Organizational Legitimacy in Entrepreneurial Contexts:
Hybridity, Crowdfunding, and Social Entrepreneurship

by
Kostas Alexiou

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Doctoral Committee:

Dr. Jennifer Wiggins, Chair
Dr. César Zamudio
Dr. Greta Polites
Dissertation written by

Kostas Alexiou

B.S., Ohio University, 2007

M.B.A., University of Denver, 2013

Ph.D., Kent State University, 2017

Approved by:

_______________________________  Chair, Doctoral Dissertation Committee

_______________________________  Members, Doctoral Dissertation Committee

Accepted by:

_______________________________  PhD Director, Graduate School of Management

_______________________________  Dean, College of Business Administration
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I dedicate this dissertation in loving memory of my mother, Dicki Alexiou. In so many ways, I would not be here if not for you.
The emerging domain of social entrepreneurship research is itself still in the process of becoming fully legitimate (Dart, 2004; Nicholls, 2010; Bacq & Janssen, 2011; Battilana & Lee, 2014). It comes as no surprise then, that individual social entrepreneurs, who seek to address social and/or environmental problems through some market-based mechanism, also must grapple with the challenges of building and maintaining the legitimacy of the social enterprises they create. In this dissertation, I take a deep dive into the nature of organizational legitimacy, specifically with respect to social enterprise, across three separate essays. In doing so, this dissertation provides several important contributions to the existing literature on organizational legitimacy, social entrepreneurship, hybrid organizations, and crowdfunding.

Before summarizing each essay, I would first like to describe the motivation for this dissertation. Prior to starting my PhD at Kent State University, I was working for a small nonprofit organization in Denver, CO. Our mission was to help aspiring socially and environmentally conscious entrepreneurs from low-income neighborhoods in Denver design and create new businesses and/or nonprofit organizations by offering affordable business planning education. As I worked with more and more aspiring social entrepreneurs, I noticed a pattern of difficult questions and obstacles that these individuals and teams had in common. One such question was, “What’s the best legal form for my organization? Should I incorporate as a for-profit or a nonprofit?” Another common, and related, issue was what sources of funding would be most appropriate and accessible for these ventures. To better answer some of these difficult questions, I began to study the academic research that has started to unwrap the underlying causes of these issues, eventually leading me to pursue a PhD in entrepreneurship and write this dissertation.
I soon discovered that the reason social entrepreneurs (and the study of social entrepreneurship itself) experienced many problems with determining an appropriate legal form and sources of capital was because these new ventures represent a particular type of hybrid organization. As discussed in essay two, hybrid organizations are defined by their often-unprecedented blending of institutional logics (Battilana & Dorado, 2010; Pache & Santos, 2013). In other words, social entrepreneurs seek to create organizations that behave both like commercial, or “business” ventures, while simultaneously behaving like a charity. Both commercial and charity organizations represent their own institution, with specific regulatory, normative, and cultural-cognitive aspects that have become deeply engrained in how society expects those types of organizations to look and feel (Scott, 2013). Neither the traditional for-profit legal forms, nor the nonprofit 501(c)3 form are perfectly appropriate. Instead, social entrepreneurship represents the emergence of a new institution, one that has yet to fully institutionalize. As a result, social ventures, particularly new social ventures, often struggle to secure legitimacy, which is an important means by which organizations acquire resources, such as financial capital (Suchman, 1995; Zimmerman & Zeitz, 2002; Delmar & Shane, 2004).

In order to better understand the nuances of how social entrepreneurs navigate this institutional complexity, I first needed a tool to measure individual perceptions of legitimacy. Prior research focused primarily on legitimacy as a macro-level construct, conferred by government and critical institutional stakeholders (e.g. Deephouse, 1996). Only recently have institutional theorists acknowledged the validity of conceptualizing legitimacy as an individual perception (Bitektine & Haack, 2015; Suddaby, Bitektine, & Haack, 2017). The first essay of this dissertation takes an important step in furthering the understanding of legitimacy as an individual perception by developing and validating a psychometric scale.
In the second essay, I then put the scale developed in essay one to work. The second essay uses these new measures in an experimental design to examine the effects of communicating different hybrid identities and legal forms on perceptions of legitimacy and its dimensions (pragmatic, moral, and cognitive). It also examines the relationship between legitimacy and an individual’s willingness to contribute funds to a social entrepreneurial venture in a hypothetical crowdfunding context. Although the manipulation of the independent variable failed to provide statistically significant differences to support many of the hypotheses, this essay provides the foundation for insightful future research examining the mediating role of legitimacy judgments in decisions to fund new ventures, and explore the relationship among the underlying dimensionality of the legitimacy construct.

