

**ESTABLISHING COGNITIVE LEGITIMACY IN
EMERGING ORGANIZATIONS:
THE ROLE OF PRESTIGE¹**

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ABSTRACT

Entrepreneurs with venture ideas must establish cognitive legitimacy so they can acquire essential resources needed for survival. We extend the concept of cognitive legitimacy by developing a model through which entrepreneurs in emerging high growth organizations attempt to establish and build cognitive legitimacy. This is based on the composition of their new venture team and advisory board. Novice entrepreneurs can draw on the prestige of their new venture team and advisory board to enhance perceptions of their emerging organization's cognitive legitimacy. Novelty of the venture idea moderates relationships between both new venture team prestige and advisory board prestige and cognitive legitimacy; thus entrepreneurs whose emerging organizations rely on highly novel products or services will likely need to establish higher levels of prestige to create cognitive legitimacy.

Keywords: Legitimacy, prestige, advisory boards

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INTRODUCTION

Entrepreneurs with a venture idea must convince others to join them in their pursuit of opportunities and they need to influence potential stakeholders' perceptions of legitimacy (Certo, 2003; Delmar & Shane, 2004). Individuals, groups and organizations (i.e., stakeholders) that have contact with an entrepreneur evaluate the emerging organization's purpose and legitimacy in order to decide whether or not to become involved with the emerging organization (Pfeffer & Salancik, 1978). Legitimacy, defined as a social judgment of acceptance, appropriateness and desirability, enables entrepreneurs to acquire resources needed for survival (Deeds, Mang, & Frandsen, 2004; Suchman, 1995; Zimmerman & Zietz, 2002). Legitimacy helps emerging organizations overcome their liability of newness (Stinchcombe, 1965) by enhancing entrepreneurs' ability to create social ties and initiate routines to gain resources (Deeds et al., 2004; Delmar & Shane, 2004; Suchman, 1995; Zimmerman & Zietz, 2002).

Entrepreneurship researchers have not fully explained the possible strategic behaviors entrepreneurs can take to build cognitive legitimacy at the earliest stages of a new venture's development. We extend Shepherd and Zacharakis' (2003) work on cognitive legitimacy, focusing on the process by which initial stakeholders form perceptions of an emerging organization's cognitive legitimacy. "The antecedents of cognitive legitimacy of an organization are the history and prevalence of its particular organizational form" (Bitektine, 2011: p.160). Novice entrepreneurs—entrepreneurs lacking prior startup experience—do not have a history or a prior track record that can help establish the

cognitive legitimacy of their emerging organization. We focus on these novice entrepreneurs and on strategies that allow them to use the prestige of others to enhance the cognitive legitimacy of their ventures. Among novice entrepreneurs, those who pursue competency-destroying innovation (i.e., highly novel venture ideas) likely need higher levels of prestige to create cognitive legitimacy since their novel ideas make it harder for stakeholders to place these ventures into a category of known organizational forms (Aldrich & Martinez, 2001). Thus, novelty of the venture idea acts as a moderator, making it more difficult for novice entrepreneurs with highly novel ventures to establish cognitive legitimacy through prestige-building strategies than for novice entrepreneurs with less novel ventures.

The proposed model explains how novice entrepreneurs can establish and build the cognitive legitimacy of their emerging organizations by "borrowing" prestige (i.e., social rank or membership in exclusive social networks) from their new venture team (NVT) and advisory board members. Prestigious affiliations have been shown to impact IPO valuations, likely because IPO firms involve a considerable amount of uncertainty due to their limited track records and resources (e.g. Pollock, Chen, Jackson, & Hambrick, 2010; Stuart, Hoang, & Hybels, 1999). Entrepreneurship research on prestige-borrowing by IPO firms have increased our understanding of the benefits of prestige. But very few startups become IPO firms and the sources of prestige available to novice entrepreneurs and emerging organizations at the earliest stages of development likely differ from those accessible to IPO firms. For instance, statutory boards of directors are typically not formed until entrepreneurs seek external financing such as launching an IPO. Early

stage emerging organizations more likely rely on advisory boards rather than statutory boards of directors, but advisory boards have received relatively little attention in the entrepreneurship literature. The model proposed here extends research on prestige in IPO firms, focusing on the strategic use of prestige in advisory boards and new venture teams to create cognitive legitimacy (and the impact the novelty of the venture idea has on this process).

Entrepreneurship researchers tend to view legitimacy retrospectively while this paper contributes by adopting a proactive forward-looking perspective. Survival has often been used as an indication of legitimacy but this tells us little about how emerging organizations establish and build cognitive legitimacy: it merely shows or assumes an organization has legitimacy (Zimmerman & Zeitz, 2002). The perspective adopted here emphasizes how entrepreneurs in early stage emerging organizations can take strategic actions such as selecting prestigious NVT and advisory board members in order to create and maintain cognitive legitimacy.

We contribute to entrepreneurship research that examines the sequencing of organizing activities pursued by founders. We agree with Delmar and Shane's (2004) argument that the sequencing of these activities matters – founders should initially focus on activities to obtain cognitive legitimacy because legitimacy, “is a necessary precondition to initiating social ties with stakeholders and obtaining and recombining resources” (p. 386). We extend this argument by showing that the characteristics of the NVT and advisory board play an important part in establishing and building cognitive legitimacy in emerging organizations.

