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DOES LEGITIMACY REALLY MATTER FOR NEW VENTURES? (SUMMARY)

Tang Wang

University of Missouri-Kansas City, USA, TangWang@umkc.edu

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SUMMARY

DOES LEGITIMACY REALLY MATTER FOR NEW VENTURES?

Tang Wang, University of Missouri-Kansas City, USA

Principal Topic

New ventures have been recognized as the most important power for economic development and wealth creation (Christensen and Bower, 1996). A recent meta-analysis, however, revealed that the survival rate among US technology ventures is low (Song, Podoynitsyna, Van der Bij, and Halman, 2008). The findings suggested that, after four years, only 36 percent of companies survived. After five years, the survival rate fell to 21.9 percent.

Based on their prominent publications, Shane and his colleagues argued that legitimacy is a critical determinant for new venture survival (Shane and Foo, 1999; Delmar and Shane, 2004). Gaining organizational legitimacy and social acceptance can overcome the liability of newness.

In their theoretical work, Zimmerman and Zeitz (2002) outlined three key sources of legitimacy: cognitive, regulative, and normative residing within the psyches or social actors. However, prior research failed to adopt and test this classical categorization. As Suchman (1995) noted, “most treatments cover only a limited aspect of the phenomenon as a whole and devote little attention to systematizing alternative perspectives (p. 572).”

The purpose of this paper is to link venture’s early stage performance with all three types of legitimacy including cognitive, regulative, and normative.

Method

The research setting is 3,579 new businesses in the United States founded in 2004. The data is obtained from the large longitudinal survey, Kauffman Firm Survey (KFS). We measure new venture’s second year performance by a dummy variable indicating whether its revenue exceeds $100,000 (1 = yes, 0 = no). We measure cognitive legitimacy by founders’ industry work experience and start-up experience, regulative legitimacy by payment of federal insurance tax and filing articles of incorporation, normative legitimacy by networks with suppliers through trade financing. The relationship between legitimacy and new venture performance is estimated using logistic analysis. Given that our dependent variable is whether firm’s revenue exceeds $100,000, logistic regression is an appropriate analysis technique.

Results and Implications

Results show that all of cognitive, regulative, and normative dimensions positively affect new venture performance, providing empirical support for the framework of Zimmerman and Zeitz (2002). Our research also highlights the importance to address all the three different facets of social judgments in the founding strategy.

CONTACT: Tang Wang; TangWang@umkc.edu; (T): 816-235-6160; (F): 816-235-6529; Institute for Entrepreneurship and Innovation, University of Missouri-Kansas City, MO, 64110.