NEW VENTURE LEGITIMATION ACROSS LIFE CYCLE STAGES: THE USE OF NEW MEDIA FOR ENTREPRENEURIAL IDENTITY CONSTRUCTION OVER TIME

Friderike Bruchmann  
*Technical University of Munich, Germany, friderike.bruchmann@tum.de*

Rieke Dibbern  
*Technical University of Munich, Germany*

Hana Milanov  
*Technical University of Munich, Germany*

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Friderike Bruchmann, Technical University of Munich, Germany
Rieke Dibbern, Technical University of Munich, Germany
Hana Milanov, Technical University of Munich, Germany

Abstract

Research in organizational theory and entrepreneurship has well established the importance of acquiring legitimacy for new ventures (e.g., Delmar & Shane, 2004; Zimmerman & Zeitz, 2002). However, only recently, scholars have recognized that ventures face ‘multiple legitimacy thresholds’ with audiences differing in their expectations and evaluation criteria over the life cycle phases (Fisher, Kotha, & Lahiri, 2016). Whereas a new venture is advised to ‘portray different identity claims’ to the different audiences in order to attain legitimation (Fisher et al., 2016; Fisher et al., 2017; Garud et al., 2014), we argue that in a single context - i.e. the transparent and immediate world of online communication - other identity-related development strategies may apply. Specifically, we investigate how new ventures navigate the complexity of being recognized by multiple audiences in the online world of social media and answer the question when and why changes in new venture’s identity claims affect their success.

INTRODUCTION

Research in organizational theory and entrepreneurship has well established the importance of acquiring legitimacy for new ventures (e.g., Delmar & Shane, 2004; Fisher, Kotha, & Lahiri, 2016; Singh, Tucker, & House, 1986; Stinchcombe, 1965; Zimmerman & Zeitz, 2002). A venture that is perceived as legitimate – so to say its actions are “desirable, proper, or appropriate within some socially constructed systems of norms, and values” (Suchman, 1995: 574) - has a higher chance to attract critical resources and survive (e.g., Garud, Schildt, & Lant, 2014). Past research has provided different propositions regarding how new ventures can attain legitimacy, ranging from obtaining endorsement (e.g., Stuart, Hoang, & Hybels, 1999), engaging in certification contests (e.g., Rao, 1994), conforming to institutional norms (e.g., Zimmerman & Zeitz, 2002) or by building identity claims (e.g., Navis & Glynn, 2011) (for an extensive review see Fisher, Kuratko, Bloodgood, & Hornsby, 2017; Überbacher, 2014). Particularly answering the identity-related questions of “who” the venture is and “what” it does (Navis & Glynn, 2011; Whetten, 2006) has been declared to be one of most important and widely used instruments for legitimation purposes (Fisher et al., 2017).

In advancing our understanding of legitimacy attainment, recent literature recognizes that venture face multiple and different legitimacy-granting audiences, and challenges the assumption that such different audience groups would share similar legitimacy judgments (Fisher et al., 2016; Überbacher, 2014). In contrast, a new venture is theorized to face ‘multiple legitimacy thresholds’ over its life cycle stages, from the conception phase (with government funding bodies as one exemplary key audience), over the commercialization phase (where professional investors are holders of critical resources), to the growth phase (with institutional investors being in charge of preparing the exit) (Fisher et al., 2016). As these resource providers differ in their expectations,
procedures and norms when evaluating the legitimacy of a market entity (e.g., Bitektine, 2011; Hanlon & Saunders, 2007), a new venture is advised to ‘portray different identity claims’ to the different audience groups (Fisher et al., 2016; Fisher et al., 2017; Garud et al., 2014).

Notwithstanding the importance of adapting identity claims to distinct audiences across the life cycle stages, many new ventures (and especially high tech ones) at least temporarily have to engage with the different audience groups within a particular life cycle stage – and what makes the issue especially potent – within a single context, with the latter posing challenges for extant theorizing. While temporal and spatial separation of audiences across a venture’s life cycle allows for possible separation of identity claims and their adaptation to different criteria, the transparent and immediate world of online communication poses non-obvious theoretical challenges to our understanding of new venture identity development. Practically, given the increasingly recognized role of cost-efficient and wide-reaching online tools in entrepreneurial communication (e.g., Fischer & Reuber, 2014), studying how new ventures navigate the complexities of multiple audiences is an important endeavor. Accordingly, with this study, we aim to investigate when and why changes in new venture’s identity claims (Ashforth & Mael, 1989) affect venture’s success in attracting attention from different audiences in a single context. Specifically, we reserve our attention to ventures on the cusp of professional fundraising, as this represents an important transition phase from conception to commercialization phase, and where bifurcation of audience types is to be expected (Fisher et al., 2016) – yet is challenging to address in the online context.