We begin by defining cognitive legitimacy relative to other types of legitimacy. Next, we address the process and challenges emerging organizations face when establishing cognitive legitimacy. We integrate the literature to support the proposed model and present testable propositions of how emerging organizations build cognitive legitimacy by creating prestigious NVTs and advisory boards. We explain how novelty of venture ideas moderates this process. A discussion of the implications and limitations of the proposed model completes the paper.

COGNITIVE LEGITIMACY

A review of the legitimacy literature reveals that although many researchers distinguish between different types of legitimacy, little consensus exists regarding the various types of legitimacy and their scope. However, most researchers distinguish cognitive legitimacy from other forms of legitimacy that fall under the umbrella of sociopolitical legitimacy (e.g. Suchman, 1995; Hannan & Freeman, 1986; Aldrich, 1999).

Legitimacy resides in the minds of observers who may or may not be aware of how legitimacy affects their decision making (Zimmerman & Zeitz, 2002). These observers appear to make two fundamentally different types of judgments when evaluating organizational legitimacy: cognitive legitimacy judgment and sociopolitical legitimacy judgment (Bitektine, 2011). A cognitive legitimacy judgment involves determining whether an organization exhibits a set of recognizable characteristics that can be used to classify it as a member of a certain class of organizations. A sociopolitical legitimacy judgment evaluates whether the organization is socially acceptable (Aldrich, 1999; Aldrich & Fiol, 1994; Bitektine,

2011; Hannon & Freeman, 1977; Meyer & Rowan, 1977; Scott, 1995; Suchman, 1995).

Entrepreneurs in the early stages of forming a new venture must pay particular attention to establishing cognitive legitimacy, showing outsiders that these entrepreneurs have gone beyond dreaming and talking about starting businesses to engaging in startup activities that create new ventures. As they struggle to overcome the liability of newness (Stinchcombe, 1965) and develop an organization, roles for employees, procedures for operating and so on, they must find ways to ensure that their new ventures look like viable and successful businesses. This effort to establish cognitive legitimacy may represent a bigger challenge for early stage entrepreneurs than creating sociopolitical legitimacy: society generally regards profit seeking activities as valid unless they involve activities prohibited by law (Aldrich, 1999; Aldrich & Fiol, 1994; Delacroix, Swaminathan, & Solt, 1989; Shepherd & Zacharakis, 2003). This accounts for the emphasis here on cognitive legitimacy judgments about emerging organizations.

Establishing Cognitive Legitimacy with Prestige

Entrepreneurship researchers have not fully explained how emerging organizations build cognitive legitimacy at the earliest stages of an emerging organization's development. Katz & Gartner (1988) stress the importance of investigating the processes underlying the transition from emerging organizations or organizations-in-creation to existing organizations. New emerging organizations are not smaller, incomplete versions of existing organizations because their organizational properties are arranged in fundamentally different ways (Gartner, Bird, & Starr, 1992). The emphasis on how to establish

cognitive legitimacy in the earliest stages of emerging organizations distinguishes liability of newness from liability of smallness. An entrepreneur must establish cognitive legitimacy to overcome the emerging organization's liability of newness—the lack of structure, policies and procedures or ways to deal with regular activities—as well as the disadvantages faced as a small organization (Stinchcombe, 1965) such as limited resources.

Entrepreneurship researchers recognize that the organizational life cycle needs to include stages earlier than when the entrepreneur legally creates the organization (Hite & Hesterly, 2001). Clarysse and Moray (2004) identified two phases that precede the initial start-up stage used in most organizational life cycle theories: 1) the idea phase when the entrepreneur conceives of a way to address unmet needs in the market and an organization begins to emerge; and 2) the pre-startup phase that evolves from the idea phase when the entrepreneur makes a decision to form an organization. At these two early phases, the organization faces considerable uncertainty and a lack of awareness by outsiders as the entrepreneur begins acquiring essential resources.

To establish cognitive legitimacy in an emerging organization, an entrepreneur must generate enough knowledge related to the new venture for its existence to be taken-for-granted by key stakeholders. These stakeholders make cognitive legitimacy judgments involving the determination of whether the new venture exhibits a set of recognizable characteristics that can be used to categorize it as a member of a certain class of organizations. Innovator entrepreneurs—those pursuing highly novel ideas or technologies—likely face more difficulty in establishing

cognitive legitimacy than reproducer entrepreneurs. Innovator entrepreneurs start organizations involving competence-destroying innovations that require new knowledge, routines, and competencies (Aldrich & Martinez, 2001). Stakeholders will likely have more difficulty categorizing an emerging organization created by an innovator entrepreneur because its characteristics are more difficult to classify and stakeholders may not completely understand the innovative entrepreneur's business idea. Therefore, we focus our model on explaining the establishment of cognitive legitimacy judgments in emerging organizations and pay particular attention to the challenges faced by innovator entrepreneurs.

