative process. Initially, the literature search focused on scholarly articles approved through peer review within the fields of entrepreneurship, innovation and venture creation. To understand the initial problem, early concepts such as the Lean Start-up methodology, customer validation, and investor legitimacy guided the search. The researchers used established databases such as Scopus, Google Scholar, and the Research Portal at Lund University. The decision to rely primarily on academic journals ensures rigor and high research quality (Bryman & Bell, 2017).

However, because the study uses an abductive approach, the literature selection evolved alongside the empirical findings. In systematic combining, the need for new literature is created continuously during the research process (Dubois & Gadde, 2002). When the empirical data revealed unexpected patterns, specifically how entrepreneurs navigated the dual demands through a symbiotic resource allocation rather than a strict trade-off, the

research required new theoretical perspectives. The researchers therefore had to change their focus and seek new literature to explain the empirical surprises. This iterative process is known as direction and redirection (Dubois & Gadde, 2002).

As a result, the literature search was redirected to include new concepts that could explain these navigational behaviors. The researchers expanded the search to include literature on institutional theory, IHC and resource allocation. To locate this literature, combinations of keywords were used, such as “Lean Start-up”, “investor legitimacy”, “liability of newness”, and later “institutional logics”, “initial human capital” and “resource allocation”. This continuous interaction between literature and empirical data allowed the theoretical framework to capture the complex reality of the entrepreneurs. When allowing the literature selection to evolve, the researchers could match the new empirical observations with the most relevant theories effectively (Dubois & Gadde, 2002).

3.3 Data Collection and Sampling

The empirical data was collected through semistructured interviews. A qualitative method with open questions allows for a deep exploration of subjective experiences (Bryman & Bell, 2017). Semistructured interviews provide the flexibility to ask follow up questions based on the answers from the participants. This flexibility is necessary in an abductive approach to capture the anomalies (Dubois & Gadde, 2002).

The selection of participants followed an iterative purposive and theoretical sampling strategy (Bryman & Bell, 2017). In a traditional study, sampling is a separate initial stage resulting in a present sample. In systematic combining, however, sampling is a continuous process interwoven with the data analysis (Dubois & Gadde, 2002). The researchers selected five entrepreneurs from various industries. To specifically address how the IHC shapes entrepreneurs’ decisions, the sample was purposely designed to include entrepreneurs with varying degrees of prior experience. Also, the selection encompasses start-ups representing both B2B and B2C models, with varying degrees of technological innovation and at diverse stages of external financing. This variety was deliberate to capture how the resource allocation dilemma manifests across different contexts. Because the theoretical framework evolved alongside the empirical findings, the sample was continuously evaluated to ensure an appropriate match between reality and theoretical constructs (Dubois & Gadde, 2002).

Crucially, all selected start-ups share the fundamental characteristic of currently operating under the liability of newness. This initial selection was guided by the study's preliminary theoretical framework. Because the core phenomenon initially investigated revolves around this specific vulnerability, focusing on early stage start-up provided the most relevant setting to capture these dynamics (Dubois & Gadde, 2002). New start-ups struggle to gain resources because they lack a proven track record. Studying new start-ups that are in the fragile search for a working business model captures the dual demands of customer validation and investor legitimacy, and the IHC, when it is most acute.

Selecting only older and established companies would also introduce a risk of survivorship bias. Such an approach means studying only the winners who survived the initial phase. Since a large majority of start-ups fail during their first years, older firms do not provide a true picture of how complex it is to navigate the early uncertainties. Furthermore, a longer temporal period between the actual start-up phase and the interview may create recall issues. Asking established entrepreneurs to reflect on their early experiences can reduce the reliability of the findings, as their memories of the initial challenges may no longer be fully accurate or detailed. By focusing on start-ups closer to their starting point, the study provides a view of the entrepreneurs' reality in the liability of newness.

The interviews were conducted either in person or via the video conferencing tool Google Meets. The interviews were conducted in English. Participation was voluntary, and all data was anonymized to ensure confidentiality. The interviews were audio recorded with permission and transcribed for analysis. Transcribing the material reduces the risk of misinterpretation and enhances the transparency of the research (Bryman & Bell, 2017).

3.4 Data Analysis Methodology

To process the empirical material, the study employed thematic analysis. It is a qualitative method used to systematically identify, organize and analyze patterns across datasets (Bryman & Bell, 2017). Consistent with the study's abductive approach, this analytical process was not linear. It was highly iterative, involving a continuous movement between the empirical observations and the evolving theoretical framework (Dubois & Gadde, 2002).

To ensure a rigorous and transparent analytical process, the data was managed in alignment with Rennstam and Wästerfors' (2011) principles of *sorting*, *reducing* and *arguing*. The data analysis initially approached each transcribed interview as a standalone entity. This within-case analysis allowed the researchers to immerse themselves in the material and understand each entrepreneur's unique context before drawing cross-case comparisons. Each researcher independently read the transcripts and systematically highlighted relevant passages. These highlighted sections were then condensed and organized into codes (Braun & Clarke, 2006; Bryman & Bell, 2017).

During the *sorting* phase, the coding proceeded in two layers to capture the dynamic movement between the established theories and the empirical material. The first layer consisted of theory-driven start-codes derived from the established theories, capturing concepts the researchers brought into the analysis. However, during coding, several passages did not fit the start codes, or fit them in ways the theory did not anticipate. These passages were assigned a second layer of data-driven codes that emerged from the material itself. The movement from an insufficient start code to a new emergent code was treated as an analytically significant signal, and it is through this the study's central empirical patterns took shape.

To reduce the data and enable a comparison between the entrepreneurs, the framework method was applied (Bryman & Bell, 2017). Investor triangulation was used to ensure a multifaceted perspective and reduce individual bias (Bryman & Bell, 2017). Each researcher independently created their own matrix where relevant interview quotes were inserted. Afterward, the researchers discussed their individual tables together to compare interpretations, resolve discrepancies and reach a consensus. The material was condensed into six main themes, consisting of both theory-driven and emergent categories.