Finally, using secondary data gathered from the crowdfunding campaigns of social entrepreneurs, the final essay examines how entrepreneurs communicate hybridity as a rhetorical strategy to signal legitimacy and capitalize their projects. Crowdfunding research in general is still in its infancy (Mollick, 2014; Bruton et al., 2015), and this essay conceptualizes a previously unexplored factor driving crowdfunding outcomes: hybridity. This essay contributes to the literature on hybrid organizations by developing a unique operationalization of hybrid identity, and the results suggest that contrary to what prior theory predicts, hybridity is a means by which social entrepreneurs communicate distinctiveness and experience more successful outcomes.

In summary, this dissertation develops a nuanced understanding of organizational legitimacy under conditions of institutional uncertainty, and provides new insights on the factors driving crowdfunding success. These essays present several contributions to the scholarly literatures on social entrepreneurship, hybrid organizations, and the microfoundations of institutional theory.
INTRODUCTION

Legitimacy has been recognized as a core construct in the strategic management literature (Suddaby, Bitektine, & Haack, 2017) and is viewed as an essential gateway to the resources necessary for the survival and growth of organizations, particularly new ventures and entrepreneurial organizations (Aldrich & Fiol, 1994; Zimmerman & Zeitz, 2002). While the concept of legitimacy has been examined from a social psychological perspective (Tost, 2011), the majority of management researchers adopt an institutional theory approach that views legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 574). Ultimately, legitimacy is bestowed upon an organization by both internal and external audiences within the institutional environment in which it is embedded (Bitektine, 2011). The institution - comprised of regulative, normative, and cultural-cognitive elements - converges upon certain shared expectations of appropriate conduct, or institutional logics (e.g. Friedland & Alford, 1991; Scott, 2013). To be considered legitimate, organizations must conform to the expectations prescribed by their dominant institutional logic (DiMaggio & Powell, 1991; Deephouse, 1996). Entrepreneurs in particular face a variety of challenges in their quest for legitimacy due to heightened uncertainty in emerging industries (e.g. Aldrich & Fiol, 1994) and associated liabilities of newness (Stinchcombe, 1965).

This definition depicts legitimacy as a set of shared beliefs that are socially constructed (Berger & Luckman, 1967; Suchman, 1995), and prior research has primarily adhered to the view that legitimacy is a property possessed by organizations derived from macro-level,
collective perceptions of the organization (Suddaby, Bitektine, & Haack, 2017). As with many organizational-level constructs, much of the empirical research on legitimacy has focused on measuring the collective perceptions of groups of evaluators or critical institutions, such as government regulators and the media (Bitektine, 2011; Deephouse, 1996; Deephouse & Suchman, 2008). Accordingly, prior empirical research examining legitimacy has relied heavily on the use of proxy variables to capture the relative degree of legitimacy an organization or industry may possess (Deephouse and Suchman, 2008).

However, researchers have also conceptualized legitimacy as a theoretically complex, multi-level construct that can be viewed not only as a property of an organization, but also as a judgment or perception that exists at the intersection of the organization and its stakeholders (Bitektine & Haack, 2015; Cording, Christmann, & Weigelt, 2010; Suddaby, Bitektine, & Haack, 2017). This perspective suggests that legitimacy judgments occur across multiple levels both simultaneously and recursively; individual perceptions of categorical norms, themselves socially constructed, provide shared cognitive templates with which agents make legitimacy judgments relative to certain structures, symbols, processes, and entities. In the aggregate, the summation of these individual level judgments comprise the institutional order, subsequently reinforcing and institutionalizing patterns of behaviors and shared meaning (Bitektine, 2011; Hoefer & Green, 2016; Suddaby & Greenwood, 2005). This view of legitimacy is in keeping with the broader perspective that individual perceptions and judgments form the microfoundations of the organizational-level and institutional-level constructs that are at the core of management theory (Felin & Foss, 2005; Felin, Foss, & Ployhart, 2015, Hambrick, 2004).