Our study sample consists of venture capital-backed US ventures from the Internet and IT industry for which we have collected all Twitter activities from their early days (conception phase) to the post-funding phase (growth phase). Observing a venture’s identity development in the online world is especially advantageous as an empirical strategy given that the visibility of online communication allows us to trace a venture’s identity from its inception. We focus on high-growth startups to allow for a clear distinction between the different resources needed at different points in time and to stay in line with earlier theoretical work on identity development over time (Fisher et al., 2016; Fisher et al., 2017).

Our research draws on and contributes to several literature streams as we inform our theory. First, we add to ongoing research at the intersection of organizational legitimacy, entrepreneurship and identity building (e.g., Cardon, Wincent, Singh, & Drnovsek, 2009; Fisher et al., 2016; Fisher et al., 2017; Garud et al., 2014; Lounsbury & Glynn, 2001; Navis & Glynn, 2011). To our knowledge, this is the first systematic large-scale attempt to analyze a new venture’s identity development online and over time. In particular, we extend previous work on the importance of constructing different identity claims with respect to the audience group in that we take into consideration a single context within which a new venture communicates to its stakeholders.

THEORETICAL BACKGROUND AND HYPOTHESES

New Venture Identity, Identity Claims and Narratives

There exist different mechanisms to establish and manage organizational legitimacy – where identity development is a key activity for new ventures (Fisher et al., 2017; Navis & Glynn, 2011; Überbacher, 2014). The organizational identity is defined as the “members’ collective, shared sense of who they are as an organization” (Fisher et al., 2016: 386). An organizational identity helps to answer critical questions of “who we are” and “what we do” and is imprinted in the overall organization’s structures, and values (Lounsbury & Glynn, 2001; Navis & Glynn, 2011; Whetten,
Identifying with an organization is not only important for the members working there, but it allows the audiences surrounding the venture to understand what the organization stands for or what it aims to become (e.g., Ibarra & Barbulescu, 2010; Livengood & Reger, 2010; Waldron, Navis, & Fisher, 2013; Weber & Glynn, 2006). With that, an organization's identity helps to manage stakeholders' perceptions about its ability to create value (Rindova, Williamson, Petkova, & Sever, 2005).

The identity is established via identity claims, which are self-referential statements that explain the purpose and core attributes of an entity (e.g., Ashforth & Mael, 1989; Fisher et al., 2016). Thus, an organization makes claims about its role, its current activities and what its future actions will most likely look like and by that addresses divergent audience groups, such as employees, customers or investors. In association with that are identity narratives or stories that are defined as “mechanisms supplying meanings, resonance, and coherence to […] identity claims” (Navis & Glynn, 2011: 490). In the case of new ventures, identity narratives tell for example stories about the entrepreneurial undertaking concerning the background of team, the discovery or potential of their business opportunity (Martens, Jennings, & Jennings, 2007). By this, they guide the audiences' understanding, sense-making and likeability of the new venture (Navis & Glynn, 2011). Accordingly, the identity of an organization can be seen as some sort of narrative.

In the early stages, e.g. from the conception phase to the growth phase, a new venture depends on resources and support from different audience groups that vary in their legitimacy criteria (e.g., Fisher et al., 2016; Hanlon & Saunders, 2007; Quinn & Cameron, 1983). Accordingly, the new venture faces “multiple legitimacy thresholds” as it evolves over time - requiring it to portray disparate identity claims to appeal to the different audiences' expectations and norms (Fisher et al., 2016; Kraatz & Block, 2008). This is important, because members of one audience group may not understand or interpret differently some identity claims fitting for another group (Glynn & Marquis, 2004; Golden-Biddle & Rao, 1997). Indeed, a venture showing off different identities at the same time may be perceived as unreliable and inconsistent, thus risking its credibility and ultimately legitimation (Fisher et al., 2016). Thus, there is an obvious challenge for entrepreneurs to manage and for investors to evaluate multiple or even hybrid identities (e.g., Pratt & Foreman, 2000; Zuckerman, 1999). This renders the identity-related question even more complex and critical in order to be recognized as legitimate by all target audiences (Fisher et al., 2016).