The outcome of this sorting and reduction process is illustrated in Table 1 below, which presents the six identified themes, their theoretical or empirical origin, and which specific entrepreneurs addressed them.

Table 1: Themes Identification and Abductive Coding Origin.

Theme	Coding origin (Abductive Layer)	Relates To	Interview
Customer Validation as the Intended Priority	Layer 1: Theory-driven start code (Blank, 2013; Shepherd & Gruber, 2021)	RQ1	A,B,C,D,E
Investor Legitimacy as Leverage to Buy Runway and Its Effect on Speed	Layer 2: Emergent data-driven code (Synthesis)	RQ1	A,B,E
Feedback and The Institutional Pivot: When Investor Logic Redirects the Product	Layer 2: Emergent data-driven code (Empirical anomaly)	RQ1	B,D,E
Soft vs Hard Validation as a Function of Experience	Layer 2: Emergent data-driven code (Synthesis of Cooper et al., 1994; Blank, 2013 and empirical patterns)	RQ2	B,C,D
Borrowed legitimacy and Impression Management	Layer 1: Theory-driven start code (Suchman, 1995; Fisher et al., 2017, Nagy et al., 2012; Zimmerman & Zeitz, 2002)	RQ2	A,B,C,D,E
Entrepreneur Attention and the Hidden Cost of Organizing	Layer 2: Emergent data-driven code (Synthesis)	RQ2	A,B,D

The final analytical step, *arguing* for the empirical findings (Rennstam & Wästerfors, 2011) is carried out in Chapter 4. Here the consolidated matrix is used to continuously move back and forth between the empirical observations and the evolving theoretical framework (Dubois & Gadde, 2002). These six identified themes will constitute the structural foundation for the empirical findings and analysis presented in the following chapter.

3.5 Criteria in Qualitative Research

Because of this qualitative study is based on an interpretivist epistemology, traditional quantitative criteria such as reliability and validity are difficult to apply, as measurement is not the primary objective (Bryman & Bell, 2017). Instead, Lincoln and Guba (1985) argue that the quality of qualitative research should be evaluated based on two alternative fundamental criteria, namely *trustworthiness* and *authenticity*.

Trustworthiness has four sub-criteria, each of which corresponds to quantitative research (Bryman & Bell, 2017);

- *Credibility*
- *Transferability*
- *Dependability*
- *Confirmability*

Credibility refers to the extent to which the findings accurately reflect reality from the participants' perspective (Lincoln & Guba, 1985). In this study, credibility is strengthened by the fact that the interviews were conducted with well informed entrepreneurs, whose expertise and experiences provided deep insights into their start-up environment. To ensure these subjective experiences were interpreted correctly, investigator triangulation was used during the data analysis (Bryman & Bell, 2017). By coding the material independently before reaching a consensus, the researchers minimized the risk of individual misinterpretation.

Transferability refers to the extent to which research findings may be applicable in other contexts (Lincoln & Guba, 1985). By providing clear details about the context, early start-ups navigating the liability of newness and the resource allocation dilemma, the study enables readers to evaluate the extent to which the findings may be transferable to other comparable entrepreneurial settings (Bryman & Bell, 2017).

Dependability refers to the extent to which the research process is transparent and can be followed by other researchers (Lincoln & Guba, 1985). In this study, this is achieved through a clear and systematic description of the research procedures. By explicitly detailing the selection of participants, the data collection, and the specific mechanics of the thematic framework analysis, the researchers provide a transparent audit trail (Bryman & Bell, 2017).

Confirmability refers to the extent to which the findings are shaped by the participants rather than researcher bias or personal values (Lincoln & Guba, 1985). To enhance confirmability, the study actively relied on its abductive approach. When material contradicted the theory-driven start codes during the analysis, the researchers did not force the data to fit their pre-understanding. Instead, by transitioning into an abductive approach, emergent codes were allowed to take shape. This ensures that the findings were genuinely rooted in the empirical data rather than the researchers' prior assumptions (Dubois & Gadde, 2002).

Beyond the four sub-criteria of trustworthiness, the second fundamental criteria, *authenticity*,

involves providing a fair and balanced representation of the social setting (Lincoln & Guba, 1985; Bryman & Bell, 2017). When ensuring that the entrepreneurs felt comfortable sharing not only their successes, but also their struggles with investor expectations and customer feedback, the study provides a fair and authentic picture of the realities of entrepreneurship in new start-ups.

3.6 Ethical Considerations

Ethical considerations in research are essential to protect the dignity and rights of research participants, as it also signals scientific ethical values (Hasan et al., 2021). In this study, ethical considerations were taken into account throughout the whole research process. Prior to participation, all interviewees received a statement of purpose outlining the aim of the study and how the data would be used. In accordance with Lund University's research ethic guidelines, informed consent was obtained from all interviewees before participation, and each participant signed a consent form. To ensure confidentiality, all interviewees and their start-ups were anonymized. All collected data, including interview recordings and transcripts, were only accessible to the researchers. The collection and processing of personal data were conducted in accordance with the General Data protection Regulation (GDPR) (EU 2016/679). Personal information was collected solely for legitimate research purposes, processed in a fair and transparent manner, limited to what was necessary for the study and stored securely by the researchers to ensure confidentiality of participants' personal data.

3.7 The Use of Generative AI Tools

Artificial intelligence (AI), in the form of ChatGPT from OpenAI, has been used for language improvement, idea generation, clarification, feedback and revision support. To ensure transparency, all AI-prompts used in connection with the thesis are presented in the Appendix.

4. Empirical Findings and Analysis

This chapter presents and analyzes the empirical findings. It begins with a brief overview of the investigated start-ups and entrepreneurs, followed by an analysis structured around the six themes identified in the previous chapter. Entrepreneurs' narratives are integrated with the theoretical framework to address the research questions.