To fully understand legitimacy as a complex construct, it is therefore necessary to capture both macro-level collective perceptions and micro-level individual judgments (Bitektine &
While such a goal clearly requires a concerted shift in the field, an important preliminary step would be to develop a means to measure individual-level perceptions of the legitimacy of organizations. Such a measure would be valuable for use in survey and quasi-experimental studies, as well as a potential dependent measure in experimental studies, which have been suggested as necessary methodological tools to further the development of this stream of legitimacy research (Suddaby, Bitektine, & Haack, 2017). Furthermore, a perceptual measure would promote better exploration of the interplay between macro- and micro-levels of legitimacy, for example, by enabling researchers to examine how collective perceptions influence the formation of individual judgments and reference points, and how these individual perceptions then either reinforce or change the collective view.

The purpose of this paper is to develop and validate a psychometric measure of individual perceptions of legitimacy. Following the well-accepted typology advanced by Suchman (1995), we conceptualize legitimacy as a multi-dimensional construct consisting of pragmatic, moral, and cognitive legitimacy. We review the literature that has measured legitimacy directly and highlight how the proposed instrument builds upon these prior studies. We then discuss the empirical procedure used to develop, refine, purify, and validate our proposed scale over the course of five separate studies. Collectively, our results consistently support the proposed three-dimensional structure and demonstrate convergent, discriminant, and nomological validity. We conclude with a discussion of the research opportunities this measure provides.
CONCEPTUAL BACKGROUND

Measuring individual-level perceptions of legitimacy presents several challenges. First, while researchers have agreed upon a conceptual definition of legitimacy, it has been conceptualized with different and potentially unrelated dimensions within the construct domain (Cording, Christmann, & Weigelt, 2010). Bitektine (2011) identifies 18 different types of legitimacy that have been proposed and examined in different contexts. The lack of consistent terminology and agreement on the dimensionality of the construct make the development of a valid measure particularly challenging (Hill, Kern, & White, 2012). Thus, it is necessary to first determine which dimensions of legitimacy to capture within the development of an individual-level perceptual measure of legitimacy.

Second, the different dimensions of legitimacy may be of varying relevance to researchers depending on several non-mutually exclusive factors, including the evaluating audience, the features of the organization being evaluated, the type of cognitive processing the evaluator undergoes in their legitimacy judgments, the degree of benefit the evaluator associates with the organization, and the mechanism of compliance (Bitektine, 2011). This is further complicated for researchers who wish to study the legitimation process of new ventures, as the relevant audience may change as the venture evolves and must cross various thresholds of legitimacy (Fisher, Kotha, & Lahiri, 2016). To be useful for researchers, a perceptual measure of legitimacy must therefore be able to capture one or multiple dimensions, depending on the needs of the researcher and the appropriateness to the focal organization.

Third, to be useful to researchers, a measure of legitimacy perceptions should be able to be applied across contexts to enable the synthesis of accumulated knowledge (Campbell & Fiske, 1959; Churchill, 1979). Previous efforts to measure individual perceptions of legitimacy (Diez-
Martin, Prado-Roman, & Blanco-Gonzalez, 2013; Elsbach, 1994; Foreman & Whetton, 2002; Humphreys and Latour, 2013; Pollack, Rutherford and Nagy, 2012) have been developed within a specific context and/or for a specific organization, industry, or field. While this enables a level of precision that is valuable for the in-depth study of a phenomenon, such measures necessarily limit the ability of researchers to generalize and compare findings across contexts (Cording, Christmann, & Weigelt, 2010). A perceptual measure that can be applied to a wide variety of organizations and adapted to different industries, fields, and contexts would therefore facilitate convergence in the discussion of this complex construct (Hill, Kern and White, 2012).