Shepherd and Zacharakis (2003) identified three dimensions of cognitive legitimacy: product knowledge, organization knowledge and management team knowledge. The cognitive legitimacy of emerging organizations can be determined by measuring the level of knowledge or information the public holds regarding the emerging organization. Entrepreneurs with venture ideas (i.e. individuals in the idea phase) often begin with little, if any cognitive legitimacy because stakeholders have little knowledge and understanding regarding the emerging organization (Aldrich & Fiol, 1994). These entrepreneurs need to send signals that link their emerging organization to categories familiar to stakeholders (Fischer & Reuber, 2007), reducing uncertainty. Cognitive legitimacy allows stakeholders to conserve cognitive resources associated with organizing and searching for additional information (Bitektine, 2011; Shepherd & Zacharakis, 2003).

Little product knowledge and organizational knowledge exist in the idea and pre-startup

phase of an emerging organization's life cycle. An emerging organization typically begins once an individual or small group of co-founders decide to pursue a venture idea. Individuals considering joining the NVT at this initial stage focus on gathering information to determine a venture idea's viability (Kamm & Nurick, 1993). As the emerging organization develops, product knowledge becomes more important, followed by organizational knowledge which likely consists of aggregated NVT knowledge and product knowledge. Therefore, we argue that establishing cognitive legitimacy during the idea phase and pre-startup phase depends mostly on knowledge regarding the entrepreneur and the NVT.

The task of establishing cognitive legitimacy is especially difficult for novice entrepreneurs. A novice entrepreneur involves someone starting his or her first venture, whereas a serial entrepreneur has founded multiple ventures (Baron & Ward, 2004; MacMillan, 1986; Ucbasaran, Wright, & Westhead, 2003). Serial entrepreneurs have reputations gained from their experience with prior ventures and receive performance-based rewards based on these reputations. Such reputations can be used to signal perceived quality when a new venture lacks other forms of information on quality (Dimov, Shepherd, & Sutcliffe, 2007). Reputation and prestige (also referred to as status) represent distinctly different constructs and both serve as a signal of future performance for stakeholders. Reputation signals the likelihood of strong future performance based on past performance in contrast to status or prestige that results from an organization's pattern of social relationships and the quality of its network partners (Dimov et al., 2007).

Prestige can be defined as the property of having status as derived from membership in elite social circles (D'Aveni, 1990); defining prestige in terms of status accounts for why researchers sometimes use the terms prestige and status interchangeably. Prestige represents a sociological concept capturing differences in social rank while reputation, an economic concept, captures differences in actual or perceived quality among organizations (Dimov et al., 2007; Washington & Zajac, 2005). Reputation commonly generates performance or merit-based awards earned by and based on past performance of the firm, whereas status (i.e., prestige) generates non-performance-based benefits known as privileges -- defined as unearned ascriptions of social rank that are not performance-based (Washington & Zajac, 2005). Empirical research supports distinguishing between prestige (i.e., status) and reputation. Washington and Zajac (2005) examined the impact of status and reputation on the likelihood of being invited to the NCAA tournament in a current year. Their results indicate that reputation (a basketball team's performance during the year) differs from status (the university's history of invitations to the NCAA postseason tournament). Teams with a history of being invited to the tournament (i.e., high status) received privileges beyond the outcomes predictable by considering their performance during the year (i.e., quality or performance-based rewards associated with reputation). This shows that prestige differs from reputation.

Prestige and reputation represent two different "channels" entrepreneurs can use to signal quality (Dimov et al., 2007). Novice and previously unsuccessful entrepreneurs differ from serial entrepreneurs as to which "channel" is available. The model proposed here does not apply to serial entrepreneurs because

their reputations (i.e., prior entrepreneurial experience) may reduce perceived risk associated with a new startup (March & Shapira, 1987), likely establishing some cognitive legitimacy for the emerging organization. Novice entrepreneurs must find a way to generate non-performance based rewards such as by using prestige. Prestige is not based on prior performance, so it may exist independently of real quality (Washington & Zajac, 2005).

Stakeholders facing uncertainty regarding the perceived quality of an emerging organization may rely on prestige of those associated with the firm (e.g., prestige of the NVT or advisory board members) as a surrogate for organizational quality (Podolny, 1993). Stakeholder decisions to provide resources to emerging organizations depend on stakeholders' ties to individuals associated with the venture and to the credentials of the individuals associated with the venture (Florin, Lubatkin, & Schulze, 2003). Connecting individuals with high prestige to the emerging organization may provide a mechanism for establishing cognitive legitimacy. We argue that the prestige of the entrepreneur, new venture team, and advisory board communicates information about an emerging organization, establishing and building cognitive legitimacy - prestige generates privileges or unearned ascriptions of social rank for an emerging organization that are not based on its historical performance.