4.1 Overview of the Investigated Start-ups

Table 2 presents a comparative overview of the five investigated start-ups and summarizes key aspects of each start-up's entrepreneurial development process. To establish a clear within-case understanding before conducting the cross-case thematic analysis, the table outlines the industry, team size, funding status, the entrepreneurs' IHC, key milestones, customer validation focus, and legitimacy signals. All aspects have been identified directly from the empirical material. The purpose of this overview is to provide the reader with a structural context of the similarities and differences between the start-ups, laying the base for the thematic argumentation in the subsequent sections.

Table 2. *Categorization and summary of the interviews.*

Interview A	Interview B	Interview C	Interview D	Interview E
<u>Start-Up Industry</u> PropTech	<u>Start-Up Industry</u> B2B VPP Energy	<u>Start-Up Industry</u> Social Networking Platform	<u>Start-Up Industry</u> CleanTech	<u>Start-Up Industry</u> Digital Market Place
<u>Team Constellation</u> 15 team members (Founder+employees)	<u>Team Constellation</u> 3 team members (Senior management trio)	<u>Team Constellation</u> 3 team members (Student founder + 2 members)	<u>Team Constellation</u> 2 team members (Slimmed-down local team)	<u>Team Constellation</u> 3 team members (Co-founding trio)
<u>Funding</u> Internally funded + seeking external funding	<u>Funding</u> Seeking external funding for scaling	<u>Funding</u> Early stage, seeking funding	<u>Funding</u> More cautious toward external funding	<u>Funding</u> Some early funding/support secured + actively fundraising
<u>Initial Human Capital (Experience)</u> Communications & management education, prior	<u>Initial Human Capital (Experience)</u> 25 years of professional experience, multiple	<u>Initial Human Capital (Experience)</u> Business undergraduate student, prior university	<u>Initial Human Capital (Experience)</u> 23 years of multinational corporate experience	<u>Initial Human Capital (Experience)</u> Entrepreneurship master's students, prior joint venture

student venture experience	environmental management degrees	start-up club experience		experience
<u>Key Milestones</u> Payment flow, first testing customers, platform launch	<u>Key Milestones</u> Commercial partnerships, AI integration	<u>Key Milestones</u> Mock-up creation, survey validation, competitions	<u>Key Milestones</u> Early pilots, market focus, customer payment validation	<u>Key Milestones</u> Events, first rentals, community building, B2C exploration
<u>Customer Validation</u> Customer interviews, MVP testing	<u>Customer Validation</u> Pilot testing, customer feedback, commercial testing	<u>Customer Validation</u> Market research, direct feedback from focused groups.	<u>Customer Validation</u> Pilot testing, focus on willingness-to-pay	<u>Customer Validation</u> Events, focus groups, rental testing
<u>Legitimacy Signals</u> Branding, funding, professional communication	<u>Legitimacy Signals</u> Scalability, potential for commercials	<u>Legitimacy Signals</u> Confidence, referrals, networking	<u>Legitimacy Signals</u> Customer traction, understanding of the industry	<u>Legitimacy Signals</u> Branding, traction, customer payments, vision

4.2 Customer Validation as the Intended Priority

While Blank's (2013) Lean Start-up theory argues that the customer should always be the primary focus, the empirical data reveals a more complex reality. Despite a general ambition to place the customer first, the narratives show that realizing this ideal is often hindered by resource scarcity (Baker & Nelson, 2005).

The entrepreneurs initially express a strong dedication to a market-driven ideal. For example, Interview A states that the "number 1 priority is definitely customers". Similarly, the student entrepreneur in interview C expresses a desire to prioritize users over investors. Interview E highlights this focus by stating: *"that's the most important thing you have, your customer's opinion"*. Interviewee A defines the crux of this idea by saying:

"You don't have a product if you don't have customers"

Here, early survival is equated directly with market acceptance. However, focusing entirely on the customer assumes that the start-up already has the time and capital to continuously test and iterate. In reality, these new start-ups operate under inherent resource constraints. Due to their liability of newness (Stinchcombe, 1965), early customer validation alone is rarely enough to sustain operations. While some start-ups might survive by personal funding, the

empirical data indicates that when capital needs arise, entrepreneurs tend to seek external funding to secure their survival.

This resource dependency compels the entrepreneurs to compromise. The entrepreneur in interview B describes their prioritization between customer validation and investor legitimacy as a strict “50-50” split. The interviewee argues that a start-up must simultaneously build the dull, practical solutions that customers need, while adding the unique features that investors demand to see. This dual focus is a direct consequence of audience diversity (Fisher et al., 2017). The entrepreneur must navigate distinct institutional logics simultaneously. Community logic from the customer audience demanding practical solutions to real problems, and professional logic from financial backers demanding rapid growth potential (Fisher et al., 2017; Pahnke et al., 2015). Despite this division of focus, interviewee B still defends the necessity of the customer validation: *“it’s not a business yet, it only turns into a business... you need to somehow prove that the market has real interest for what you’re building, and the way to prove it is by having someone contracting you for what you’re supposed to deliver. To have a paying customer,”*.

Furthermore, the entrepreneur in interview D emphasizes that the early stage of a start-up requires knowing exactly where the company is heading and making strict strategic decisions. Yet with their statement: *“the invention is not the problem, it’s having customers who are willing to pay for it, or interested in looking into it,”*, interviewee D aligns with the customer-first ideal. The empirical material thus shows that Blank’s (2013) theory accurately captures the entrepreneurs’ intentions, but often fails to account for their resource dependency. When facing capital constraints, the entrepreneurs tend to redirect their attention toward securing external capital, naturally shifting their focus beyond the customer alone.