**Historical Foundations of Organizational Legitimacy**

The origins of the legitimacy construct can be traced back to the work of Max Weber, who argued that social action was guided by actors’ beliefs in a legitimate order (Weber, 1924). Much of Weber’s work focused on the legitimacy of power structures, arguing that power will legitimate as ‘authority’ if it is supported by prevailing social norms (Weber, 1924). It was not until the late 1950’s, however, that legitimacy was conceived of in the context of organizations, beginning with the work of Parsons (1956/1960), who proposed that the objectives of a particular organization were legitimate so long as they were “congruent with the values extant in the society” (Scott, 2014: pg. 72). Parson’s conceptualization posited legitimacy as a form of social control; by granting (or denying) legitimacy, social actors promote social structures perceived to be beneficial to themselves and, by extension, society at large (Parsons, 1960). Institutional theorists later expanded these views throughout the 1960’s and 1970’s to lay the foundational theories of how organizational structures and processes become legitimate within some social system (e.g. Berger & Luckman, 1967; Maurer, 1971; Meyer & Rowan, 1977; DiMaggio &

An alternative conceptualization of legitimacy arose from the resource dependence perspective (e.g. Dowling & Pfeffer, 1975; Pfeffer & Salancik, 1978; Pfeffer, 1981; Ashforth & Gibbs, 1990), in which legitimacy is viewed as a resource to be extracted from the environment (Suchman, 1995; Scott, 2013). For instance, Dowling & Pfeffer (1975) propose “organizational legitimacy is the outcome of, on the one hand, the process of legitimation enacted by the focal organization, and on the other, the actions affecting relevant norms and values taken by other groups and organizations” (Dowling & Pfeffer, 1975: p. 125). Suchman (1995) famously classified this work as the “strategic” approach to studying legitimacy. An important assumption of the strategic perspective is that managers possess a certain degree of control over the legitimation process to the extent that organizations often compete for legitimacy (Pfeffer, 1981; Suchman, 1995).

Although these perspectives were separate and distinct, the literature converged on a consensus definition during the mid 1990’s, most notably in the seminal work of Mark Suchman (1995), who provided the conceptual clarification and vocabulary needed to integrate these perspectives as distinct, yet related and noncontradictory. For clarity and ease of interpretation, Table 1 presents an historical summary of the evolution of the legitimacy construct in terms of its various definitions, extending to the most recent “enumerative” definition advanced by Bitektine (2011). Although the domain of the construct has continued to experience refinement all the way until the present day, nearly all of this literature agrees with the definition advanced by Suchman (1995). However, the dimensionality of organizational legitimacy remains somewhat fragmented, and it is to these aspects which we now turn our attention.
Dimensions of Legitimacy

Although the construct of legitimacy is widely accepted to be multidimensional, researchers have discussed a variety of dimensions of legitimacy (Bitektine, 2011). For brevity, Table 2 provides a summary of the various types and/or dimensions of legitimacy that have received considerable attention in the literature. In reviewing this literature, a common theme emerges: nearly all of this research has distinguished between an active form of legitimacy evaluation or judgment – one that requires deliberate attention to compliance with either norms or laws – and a more passive, subconscious legitimacy evaluation corresponding to the “taken-for-grantedness” of the object under evaluation. For example, Aldrich & Fiol (1994) distinguish between the active judgment of sociopolitical legitimacy, which “refers to the process by which key stakeholders, the general public, key opinion leaders, or government officials accept a venture as appropriate and right, given existing norms and laws,” (648) and the passive assessment of cognitive legitimacy, which they discuss as the taken-for-grantedness and familiarity that ventures or activities achieve as they become institutionalized over time. More recently, Zimmerman & Zeitz (2002) divide the active sociopolitical legitimacy judgment into two components: regulatory legitimacy, derived from rules and regulations creating by governing bodies and other influential organizations, and normative legitimacy, derived from the norms and values of society.
Distinguishing between compliance with norms and compliance with laws/regulations as two related, yet distinct, components of an active legitimacy judgment, as well as cognitive legitimacy as a third passive dimension of legitimacy, parallels the conceptualization originally advanced by Suchman (1995), who conceptualized legitimacy as a three-dimensional construct with pragmatic, moral, and cognitive dimensions. The first two dimensions involve the active assessment of both a focal organization’s expected value (pragmatic legitimacy) and compliance with social norms, ethics, and laws/regulations (moral legitimacy). The third dimension (cognitive legitimacy) involves a passive assessment of the organization’s taken-for-grantedness and comprehensibility. While these dimensions by no means exhaust all possible types of legitimacy, they capture the majority of the conceptual domain of the construct and represent the most frequently measured dimensions of legitimacy (Díez-Martín, Prado-Roman, & Blanco-Gonzalez, 2013; Elsbach, 1994; Foreman & Whetten, 2002; Humphreys and Latour, 2013; Pollack, Rutherford, & Nagy, 2012). Based on our review and following the well-accepted typology proposed by Suchman (1995), we therefore suggest that legitimacy as an individual perception is best conceptualized and measured as a three-dimensional construct. We define the three dimensions as follows:

