NEW VENTURE LEGITIMACY AND ITS ROLE IN SUPPLIER SELECTION DECISION-MAKING (SUMMARY)

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NEW VENTURE LEGITIMACY AND ITS ROLE IN SUPPLIER SELECTION DECISION-MAKING

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Principal Topic

Drawing on the legitimacy perspective within institutional theory, we test a proposed theoretical model of new venture legitimacy rooted in the notion that legitimacy judgments provide an important basis for buying firms’ supplier selection decision-making. Our study explores two interrelated research questions: What is the relationship between new venture legitimacy (i.e. a buying firm’s perception of the new venture’s actions as being appropriate, desirable, and capable) and the probability of being selected as a supplier by an established buying firm?, and How is this probability of selection affected by the buying firm’s prior experience with new ventures?

Method

Adopting a multi-dimensional perspective of legitimacy, we operationalized new venture legitimacy as a formative second-order construct along four dimensions: Legitimacy at the market-level, firm-level, individual-level, and environmental-level. Data were collected by means of a large-scale cross-sectional survey. Each case in our sample of 150 independent supplier selection decisions refers to a specific situation in which an established buying firm made a supplier selection decision among at least two potential suppliers, one of them being a new venture. Based on this data and given the dichotomous nature of our dependent variable (“Was the new venture selected as supplier?”; Yes/No), we test our predictions using logistic regression.

Results and Implications

Results suggest that a certain level of legitimacy is necessary for new ventures to attract resources and exchange partners or, from the perspective of the buying firm, to be convinced of new ventures’ performance potential. However, after having established a certain level of legitimacy, the marginal contribution of even “more” legitimacy seems to become smaller. When relevant prior experiences are present within the buying firm, results suggest that new venture legitimacy plays a lesser role in the supplier selection decision. With increasing experience, buying firms are likely to develop a scheme of how to assess, interpret, and draw conclusions about ventures’ actions and attributes in order to determine their performance potential. This study provides insights into the exchange relationships between established firms and new ventures which has attracted recent interest in the literature.

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