4.3 Investor Legitimacy as Leverage to Buy Runway and Its Effect on Speed

Building on the challenge of audience diversity (Fisher et al., 2017), the empirical data illustrates how these different institutional logics manifest in practice. The entrepreneur in interview B captures this dual demand: *“Business customers want a ‘square and dull’ product that simply works, while investors want features that sell”*. However, the empirical data points to a recurring pattern. The ambition to satisfy either of these audiences takes time,

which creates a need for capital simply to sustain the start-up . This vulnerability is tied to the resource scarcity of early start-ups (Baker & Nelson, 2005) and creates a stress point for the entrepreneurs. For example, Interview B describes the reality of stretching their current finances: *“As of now I have my savings. I’ve applied for “starta eget bidrag”. It’s money to sustain myself, not to invest in the company. This gives me some leeway to go longer without taking a salary.”* While relying on such temporary solutions aids in keeping capital within the business, it is rarely sustainable. Eventually, the pressure of depleting funds catches up, as Interviewee B admits: *“Let’s say we can probably go for 6 more months without external finance, but after that it would be too hard to continue the operation.”*.

To navigate this dilemma, the empirical findings show that the entrepreneurs use investor legitimacy as a strategic tool to buy what we define as *runway*. Runway is the funded time available to work full-time and uninterrupted on the start-up . Without this runway, the hunt for capital actively slows down the business. Interviewee E illustrates this:

“It’s exhausting to prepare 10 pitches a week, it’s exhausting to write a shit ton of applications, and it keeps you away from the actual business.”

Having to constantly cater to the professional logic of external investors (Fisher et al., 2017) creates a temporal paradox for the entrepreneurs. They are forced to spend their limited time and energy chasing capital instead of engaging with the customers, simply to buy the time required for actual customer development. Once secured, however, this capital acts as an enabler for speed. Similarly, interview A states: *“we have funding, and our runway is around 2 years we haven’t been seeking for the next round”*. By buying two years of funded time, the start-up breaks the cycle of constantly seeking external approval. Instead, they can allocate their limited resources (Gifford, 1992; Simon, 1976) entirely on testing and validating their business model, available, aligned with the core ideal of the Lean methodology (Blank, 2013).

However, interview D illuminates an inherent risk with capital acquisition, the danger of securing too much. They argue that an abundance of capital can actually hurt the iterative efficiency of the start-up. When a start-up has too much money, it loses its strategic focus. Interviewee D explains: *“you build a lot of waste into the process because then you can afford to do it. If you have too much funds available, then you don’t make enough*

prioritizations.” In this instance, the abundance of funds removes the pressure to prioritize. When the start-up is no longer financially forced to make strict choices, the iterative efficiency required by the Lean Methodology (Blank, 2013; Shepherd & Gruber, 2021) is compromised by the very capital that was initially intended to buy speed and sustain the start-up operations.

4.4 Feedback and “The Institutional Pivot”: When Investor Logic Redirects the Business Model

The Lean Start-up method suggests that entrepreneurs should gather feedback and pivot their product if the market does not respond well (Blank, 2013). The empirical data confirms that entrepreneurs sometimes follow this traditional customer-driven approach. For example, the entrepreneur in interview A completely changed the start-up’s pricing model based on direct customer critique. Also, the student entrepreneur in interview C used survey responses to refine the product features. In these cases, the pivots were clearly driven by the customers, aligning with the principle of validated learning (Blank, 2013; Shepherd & Gruber, 2021).

However, the data also reveals that customer feedback is not always rationally processed. Interviewee D emphasizes that entrepreneurs can become ‘*so eager and high on yourself and your idea*’ that they ignore negative market feedback and ‘*almost start lying to themselves*’. This internal self-deception directly contradicts the concept of validated learning (Shepherd & Gruber, 2021), illustrating how an entrepreneurs' own hubris can block the intended customer-driven pivot.

Yet, while entrepreneurs might ignore customer critique, they are also responsive to critique from investors. Because start-ups must navigate the specific institutional logics of different resource providers to secure funding (Fisher et al., 2017), they might execute what we conceptualize as *institutional pivots*. For example, interviewee B completely rethought the product to add an AI-layer simply because an investor asked what was unique about the product: “*I talked to some investors and they said: [...] what is unique about your product, you need to tell me that. I didn’t have an answer for that. Since then, I mean everything I’ve explained to you, this new concept, came from this provocation*”. Instead of pivoting to solve a verified customer problem (Blank, 2013; Shepherd & Gruber, 2021), the start-up pivoted to satisfy the investor’s perspectives for a fundable asset.

This investor-driven redirection is not limited to product features, it also extends to the very structure of the organization itself. Interviewee D recalls how an investor forced a structural pivot before committing:

“The first venture I joined... I was actually brought in by one of the investors. So there was an angel investor that had went into the company and then he actually contacted me because we had worked together a long time ago and he said, can you join this company because we need to have structure. So he actually brought me in to do those things. So from that perspective, that investor changed that company.”

While the Lean methodology views organizing as a search for functional customer value (Blank, 2013), this structural pivot serves a different purpose. Because start-ups suffer from information opacity, formal organizing activities are therefore used to make the unproven venture appear reliable to stakeholders (Delmar & Shane, 2004). Even if the primary operational goal of a structural change is efficiency, this very efficiency serves as tangible proof to investors that the business is “*serious, responsible, and follows established societal rules*” (Delmar & Shane, 2004). By this, the entrepreneurs demonstrate the accountability required to mitigate the investors’ uncertainty, using formal organizing to secure investor legitimacy.

The interviews further reveal how this redirection is operationalized, namely, through the active participation of the investors themselves. As Interview E notes: “*business angels get super invested*”, since “*first of all, it’s their money, second it’s their company and they believe in the idea. It’s more about them actually being a part of it and not just saying here’s the money, go for it.*”. Here the interviewee welcomes the idea of investor participation. Even Interviewee D confirms that investors can contribute through “*steering*” and “*governance*”, and refers to the valuable involvement as “*smart money*”. However, accepting this smart money implies that the investor’s specific institutional logic (Fisher et al., 2017) is brought directly into the start-up’s internal governance. The redirection of the business model is therefore not merely a reaction to external audiences, but a direct consequence of an audience, in this case, investors, actively steering the start-up from within.: “*if you have the right investors on board, you would also have access to the right customers or to the right product development and then starting small and having those investors add value to you in*

terms of steering, in terms of governance, in terms of networking. ...sometimes you call it smart money, but I mean, they don't only bring cash, but they actually bring something else.”. Similarly to how interviewee E sees value in the active participation of investors, interviewee D solidifies this concept by using the term “smart money” to allude to: investment money that is not just money, but also provides “networking” value amongst other things.