Forming a highly prestigious NVT likely enhances the cognitive legitimacy of the emerging organization by increasing the information available to stakeholders (Shepherd & Zacharakis, 2003; Suchman, 1995). When NVT members have high prestige, the perception of status sends a signal to external stakeholders that evokes

consistent and coherent categories for the emerging organization (Fischer & Reuber, 2007). Entrepreneurs may strategically select NVT members with high prestige to provide the emergent firm with more network ties (Hite & Hesterly, 2001), recognizing that “both strong and weak ties are useful and contribute to the emergence and growth of firms” (Elfring & Hulsink, 2007: 1852). Novice entrepreneurs need to rely on their social networks and those of family and friends to identify potential high prestige NVT members. Entrepreneurs who establish a low prestige NVT provide stakeholders with minimal or no information. Prestige provides stakeholders with some information regarding the management team and organization, thereby increasing cognitive legitimacy. This leads to the following proposition:

P1: NVT prestige relates positively to stakeholders’ perceptions of the emerging organization’s cognitive legitimacy.

In the idea and pre-startup phases of an organizational life cycle, entrepreneurs may choose to form an advisory board. An advisory board may be defined as a group of individuals formed to perform service and resource dependence roles similar to statutory boards (Daily & Dalton, 1992; 1993; Huse, 1990; Judge & Zeithaml, 1992; Murray 2003; Whisler, 1988). Although operating with similar formality and characteristics of a statutory board of directors, advisory board members act as advisors and thus, represent boards that are characterized as advisory rather than governing boards (Huse, 2000; Lynall, Golden, & Hillman, 2003; Whisler, 1988).

Advisory boards signify voluntary boards and are not held to the same liability exposure as corporate or statutory boards of

directors (Mueller, 1988). The increasing work load and legal liability for directors on statutory boards of directors since the passage of Sarbanes-Oxley has made advisory boards much more attractive. Advisory boards offer a way for emerging organizations to gain the expertise, connections and access to resources of board members without incurring legal liability. Forming an advisory board instead of a statutory board offers a way to eliminate the need for insurance and encourages reluctant outsiders to participate (Fox, 1982; Ward & Handy, 1988). The use of advisory boards has become especially common in Silicon Valley in the past couple of decades (Morkel & Posner, 2002). Emerging organizations typically establish an advisory board before a statutory board of directors. Firms often form boards of directors expressly to satisfy external financiers who are needed later in the organization’s existence (Fiegener, Brown, Dreux & Dennis, 2000). A prestigious statutory board of directors can build cognitive legitimacy but at a later stage in the life cycle of the venture than our model covers.

Entrepreneurs may “strategically adapt and align their networks to gain the resources they need to ensure successful emergence” (Hite & Hesterly, 2001: 278), including selecting prestigious advisory board members. Prior research shows that the presence of high status partners adds to perceptions of an emerging organization (Deutsch & Ross, 2003; Shane & Cable, 2002). Boards serve a symbolic role independent of their tangible activities (Certo, 2003) and social networks. Advisory board members with high prestige due to their social capital and human capital related to areas important to the emerging organization can signal information to stakeholders regarding the quality of the

management team, product, and organization, thereby increasing the emerging organization's cognitive legitimacy. Novice entrepreneurs may use their social networks and those of family, relatives, friends and neighbors to identify and try to attract prestigious advisory board members; in some cases, entrepreneurs have even paid prestigious advisory board members to become involved with their emerging organizations in an effort to build cognitive legitimacy. Thus,

P2: Advisory board prestige relates positively to stakeholders' perceptions of the emerging organization's cognitive legitimacy.

Entrepreneurs enhance their ability to develop an advisory board with high prestige when the emerging organization has a highly prestigious NVT. Since most CEOs rely on their personal networks as the source for identifying advisory board members (Murray, 2003), the prestige of the entrepreneur and other NVT members likely impacts the emerging organization's ability to form a prestigious advisory board. In addition, prestigious individuals rely on the presence of other prestigious individuals to validate their own affiliation with the organization (Chen, Hambrick, Pollock, 2008; Podolny, 1994). These individuals prefer to associate with other high prestige individuals (Podolny, 1994) and avoid affiliating with individuals or organizations that could reflect poorly on them (Stuart et al., 1999). The prestige of the NVT members sends positive signals to prospective advisory board members about the emerging organization. The following proposition states this relationship:

P3: NVT prestige relates positively to advisory board prestige.

A high prestige NVT and a high prestige advisory board both signal cognitive legitimacy independently. An emerging organization may be able to borrow or "rent" the prestige of their advisory board to enhance their cognitive legitimacy (Deutsch & Ross, 2003). The advisory board therefore could act as a middleman (i.e., partial mediator) between the NVT and potential stakeholders. The presence of both a high prestige NVT and a high prestige advisory board will lead to the highest level of cognitive legitimacy for emerging organizations. A high prestige NVT increases cognitive legitimacy directly and also indirectly through the formation of a high prestige advisory board. The combination of a high prestige NVT and a prestigious advisory board sends signals to external stakeholders that cue up unified, coherent and consistent categories about the attributes of the emerging organization (Fischer & Reuber, 2007), providing the highest level of cognitive legitimacy. Establishing a low prestige NVT has a definite downside since the entrepreneur with a low prestige NVT will have difficulty attracting high prestige members to the advisory board, resulting in lower cognitive legitimacy for the emerging organization. Low prestige conveys little information to stakeholders facing an already uncertain situation (the idea and pre-startup phases).

