Chapter 5

Legitimizing Innovative Ventures Strategically:
The Case of Europe's First Online Pharmacy

Andreas Kuckertz
University of Duisburg-Essen, Germany

Karsten Jörn Schröder
University of Duisburg-Essen, Germany

ABSTRACT

Organizational legitimacy is a key resource that is necessary for every venture to acquire other crucial resources, which will subsequently stimulate growth. The authors illustrate this legitimacy-growth relationship by analyzing the case of Europe's first online pharmacy DocMorris. Given that this ICT venture started as extremely illegitimate, this case provides a rich background to identify various strategies that are potentially helpful to enhance a venture's level of legitimacy. Building on interview data collected from the firm's key actors, the authors are able to show how the perception of a firm's legitimacy from the viewpoint of various internal and external stakeholders can be managed strategically.

INTRODUCTION

A venture's success does not only result from how smart its internal processes are designed, its environment plays a key role as well. Consequently, over the last few decades management research has placed an emphasis on analyzing environmental factors as well and showed that not only technological or material factors exert significant influence on a single firm, but that values, rules, or norms that are present in the relevant environment have to be taken into account as well (Meyer and Rowan, 1977). Thus, a firm's legitimacy (which could be roughly described as its integrity and trustworthiness form the perspective of its various stakeholder groups) becomes of utmost importance.

Usually, firms that are entering a market as so-called "first movers" (Kerin et al., 1992) are said to have competitive advantages over their followers. However, while such firms can certainly reap the benefits of this strategic move, they face additional

challenges as well. Ventures that are radically innovative suffer from a lack of legitimacy since they are largely unknown to their relevant stakeholders and other market participants. An innovative business model might impede success as well, as such business models are most likely to be inconsistent with prevailing values and norms of the environment. Seeing that it is the main problem of any new venture to overcome the liabilities of newness (Stinchcombe, 1965), it becomes immediately evident that organizational legitimacy can serve as remedy to this problem. The literature considers legitimacy to be a resource that is essential to acquire other crucial resources (Dowling and Pfeffer, 1990; Zimmerman and Zeitz, 2002); the concept has therefore been applied to entrepreneurial phenomena by various researchers (e.g., Starr and Macmillan, 1990; Aldrich and Fiol, 1994; Zimmerman and Zeitz, 2002; Delmar and Shane, 2004).

This research suggests that legitimacy is not just "existent" as opposed to "not existent". In other words, there is a certain threshold of legitimacy that is necessary to operate and grow a business successfully. The challenge for radically innovative ventures is that they are usually farther away from this threshold than, for instance, ventures imitating established business models. However, firms can strive actively to achieve legitimacy through managing the process of legitimation strategically and do not necessarily have to accept the environmental factors they are exposed to. Rather, they may consciously decide to alter these factors in order to legitimate themselves. This is especially important in the context of ICT ventures, i.e., ventures utilizing electronic platforms in data networks and offering products or services based on a purely electronic creation of customer value (Kollmann, 2006), given that such ventures are usually more innovative than the average start-up. Unfortunately, until now the literature has been quite brief and abstract with respect to strategies that could be utilized to build legitimacy. With this paper we address this apparent gap and aim to shed light on the following research question:

What strategies can innovative ventures employ to gain legitimacy from the perspective of their most important stakeholders?

To answer this research question, we will analyze the case of Europe's first online pharmacy *DocMorris* and extend the analysis of this firm previously presented by Fallgatter and Brink (2008). *DocMorris* started from an extremely low level of legitimacy, but nonetheless became a tremendous success. Therefore, *DocMorris* seems to be an appropriate candidate to learn more about how legitimacy can be build. The following paragraphs will introduce the concept of organizational legitimacy and its importance for entrepreneurial ventures. After reviewing the literature on strategies that can be utilized to build legitimacy, we will introduce our case study and discuss how *DocMorris* managed its various stakeholder groups strategically. The paper closes with some suggestions regarding how other ventures can benefit from the example of *DocMorris*.

THEORETICAL BACKGROUND

Legitimacy and Entrepreneurial Ventures

Admittedly, establishing a new venture successfully, especially in ICT industries, is one of the hardest management challenges. The reasons for this challenge are at least twofold: On the on hand, ICT ventures are quite often based on the development and exploitation of a new technology, on the other hand, just like any other venture in more traditional industries, such ventures usually start from a very restricted resource base. Thus, rapidly arriving at a legitimate standing seems to be of utmost importance. Legitimacy is usually understood as the status of being legitimate,

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