4.5 Soft vs Hard Validation as a Function of Experience

Beyond prioritization, the data also reveals a clear difference in how the entrepreneurs market validation. This difference is shaped by their IHC (Cooper et al., 1994). Inexperienced entrepreneurs tend to be content and accepting of “soft” validation. For example, interview C viewed the collection of survey responses as a major milestone: *“we got 100 survey responses. And I think that was a really big milestone and getting a lot of validation”.* Interview A also relied on continuous early interviews. The risk here is that inexperienced entrepreneurs, lacking extensive IHC, have not yet developed the critical industry know-how to demand stricter metrics. Therefore, they risk confusing polite feedback with actual market demand, misinterpreting what constitutes true validated learning (Shepherd & Gruber, 2021).

In contrast, the experienced entrepreneurs use their background to drive towards and demand financial, “hard” validation. The partner in interview D argues that if a product pilot is free, the feedback cannot be trusted because the customer lacks “*skin in the game*”. The customer must actually pay to prove that they truly value the solution:

“If I get the whole pilot for free, then by nature I will not commit my full energy to making the pilot successful because there's no skin in the game from my side. But if I have to pay, it doesn't have to be the full value, but if I pay something, then I commit. Then I will make sure that I supply the right resources or the focus or the things we need to the project.”

This quote also lifts the commitment aspect of hard validation. Once the customer has paid an amount for the product or service they automatically become more committed to the outcome. As having the company fail would have consequences, could be small, but existent none the less. Additionally, a quote from interview B adds another dimension to this theme. Investors are often after a safer, more proven investment, the commitment from customers is what they want to see. *“I'd say a criteria from around 80% of the people I've spoken to is to*

have some sort of contract with an end client. That is what most investors are after ... To have a paying customer, to have a contract ... I would say it's very hard to get any investor onboard before you come to that level.". In these cases, securing hard customer validation is not merely about adhering to the Lean methodology (Blank, 2013; Shepherd & Gruber, 2021). Rather, the empirical data illustrates how this hard validation acts as a prerequisite to satisfy the different institutional logics of diverse investors and achieve legitimacy (Fisher et al., 2017).

4.6 Borrowed Legitimacy and Impression Management

To overcome the liability of newness, entrepreneurs often engage in impression management to project an image of competence and reliability (Nagy et al., 2012). The empirical data are in line with Fisher et al.'s (2017) "identity mechanisms", where entrepreneurs use symbolic actions that often add no actual value to customers, but are necessary to build investor trust. For example, the entrepreneur in interview A explicitly recruited a famous older person to the team, solely as a "*credibility mark*" to signal trust. The entrepreneur admitted that this person does not do much actual work, but provides a symbolic facade that can be used externally. This illustrates how entrepreneurs who lack a proven track record navigate information opacity (Rutherford et al., 2009) by borrowing legitimacy through ties with individuals (Stuart et al., 1999) with extensive experience.

While interview A showcases borrowing legitimacy from a person, the student entrepreneur in interview C focuses on projecting strong confidence and proactiveness, relying on external pitch-mentors to polish presentations and scripts to look legitimate to judges and investors. Even the highly experienced partner in interview D confirms the necessity of this facade. The partner explains that being tagged by venture capitalists on social media "*adds no value to the customer whatsoever*", but is required because it makes the "*investor shine*" and "*feel secure*". Interview D also admits to occasional "*window dressing*" to keep investors happy when actual progress is delayed. In these cases, impression management (Bolino et al., 2008; Nagy et al., 2012) is used as a tool to play the investor game and borrow legitimacy (Stuart et al., 1999)

However, the data also reveals that a different dimension of this concept can be seen through emphasis framing (Fisher et al. (2017)). The data shows that entrepreneurs deliberately adjust

their communication to align with the specific institutional logic of the audience, be it in customer or investor interaction. Small adjustments from how you talk about the business and even how the business makes you feel can create signals that indirectly communicate to stakeholders. Interview A provides a good example of this: *“I can be super proud of it. I am working on this, I have a team working on this, I think this also changes the customer perception of us. I’ve had a lot of calls with customers where they ask ... are there people working full time? The customers don’t want to join if there isn’t someone working fulltime. [...] Now I can proudly say, yes I am working fulltime [...] This changes everything”*. This quote highlights not only the difference working full time has on the customer perception, but also the sense of pride an entrepreneur can get from that, and in turn how that sense of pride amplifies customer confidence. Interview E shows us how this concept can also impact investors:

“You have to sell the vision and what you want to do and not what we’re capable of doing right now. Us in 5 years will have people behind us helping us reach this vision, us right now are 3 girls working on this full time trying to make it happen. That’s two different things, we’re selling the vision of what we’re gonna do and that is way bigger than what we’re doing right now. I think that is really important for investors to see, that we’re crazy enough to believe it’s gonna be that big, because if we don’t believe it’s gonna be that big, then they won’t believe it.”

By “*selling the vision*”, the entrepreneurs are essentially engaging in self-promotion and exemplification (Nagy et al., 2012) to showcase foresight and determination. By highlighting these specific traits, the entrepreneurs utilize emphasis framing to satisfy the investors (Fisher et al., 2017).

4.7 Entrepreneurial Attention and the Hidden Cost of Organizing

Navigating the dual demands of customer validation and investor legitimacy requires significant time and energy, yet an entrepreneur's entrepreneurial attention is strictly limited (Gifford, 1992). The data reveals that organizing a team creates internal administrative demands that pull focus from the external market. How entrepreneurs handle this ‘hidden cost’ depends on their IHC (Cooper et al., 1994).