Highly prestigious NVTs are not expected to create advisory boards with low prestige nor are low prestige NVTs expected to be able to create highly prestigious advisory boards since both of these scenarios would contradict the literature supporting Proposition 3. However, if these scenarios did occur, the effect would be the same: a low prestige advisory board weakens the relationship between the highly prestigious NVT and cognitive legitimacy; and a

prestigious advisory board would strengthen the relationship between a low prestige NVT and cognitive legitimacy. Additionally, some entrepreneurs may choose not to form an advisory board. For example, a highly prestigious NVT may choose not to form an advisory board. This choice reduces the information conveyed to external stakeholders when they are evaluating the cognitive legitimacy of the emerging organization. Creating an advisory board enlarges the social network and allows individuals from outside the organization to provide feedback to the emerging organization (Huse, 1990; Murray, 2003). Individuals outside of the organization who sit on the board offer greater independence and appear to enhance venture performance (Daily & Dalton, 1993; Gabrielsson & Winlund, 2000). Therefore an emerging organization with a prestigious NVT and no advisory board results in lower cognitive legitimacy than an emerging organization with both a high prestige NVT and advisory board. Therefore, we propose the following:

P4: Advisory board prestige moderates the relationship between new venture team prestige and cognitive legitimacy. The relationship between new venture team prestige and cognitive legitimacy will be stronger for emerging organizations with high advisory board prestige.

Building cognitive legitimacy in emerging organizations represents a dynamic process. The venture idea, as well as the composition of the NVT and advisory board needs to constantly adapt to meet the changing needs of the emerging organization. The emerging organization develops new network ties by altering the composition of the NVT and advisory board in the early stages of the

venture (Kamm & Nurick, 1993), if the evolving resource needs of the venture require a shift in the network structure of the venture (Elfring & Hulsink, 2007; Hite & Hesterly, 2001). The entrepreneur and the first members of the NVT provide early indications of an emerging organization's cognitive legitimacy. Each activity an entrepreneur undertakes during the idea and pre-startup phase (such as altering the venture idea, building the NVT, adding an advisory board, and changing the composition of the NVT and advisory board) has the potential to impact the cognitive legitimacy of the emerging organization by providing stakeholders with new information.

New information may transform the original idea, alter resource requirements or suggest changes in the composition of the NVT. This sort of adaptation to new information may require the removal or replacement of NVT members in order for the team to function effectively (Kamm & Nurick, 1993). The entrepreneur may also change NVT members in order to extend the new venture's social network to gain greater access to information and resources (Hite & Hesterly, 2001). Enlarging the advisory board or replacing current members with people possessing greater prestige and network ties (both strong and weak ties) can enhance the emerging organization's cognitive legitimacy with certain stakeholders. As an emerging organization continues to build cognitive legitimacy, the entrepreneur should find it easier to recruit and replace individuals in the NVT and advisory board with others who have high prestige.

The establishment of a high prestige NVT and high prestige advisory board has a lasting effect on the new venture. Washington and Zajac (2005) explored the

evolution of status, noting that once initial status is achieved it tends to be perpetuated. This likely makes the early establishment of cognitive legitimacy based on prestige especially critical for the emerging organization since it may have long-term implications for survival and venture success. Therefore, we expect relationships among NVT prestige, advisory board prestige, and cognitive legitimacy to be reciprocal. Interacting with highly prestigious individuals or entities may generate privileges (explicitly, the unearned ascription of high social rank) for an emerging organization, whereas interactions across low prestige organizations may yield less favorable perceptions or unearned ascriptions of low social rank (Washington & Zajac, 2005).

An emerging organization that attracts high prestige individuals to its NVT at time period two creates some cognitive legitimacy that makes it easier to attract additional prestigious NVT members in time period three (shown as a feedback loop from cognitive legitimacy to NVT and feedback from NVT at time 2 to NVT at time 3). Similar feedback processes occur when an emerging organization attracts high prestige advisory members in time period two, making it easier to add more advisory board members with high prestige in time period three (shown as feedback loop from cognitive legitimacy to prestige of advisory board and the feedback loop from advisory board at time 2 to advisory board at time 3). Thus, acquiring additional NVT members and advisory board members who have high prestige should be easier as an emerging organization gains prestigious NVT and advisory board members and builds cognitive legitimacy. This results in the following proposition:

P5: The process of establishing cognitive legitimacy is a reinforcing process: a) the greater cognitive legitimacy in time period 2, the greater NVT prestige and advisory board prestige in time period 3; b) the greater NVT prestige in time period 2, the greater NVT prestige in time period 3; c) the greater advisory board prestige in time period 2, the greater advisory board prestige in time period 3; d) the greater advisor board prestige in time period 2, the greater NVT prestige in time period 3.

In addition to characteristics of the NVT and advisory board members, the process of establishing and building cognitive legitimacy in emerging organizations may be contingent on characteristics of the venture idea. The degree of novelty associated with the venture idea pursued by an emerging organization has begun receiving attention from entrepreneurship researchers as a key contextual variable (e.g. Amason, Shrader & Tompson, 2006; Choi, Levesque & Shepherd, 2007). New ventures pursuing highly novel innovations appear to require a different mix of strong and weak ties than those pursuing less radical innovations (Elfring & Hulsink, 2003).