**Hypotheses**

Scholars increasingly acknowledge the important role new media plays in the professional context, especially among new ventures (e.g., Fischer & Reuber, 2011; Fischer & Reuber, 2014). One of the main advantages of online communication tools is their cost-efficient usage and their wide and real-time reach to broad audiences. Given their ‘liability of newness’, new ventures usually lack timely and material resources – making the online world an attractive starting point to establish a new venture's presence. This is especially often the case for high-tech companies operating in the IT or Internet sector, which often have an even closer connection to the online world than is the case for hardware or service companies. Indeed, social media platforms such as Twitter are among the most widely adopted new media tools as they allow a direct and immediate communication to the venture's audiences (Fischer & Reuber, 2014) – and therefore provide

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1Narratives have been interchangeably used with stories (e.g., Martin, 2016; Dailey & Browning, 2014; Barry & Elmes, 1997)
identity building-channels for new ventures. This is for example to disseminate recent news about the company, products or people working there, or to establish a more intimate relationship with their customers in order to push sales.

What makes social media platforms particularly important to distinguish from other new media tools, such as companies’ websites or blogs, is the conversational style of the social media statements (i.e. postings). These postings are usually a collection of short sentences as one would expect in an oral conversation (e.g., Barthes, 1996; Taylor & Van Every, 2000). The brevity and colloquial style of the information makes them easy to understand and appealing to the audience. We refer to online postings that entrepreneurs regularly share with their audience groups (such as friends, customers, partners and investors) as “small narratives” (Hjorth & Steyaert, 2004: 4) and argue that these online narratives form a part of a new venture’s identity in that they are expressive of who the venture is and what the venture does (e.g., Ibarra & Barbulescu, 2010). The recurring and immediate postings inform the audiences about past developments, recent happenings and future activities of the new venture, thus conveying meaning, understanding and the venture’s predictability to the audience (e.g., Navis & Glynn, 2011).

The early convenience and resourcefulness of social media platforms can be somewhat offset as the venture develops. Recalling the challenge for different audience groups to assign the same meaning to identity claims (Glynn & Marquis, 2004; Golden-Biddle & Rao, 1997), it is likely that new ventures have to carefully construct their online claims to build up a coherent identity that is assessed as legitimate by the different audience groups. With the topics of interest differing among various stakeholders, and the wide availability of these online posts on social platforms, the venture is presented with the challenge to integrate the different aspects and topics into a “meaningful and coherent whole” (Navis & Glynn, 2011: 493).

Taking into consideration the life cycle stages of a high-tech venture that starts off within the university setting, we suppose that early identity claims evolve around the technology, the products or services offered. There, the main audience are grant administrators and researchers that favor contributions to the public good, which will most likely trigger online statements around the innovation potential of the business idea (Fisher et al., 2016). As the venture is reaching out for financial and professional support from private investors and venture capital firms, the new venture’s online narratives have to touch on more business-related topics, such as about the market, competitors, and the industry. We therefore would assume a shift in the themes covered. However, given that a social media account usually continues to grow in the number of followers – and thus number of different audience groups, the new venture must find a balance between the fields covered in its early days versus the topics raised in later stages to be recognized by its distinct followers. Therefore, we believe that the small narratives have to be constructed as such that they strike the right chords to every audience group – leading to a fairly equal distribution among statements made on different topics as the new venture transitions to the growth phase.

Hypothesis 1. For high-tech new ventures in the conception phase, the number of identity claims covering technology/science-related topics is positively related to audience recognition.

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1 In the Crunchbase database, more than 75% of the US startups have a Twitter account, the most used social media platform in the world.

2 Another similar term is „minimal narratives“ (Czarniaska, 1988: 18) that are short story segments and which can be used to describe promotional materials, websites and product packages.
Hypothesis 2. For high-tech new ventures transitioning from the conception phase to the commercialization phase, balance of technology/science and business/financial-related topics in identity claims is positively related to audience recognition.

In the transitioning between the first two life cycle stages, high tech new ventures are likely confronted with a significant change in the institutional setting, such as the transfer from the university environment to the professional context. Research on work role transitions can be informative in understanding what such a transfer means for the new venture's identity claims. On an individual level, work-role transitions require increased narrative identity work, as role changes demand an explicit alignment of past events with future responsibilities (e.g., Bauer & McAdams, 2004; Ibarra & Barbulescu, 2010). This is for example important when trying to establish a footing in the new workplace or to explain the reasons for the transition. In addition, the visibility of actions has been shown to motivate people even more to manage their self-presentation in the public. To make sense of the change, and to engage in a continuous sense of self, narrative work helps to construct those bridges between the old and the new role (Ashforth, 2001). Translating this logic into the context of transitioning new ventures would imply that more extensive communication during the transition phase from a tech-oriented towards a business venture would facilitate audiences' understanding of such a transition. In contrast, without regular clarification statements, a new venture's followers may fail to understand the background of the transition. Moreover, while the existing audience group is already familiar with the new venture's identity, future audience groups may require greater narrative work to make sense of the new venture's self.