The entrepreneur in interview A built a team of 15 people but “*feels a huge pressure*” being responsible for them. “*I think this is what every founder/CEO feels, even though it’s nice to grow a team it also comes with a lot of pressure, and you need to be the one who pays their salary, who actually takes care of their work things, makes sure they are mentally fine, physically fine, to do their jobs. I have not yet figured out if this is something I like or not.*” Because this entrepreneur lacks prior management experience (Cooper et al., 1994), the sheer size of the team consumes their cognitive capacity. The internal demands of organizing drain their limited entrepreneurial attention (Gifford, 1992), leaving less time for activities related to customers and/or investors. The entrepreneur explicitly voices how this internal burden limits their external focus: “*It’s hard to prioritize your time, I always find that I’m good at sales, but every week I don’t have time to do sales, and if I don’t do it I beat myself up a bit. But at the end of the day I’m still human*”.

In contrast, the experienced entrepreneurs use their human capital (Cooper et al., 1994) to actively avoid this. The entrepreneur in interview B built a lean team of only three senior people because he knows that coordination takes effort and that ‘*too many junior people kills startups*’. Interviewee B stresses the importance of a sleek and effective organization:

“I think there’s no other way than being lean. The more people you have, the harder the communication is and the harder the coordination is.”

Comparing this to the example presented in interview A where team size was a noticeable issue. The smaller team size in interview B allows more entrepreneurial attention (Gifford, 1992) to go towards driving the product and company forward, rather than managing team actions. Similarly, interview D explains how they had to slim down their team from nine people to just two, to regain their strategic focus, regretting how they initially “*spread ourselves thin in different markets*”. To mitigate this, they “*went from having nine people in Lund, to...[...] two*”. Ultimately, a high degree of IHC enables these specific entrepreneurs to more easily navigate their internal organizing. They ensure that their limited entrepreneurial attention (Gifford, 1992) remains fully allocated toward the external demands of customers and investors.

5. Conclusion and Discussion

This chapter presents the conclusion of the study, followed by a discussion of the study's relevance and overall research process. The chapter also outlines the practical contributions and provides suggestions for future research.

5.1 Conclusion

Through systematic combining (Dubois & Gadde, 2002), the observations of how entrepreneurs navigate validation and legitimacy gradually led to the development of the *Start-up Circuit Model*. This framework serves as the study's integrated answer to both research questions and captures the dynamic mechanisms that shape early-stage entrepreneurial navigation.

The first research question asked how entrepreneurs facing the liability of newness navigate the dual demands of customer validation and investor legitimacy. The findings show that entrepreneurs do not experience these as a choice between two competing options. Instead, the two demands function together as a survival circuit, where each one fuels the other. The data reveals a recurring pattern of conversion. Entrepreneurs, in need for capital, use whatever legitimacy they can credibly claim to secure capital from investors. That capital is then converted into runway, which is the operational time the start-up needs to keep building, testing, and reaching customers. Runway is what makes meaningful customer validation possible in the first place, because validation takes time to generate. Once customer validation begins to materialize, it strengthens the legitimacy entrepreneurs can carry into the next investor interaction. This in turn extends the runway further. However, the data shows that this relationship is not symmetric in the beginning. Entrepreneurs without an extensive IHC have little credentials, and therefore less legitimacy to convert in the first place. This makes it harder for them to cross the legitimacy threshold, so the customers become their entry point into the circuit instead. Early traction generates the initial legitimacy that later opens the door to investors. Investor legitimacy and customer validation are therefore not competing interests but interdependent components of the same circuit, each one feeding back into the other.

The second research question asked how entrepreneurs' IHC shapes this navigation. The findings show that human capital regulates how entrepreneurs enter and move through the circuit. Experienced entrepreneurs enter with established credentials, prior ventures, industry networks, and reputational capital that already carry weight with investors. This allows them to approach the circuit from a position of strength. They can demand hard validation from customers, meaning actual financial commitment rather than expressed interest. While experienced entrepreneurs may still face credibility gaps of their own, their established credentials mean they do not need to rely heavily on impression management to bridge them for investors. This is not to say that experienced entrepreneurs enter without any gaps of their own, but their established credentials mean they do not need to lean heavily to bridge them. Inexperienced entrepreneurs enter the circuit under very different conditions. They lack the credentials and networks that would otherwise generate legitimacy on their own. This leaves them with structural gaps in credibility that must be addressed before investors are willing to engage. To cross this legitimacy threshold and secure the runway they need, they compensate through strategic impression management (Nagy et al., 2012) and by borrowing legitimacy (Stuart et al., 1999). For entrepreneurs without an established track record, impression management can function as a way to convert symbolic credibility into runway when substantial credibility is not yet available. The same entrepreneurs also tend to lean on softer forms of validation, such as surveys or expressions of interest, which they treat as evidence.

This lack of experience also affects how they manage their limited entrepreneurial attention (Gifford, 1992). Inexperienced entrepreneurs often struggle with early team composition and structural boundaries, leaving them vulnerable to the hidden costs of organizing. Experienced entrepreneurs on the other hand, use their IHC to actively protect their attention by keeping operations lean. This makes their focus remain on navigating the circuit rather than on internal administrative friction.

IHC therefore does more than influence whether entrepreneurs can enter the circuit. It shapes what entrepreneurs present at each stage, what validation they can demand and do demand from the market, how they allocate their cognitive attention, and how much impression management they must do to remain in motion.