The degree of novelty of the venture idea likely affects the relationships among NVT prestige, advisory board prestige, and cognitive legitimacy. Unlike incremental innovations which involve small improvements to technology that is currently available, radical innovations (or disruptive innovations) involve innovations that encompass a high degree of new knowledge (Dewar & Dutton, 1986: 1442).

A novel or highly creative product represents one in which a clear path does not exist: no one has accomplished this task before so no heuristic exists for how to do so (Amabile, 1996). Entrepreneurs with highly novel venture ideas—those working in highly uncertain or unknown areas—face greater challenges in creating cognitive legitimacy, making prestige of their NVTs and advisory boards more critical than for ventures pursuing more imitative ideas.

Emerging organizations often face substantial resistance when introducing radical innovations, in part, because many of them fail. “Like biological mutations, radical innovations crop up sporadically, but very few have the qualities that lead to long-term survival” (Utterback, 1994: 162). As the novelty of the venture idea increases, the NVT must spend more time processing information (Amazon et al., 2006) and communicating explicit knowledge to the firm’s external stakeholders (Choi et al., 2007). Entrepreneurs relying on radical innovations face greater problems establishing legitimacy and may need to rely on larger networks of diverse weak ties whereas ventures using incremental innovations can rely on close networks of strong ties (Elfring & Hulsink, 2007). This suggests that novice entrepreneurs pursuing radical innovations will likely need to create and use larger social networks in order to locate highly prestigious individuals for their NVTs and advisory boards.

Highly novel venture ideas involve products in which individuals lack a frame of reference for understanding what the product is and what benefits it offers above that of products existing in the marketplace (Athaide, Meyers, & Wilemon, 1996; Slater, 1993). Utterback (1994) demonstrates the importance of a prestigious NVT member with his example that incandescent lighting might not have

been viewed as a viable new product by businesses providing gas lighting, except that it was introduced by Thomas Edison who gave the new idea credibility. An entrepreneur pursuing a novel idea could benefit greatly from a similar type of association with a high prestige individual on the NVT or advisory board. Less prestigious individuals likely have great difficulty convincing people of a highly novel product’s viability. Thus, the creation of a prestigious NVT and/or advisory board will be even more helpful in establishing cognitive legitimacy when the emerging organization involves a high novelty venture idea. We propose the following:

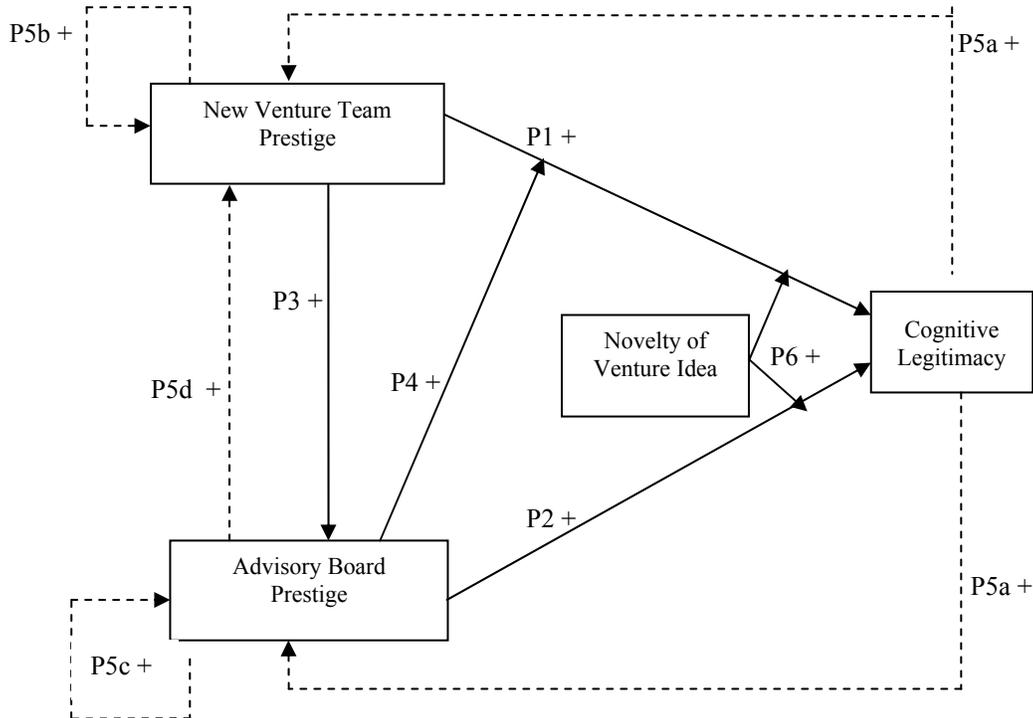
P6: The novelty of venture idea moderates the relationship between prestige (both NVT and advisory board) and cognitive legitimacy. The relationship between prestige and cognitive legitimacy will be stronger for emerging organizations exploiting high novelty venture ideas.