Hypothesis 3. For high-tech new ventures, relative increase in the frequency of self-referential identity claims in the transition phase (compared to the conception and commercialization phases) is positively related to audience recognition.

Building on these arguments, we further inspect how the nature of transition depends on the social status circumstances of the new venture. Specifically, past scholars have recognized that impression management is even more important when interacting with high-status members (Ibarra & Barbulescu, 2010; Roberts, 2005). The authors explain that high-status or powerful members may elicit greater narrative work to provide an enhanced self-representation. Building on this, we expect a new venture provides even more small online narratives when prominent investors are about to invest in the company.

Hypothesis 4. For high-tech new ventures, relative increase in the frequency of self-referential identity claims in the transition phase (compared to the conception and commercialization phases) is positively related to audience recognition, and this positive relationship is more pronounced for ventures funded by a prominent venture capital firm.

METHODS

We collected data on 435 venture capital funded US startups from Crunchbase, an increasingly prominent investment database for new ventures (Alexy, Block, Sandner, & Ter Wal, 2012; Homburg, Hahn, Bornemann, & Sandner, 2014). We focus on VC-funded startups to allow for a clear distinction between the conception phase (e.g., research setting) and the commercialization phase (e.g., professional setting). We focus our sample on startups that have set up a Twitter account after 1 January 2013 because the availability of historic information is limited to a certain data volume. We decided for ‘Twitter’ as the social media platform of choice as it is most commonly used for communication among businesses and has been qualitatively studied
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in academe (e.g., Fischer & Reuber, 2011, 2014). Moreover, the platform is legitimized by the U.S. Securities and Exchange Commission, which allows twitter for communication of investment performance (SEC, 2013). Indeed, among the Crunchbase startups, Twitter is the most pervasive form of online communication (75% startups had a Twitter account, with Facebook coming as a somewhat distant second as a communication channel with 60% of startups using it).

The Twitter information (i.e. tweets, retweets, type and number of followers) has been compiled for all ventures from their first tweet up to the end of 2016 from the Twitter application programming interface. For analyzing tweets, we use the natural language processing software Alchemy (offered by IBM), which is based on machine learning. With this software, we are able to capture different socio-cultural terms, such as entities (e.g., person), concepts (e.g., taxes) and taxonomies (e.g., accounting and auditing) in order to classify and cluster the different themes addressed by a venture's tweets. This approach allows us to account for a wide range of linguistic means for identity construction via minimal narratives. As dependent variable, we consider the recognition by the digital audience, such as the retweeting and liking behavior of a venture's followers since this represents the active engagement with the venture's different audience groups. Accordingly, we have a longitudinal study design, where we particularly distinguish between the conception phase (starting with the first tweets), the transition phase (six months prior and up to six months past the VC funding announcement) and the growth phase (starting after the transition phase). We normalize all Twitter metrics by comparing the audience's response behavior within peer groups, speaking of ventures with similar age range, business model, Internet industry category and location.

CONTRIBUTIONS

To our knowledge, our study is the first systematic large-scale attempt to analyze the impact of a new venture's identity development facing multiple audiences - in particular in the context of new media (e.g., Fischer & Reuber, 2014; Vaast, Davidson, & Mattson, 2013). We address an important challenge that the advance of new media and its increasingly important role in new ventures' online communication (e.g., Fischer & Reuber, 2014) places for the application of this theoretical perspective. By taking into consideration a new venture's identity development in one single context – Twitter as the online communication platform – we investigate the different identity claims affecting a new venture's recognition as the complexity of their audiences increases. Few studies have considered new venture identity development (for exceptions see Lounsbury & Glynn, 2001; Navis & Glynn, 2011) and work is similarly scarce on the temporal dimension of new venture identity development over its life cycle (Fisher et al., 2016). Therefore, adding to the conceptual work by Navis & Glynn (2011), we respond to calls for a better understanding of identity building in entrepreneurship (Cardon et al., 2009; Grégoire, De Koning, & Oviatt, 2008) beyond identity dynamic in times of organizational change (e.g., Gioia, Schultz, & Corley, 2000; Glynn, 2000).

CONTACT: Friderike Bruchmann; friderike.bruchmann@tum.de; (T): +49-89-289-52826; Technical University of Munich, Arcisstr. 21, 80333 München, Germany.