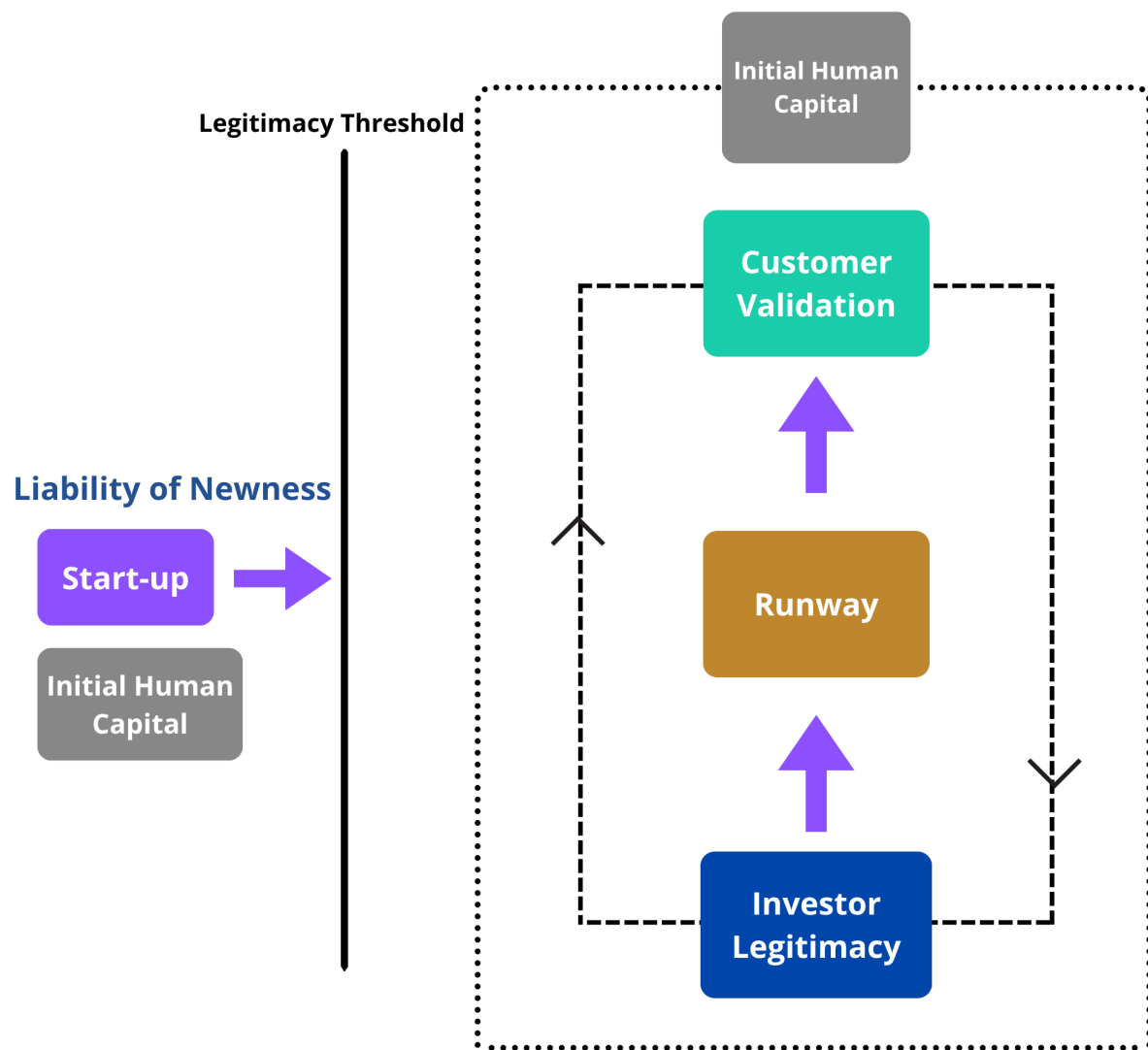


Figure 1: *The Start-up Circuit Model, made to aid in the visualization of the thesis' findings.*

5.2 Theoretical Contributions

The Start-up Circuit Model contributes to three established frameworks on validation, legitimacy and human capital.

One contribution lies in how the findings challenge Blank's (2013) and Shepherd and Gruber's (2021) Lean Start-up methodology through the concept of the *Institutional Pivot*. Blank's model centers customer feedback as the primary driver behind product iterations and pivots, treating the market as the source of truth that ventures must continuously listen to. The findings tell a different story. The need to secure capital can also lead entrepreneurs to adapt their core offerings to fit the different institutional logics of investors, which means that pivots are sometimes shaped not by what customers say but by what investors expect. The pursuit of investor legitimacy can therefore play an active role in developing the start-up's business model. This suggests that resource dependency (Pfeffer & Salancik, 1978), rather than pure user validation, can also shape the strategic direction of new start-ups and the form their venture takes.

The study also extends Fisher et al.'s (2017) research on organizational legitimacy. Previous literature emphasizes the tension entrepreneurs face when they have to satisfy different expectations of investors, customers, and other stakeholders at the same time, and often describes this as a difficult balancing act. The findings contribute by conceptualizing this relationship as a functional symbiosis instead, at least for two stakeholders: customers and investors. For entrepreneurs who depend on, or are in need of external capital, investor legitimacy can function as more than a static stamp of approval. It can become a resource they convert into runway, which in turn can support the pursuit of customer validation that investors will later look for. By defining this symbiotic mechanism, the study provides a theoretical bridge between resource dependence and market validation. It suggests that the two demands can actively fund each other rather than standing in opposition.

A further contribution emerges from integrating Cooper et al.'s (1994) concept of IHC with Nagy et al.'s (2012) work on impression management and Gifford's (1992) theory of entrepreneurial attention. The findings suggest that entrepreneurs with low IHC can face structural gaps in credibility. These gaps can limit their focus to building investor legitimacy and customer validation before they have had the chance to prove themselves. To close these

gaps, entrepreneurs may use impression management as a targeted tool instead of a general boasting. It helps them project credibility and cross the legitimacy threshold in ways that their background alone cannot always carry them across. The study also adds to Gifford's (1992) theory by suggesting that a lack of IHC can expose entrepreneurs to the hidden cost of organizing. These costs may drain their already limited entrepreneurial attention and compound the disadvantage their lack of experience creates.