The proposed model (see Figure 1) applies to high growth emerging organizations prior to external financing, started by novice entrepreneurs. Those novice entrepreneurs who pursue highly innovative ideas will need greater levels of prestige to establish cognitive legitimacy. High growth emerging organizations are defined as those emerging organizations “where significant sales and profit growth are expected to the extent that it may be possible to attract venture capital money and/or funds raised through public or private placement” (Ronstadt, 1984: 75). High growth emerging organizations typically create an advisory board and obtain external financing at some point in their organizational life cycle. Emerging organizations without the motivation to

grow have little need for an advisory board or external financing. Cognitive legitimacy issues and the type of social network ties

needed by the organization will change as the new venture moves from the emergent to the start-up stage.

Figure 1: A Dynamic Model of Establishing Cognitive Legitimacy with Prestigious New Venture Team and Advisory Board Members.



DISCUSSION

This paper represents one of the first attempts to examine how entrepreneurs might pursue a strategy of “borrowing” prestige to help their emerging organizations establish cognitive legitimacy. We develop a model that explains the process of establishing and building cognitive legitimacy by recruiting prestigious NVT members and prestigious advisory board members. High prestige NVT and advisory board members can also enhance the cognitive legitimacy of emerging organizations pursuing highly novel venture ideas. Although we acknowledge that cognitive legitimacy is

not the only factor impacting whether an emerging organization evolves into a successful new venture, we believe that it is a crucial obstacle that innovator entrepreneurs must deal with to overcome their liability of newness.

The proposed model applies to “emerging organizations”, those at a very early stage of development when an entrepreneur with a venture idea begins to form an organization. We join research that explores actions entrepreneurs can take to proactively build legitimacy (e.g., Liao and Gartner, 2007). We answer the call for research that explains how theories and models developed for more established ventures

likely differ when applied to emerging organizations (Katz & Gartner, 1988). We expect many concepts examined in more established organizations are likely to be even more critical to firm survival and performance in the earliest stages of an organization's life.

Researchers have attempted to measure legitimacy using indirect measures related to the source of legitimacy, such as winning certification tests (Rao, 1994), entering into alliances (Stuart et al., 1999) and being mentioned in the press (Deeds et al., 2004). This practice treats prestige and legitimacy as identical constructs. We distinguish legitimacy from its sources (i.e., prestige) and explain how prestige impacts cognitive legitimacy in the absence of reputation. Successful serial entrepreneurs may rely on their reputations to generate cognitive legitimacy, but novice entrepreneurs do not have this advantage. Novice entrepreneurs need to create sources of information that help them establish awareness and reduce uncertainty among stakeholders of the emerging organization. We argue that key factors affecting the amount of information conveyed to stakeholders include characteristics of the individuals involved with as well as characteristics of the venture idea.

High levels of prestige have been shown to decrease the likelihood of bankruptcy (D'Aveni, 1990) and organization dissolution (Pennings, Lee, Van Witteloostuijn, 1998), as well as increase CEO compensation (Belliveau, O'Reilly, Wade, 1996) in established organizations. We extend prior research by proposing how prestige applies in an entrepreneurial context, and by going beyond the entrepreneur to include new venture teams and advisory boards.

For entrepreneurship researchers, we suggest that the formation of the NVT and advisory board should be included among key organizing activities initially pursued by founders. We focus on how advisory boards can be utilized in a similar fashion as NVTs to further aid in the establishment and building of cognitive legitimacy. There is a need for research to explore how advisory boards impact new venture performance, especially since advisory boards offer important advantages since Sarbanes-Oxley. Researchers need to distinguish advisory boards from boards of directors -- that entrepreneurs typically form in a later stage of venture development.

Our model stresses the importance of looking beyond the entrepreneur and examining the impact of all the individuals associated with emerging organizations. It is important to consider what benefits these individuals provide the emerging organization beyond advice and expertise. Scholars suggest that entrepreneurs form advisory committees (e.g. Timmons & Spinelli, 2007; Kuratko & Hodgetts, 2004); however, they do not provide effective strategies for advisory board member selection nor explain how advisory boards may impact survival. We argue that in addition to the valuable advice advisory board members play, they can also generate "privileges": unearned ascriptions of social rank that signal cognitive legitimacy.

While the main focus of this article involves how entrepreneurs of emerging organizations can use (high prestige NVT and advisory board members, our model also has implications for social network research in entrepreneurship. Researchers note that resource needs of new ventures change during the emergence stage so

entrepreneurs likely need ways to alter their network ties (Hite & Hesterly, 2001). Few researchers have addressed “the actual function and utility of network ties (Jack, 2005: 1254). We show that entrepreneurs may assess the potential and realized benefits of their network ties, adding some new ties and dropping other ties (Elfring & Hulsink, 2007): an entrepreneur striving to increase cognitive legitimacy should add high prestige NVT and advisory board members and drop those with low prestige.

The primary objective of this paper is to suggest a limited-domain theory. By design, we advance a formal argument that considers emerging organizations with little if any cognitive legitimacy and offer propositions that suggest strategies, relationships, and probable outcomes. However, this theoretical framework exploring cognitive legitimacy and its sources is not limited to high tech emerging organizations. Other examples of high growth ventures could include new franchise systems. Although we examine how the novelty of a venture idea moderates the relationship between both NVT and advisory board prestige and the cognitive legitimacy of the emerging organization, other factors may also moderate these relationships. Commitment may have a moderating effect, and is defined as behaviors that bind an individual to others (Stone & Brush, 1996). An advisory board that is committed to a NVT would likely enhance its cognitive legitimacy as compared with an advisory board that does not exhibit high levels of commitment. Our model implies that entrepreneurs may focus on cognitive legitimacy building strategies at the earliest phases of the nascent venture and these efforts will assist them in developing commitment among internal and external stakeholders (Stone & Brush, 1996).

We also expect a moderating relationship between reputation earned due to prior success as an entrepreneur and cognitive legitimacy. In the Bayesian view, priors are experiential (Norton & Moore, 2006), which suggests a contextual limitation. Priors--successful serial entrepreneurs--may moderate only to the extent that they capitalize on domain-specific competencies or start new ventures in the same industry as their prior successes. Alternatively, priors could be conceptualized as a source of cognitive legitimacy rather than a moderating variable. Very successful serial entrepreneurs likely benefit from creating a prestigious NVT and advisory board (due to the non-performance based rewards prestige generates in addition to the performance based rewards their reputation generates). We do not include successful serial entrepreneurs in our model but this stage model affords researchers meaningful control over the articulated variables. Theoretical refinement and empirical examination of this model should increase our understanding of the process of establishing cognitive legitimacy.

Researchers need to consider possible limitations of the model. Although we focus on establishing and building cognitive legitimacy through the composition of the NVT and advisory board, we acknowledge other research shows an emerging organization has other possible means for improving its legitimacy (e.g. Zimmerman and Zeitz, 2002; Elfring & Hulsink, 2003). Empirical research is needed to test the propositions in our model and to determine whether these relationships generalize beyond high growth emerging organizations. However, the objective of this study involves refining and extending existing models and insights. We encourage future research to test the

propositions presented and develop theory that extends them.

Testing the propositions presented in this article requires operationalization of cognitive legitimacy, novelty of venture idea, and prestige. Aldrich and Fiol (1994) argue that cognitive legitimacy can be assessed by measuring the level of public knowledge about a new activity. Consistent with Zimmerman and Zeitz (2002), we consider cognitive legitimacy as a continuous variable ranging from zero to very high levels of legitimacy, not as a dichotomous variable where emerging organizations either have legitimacy or do not. Cognitive legitimacy requires measurement of the extent of stakeholders' awareness of the emerging organization's product, organization, and management team (Shepherd & Zacharakis, 2003; Aldrich & Fiol, 1994). Stakeholders could be asked to rate the level of knowledge regarding these three dimensions. The novelty of venture idea has been assessed by having researchers rate the level of innovativeness and then determining inter-rater reliability (e.g. Shepherd & Detienne, 2005, Amason et al., 2006). The method appears to adequately measure novelty of venture ideas and could be used in testing the proposed model.

Prestige has been measured in a number of studies regarding boards of directors (e.g. Certo, 2003, Lester, Certo, Dalton, Dalton, & Cannella, 2006), yet further work is required to adapt these measures to NVT and advisory boards. Similar to Dimov and colleagues (2007), research could measure prestige using centrality measures common in social network studies. Eigenvector centrality is used when the status (i.e., prestige) of an actor is a function of the status of those with which he or she is connected (Bonacich, 1972). A high

eigenvector score indicates the focal actor is connected to well-connected "others", whereas someone that is connected to "isolates" would have a low eigenvector score even if he or she had a high degree centrality score (Borgatti, 1995). High average eigenvector centrality of NVT and advisory boards indicates high prestige.

The proposed model applies to high growth, emerging organizations created by innovator entrepreneurs. Therefore, the sample needed to test the proposed model needs to capture entrepreneurs who pursue competency destroying innovations in the earliest stages of organization formation. Researchers may identify these organizations using the suggestions presented by Katz and Gartner (1988). Data regarding the novelty of the venture idea and prestige may be obtained using information typically provided in a business plan, whereas cognitive legitimacy may be captured by surveying potential stakeholders of the emerging organizations.

CONCLUSION

Emerging organizations need to establish legitimacy to acquire resources necessary for survival. However, few researchers have addressed how emerging organizations build legitimacy, more specifically, cognitive legitimacy. Many factors impact emerging organizations' ability to survive (e.g., environmental and industry forces), but we chose to focus on factors within the control of the entrepreneur at the very beginning of the life cycle of an emerging organization. Researchers have noted that, "the entrepreneurial team is a relatively controllable entity. "If well understood, the process of team formation could be shaped to enhance ventures' chances of success" (Forbes, Borchert, Zellmer-Bruhn & Sapienza, 2006: 226). The choices of NVT and advisory board members impact how

stakeholders perceive the emerging organization. Relationships among NVT prestige, advisory board prestige, and cognitive legitimacy merit study since educators advise entrepreneurs to form NVTs and advisory boards but do not discuss effective strategies for their formation or explain how they may impact survival in the earliest stages of the organizational life cycle. Research on advisory boards, such as investigating the model proposed here, has clear implications for entrepreneurs. Entrepreneurs could benefit greatly from knowing more about how to effectively create and use NVTs and advisory boards to establish cognitive legitimacy.

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