5.3 Practical Implications

Using analytical generalizability this thesis can provide an aid in early stage decision making. The most applicable pieces of advice early stage entrepreneurs can take from the reading of this thesis would be: to focus on the acquisition of hard validation over soft, to understand and respect Gifford's (1992) theories surrounding entrepreneurial attention, having an accurate and honest analysis of their own IHC, and finally not only following Blank's (2003) theories getting out of the building but also getting into the circuit.

As discussed in chapter 4.5 the difference between hard and soft validation has to do with the level of commitment inherent to both. Hard validation has to do with financial commitment, while soft validation risks the confusion of kind words becoming the basis for financial plans and product development. Focusing on hard validation ensures the backing of one's ideas and adds a bit more of a "safety net" securing that entrepreneurs won't be left stranded after the implementation of feedback. Hard validation also acts as the insurance investors seek before getting on board, and for entrepreneurs looking to establish investor legitimacy hard validation goes a much longer way than its counterpart.

Chapter 4.7 brings up Gifford's (1992) theories regarding entrepreneurial attention. It's important for entrepreneurs to understand the extent of their attention span and how much they can effectively do. This way entrepreneurs avoid biting off more than they can chew and maintain their workloads to more manageable limits where they can avoid getting overwhelmed.

On a similar note interviewee D's analogy of the mirror in the boardroom serves as an important illustration of a key concept for entrepreneurs. It is crucial to remain attentive to one's own capabilities and resources at the current moment. Big goals and visions are

important drivers for entrepreneurs and start-ups, but a realistic view on what is possible is just as if not more important. This can also be seen as an understanding over one's own IHC, knowing what one brings to the table and what they need support on can make or break an entrepreneurs early efforts.

Finally, an ending note would be to not only get out of the building, as Blank (2013) brings up, but also to get into the circuit. Getting into the circuit and crossing the legitimacy threshold is an important step for the development of start-ups. The generation of runway and traction alongside customer validation and investor legitimacy are key drivers pushing start-ups forward. The earlier a start-up can get out there and get legitimized the better.

5.4 Limitations and Future Research

This qualitative study offers deep interpretive insights, but its findings rest on five interviews within one specific entrepreneurial ecosystem, which means they are analytically rather than statistically generalizable. Since the abductive design draws on the researchers' own interpretations to build concept models, the findings are shaped by the particular context these entrepreneurs operate in. Moreover, because the study only captures start-ups during their uncertain initial search phase, it cannot measure whether the strategic choices observed actually succeed or fail in the long run.

These limitations open up several avenues worth exploring further. A longitudinal study would follow start-ups over time to assess the long-term consequences of the Institutional Pivot, examining whether start-ups that pivot mainly to satisfy investor logic ultimately survive or fail once their initial funding runs out. Building on this, quantitative research could test the theory generated here by examining whether the entrepreneurial demand for hard validation and actual financial commitment correlates with higher survival rates across different industries. It would also be valuable for future qualitative studies to isolate specific types of resource providers, such as angel investors or venture capitalists. This in order to map how different sources of capital trigger different strategic compromises and institutional logics.

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Appendix

Intervjuguide
1. Can you tell us a little bit about your background? FQ: How did it lead to the creation of your venture?
2. What have you focused most of your time and attention on during the early stages of the startup? FQ: What would you consider to be some important milestones for the venture? FQ: Has your focus changed over time?
2. What have you focused most of your time and attention on during the early stages of the startup? FQ: What would you consider to be some important milestones for the venture? FQ: Has your focus changed over time?
3. When everything feels important, how do you determine what deserves your attention first? FQ: Can you describe a situation where this was particularly challenging?
4. To what extent have customers or users influenced your product development so far? FQ: Can you describe a specific instance where customer input changed your direction? FQ: What kind of customer feedback or evidence has been important?
5. What has been your approach to securing external financing? FQ: How heavily does the venture prioritize the acquisition of external financing? (How much time/resources is spent on acquiring external financing)
6. What role, if any, have investors, funders or external credibility played in your startup so far? FQ: Have they influenced what you work on or how you present the venture? FQ: What signals have felt important to show externally?
7. How has your own background and experience influenced the priorities of the startup? FQ: Any previous encounters or situations? Are there activities you feel more confident doing than others? Are there activities you tend to avoid?
9. How do you generally balance customer insights with investor expectations over time?

10. Which of your personal skills or abilities have been most important in handling challenging situations, and how have they shaped the decisions you made?

Use of Generative AI

- Which conjunction fits best here because, furthermore or therefore?
- Check the spelling.
- Is this paragraph grammatically correct?
- Which part makes this sentence unclear? Bold it. Short answer.
- Can you advise how to improve the flow between these sections?
- Give 2-3 rewordings. No new ideas, facts or examples.
- Can you suggest alternative formulations of the research questions, or use another word instead of “X”?
- Is anything in this sentence linguistically weak?
- Can you briefly explain this “X” concept?
- Can you, without changing the idea, advise how I should rephrase the grammar in what I want to say?
- Is there unnecessary noise in this paragraph?
- Don't edit, just give me tips.
- Bold the parts that could be rephrased for grammatical clarity.
- Any shorter words I could use instead of X?
- Is it clear what I mean in this specific sentence?
- Grammar score 1-10 in this sentence.
- Would a teacher find this sentence clear? Tips only, don't edit.
- Does this sound natural or slightly off?
- Can you even say it this way?
- Too formal, too casual, or fine? Don't edit it.
- Would a native speaker phrase this differently?
- Am I overcomplicating this?
- Can you phrase it like this in English? Don't change, just advise.
- Is there one word that says what I mean here?
- Does this sentence mean what I think it means?
- Could this be misread?
- Is this the right word or does it have weird connotations?
- Does this flow or does it feel clunky?
- Is X too metaphorical for an academic essay?
- Does this feel like something is missing in grammar?