**Pragmatic legitimacy** is an active assessment of the expected value that an organization will provide its primary stakeholders. This type of legitimacy “rests on the self-interested calculations of an organization's most immediate audiences,” (Suchman, 1995: 578) and is considered the most tangible of the three types. Dart (2004) describes pragmatic legitimacy as a
judgment that if stakeholders receive anything of value from the organization, either directly or indirectly, then it is considered pragmatically legitimate.

*Moral legitimacy* is an active assessment of the degree to which an organization adheres to social norms and shared values in a manner that promotes societal welfare. According to Suchman, “moral legitimacy reflects a positive normative evaluation of the organization and its activities,” (Suchman, 1995: 579). Moral legitimacy differs from pragmatic legitimacy in that it is based on an evaluation of the propriety of the organization’s activities relative to external norms, rather than an assessment of the benefits received by specific stakeholders (Dart, 2004).

*Cognitive legitimacy* is a passive assumption that an organization is simultaneously comprehensible and necessary or taken-for-granted (Suchman, 1995). Consistent with prior conceptualizations, we define cognitive legitimacy as a passive evaluation, distinct from the more effortful, elaborative judgments required to assess pragmatic and moral legitimacy. Within a shared cultural-cognitive schema, cognitive legitimacy represents the extent to which an organization’s activities can be “classified, understood, and integrated” by the observer (Humphreys & Latour, 2013: 774). In other words, “we know cognitive legitimacy is violated simply when a stimulus or situation doesn’t feel right,” (Dart, 2004: 421).

**Previous Measures of Legitimacy**

In keeping with the emphasis on collective evaluations of legitimacy, there have been few attempts to empirically measure legitimacy as an individual perception. Early empirical studies of legitimacy focused on the evaluations of critical institutions, using proxy variables such as the approval of regulatory agencies, ratings of accrediting organizations, public endorsements, and media coverage (Deeds, Mang, & Frandsen, 2004; Deephouse, 1996; Deephouse & Carter, 2005;
Legitimacy has also been examined indirectly, through analysis of legitimacy signals used by the firm to communicate with external stakeholders (Deeds, Mang, & Frandsen, 2004; Khoury, Junkunc, & Deeds, 2013; Pollock & Gulati, 2007; Tornikoski & Newbert, 2007), legitimating activities or behaviors engaged in by the firm (Laïfi & Josserand, 2016; Low & Johnston, 2008; Schembera & Scherer, 2017; Tornikoski & Newbert, 2007; Zamparini & Lurati, 2017) or legitimating or delegitimating events in the organization’s history (Rutherford & Buller, 2007; Sinha, Daellennach & Bednarek, 2015). Researchers have also inferred legitimacy from key informant interviews with internal stakeholders (Hudson and Okhuysen, 2009; Human & Provan, 2000), or from secondary measures such as economic performance and organizational survival rates (Delmar & Shane, 2004; Kennedy & Fiss, 2009; Kuilman & Wezel, 2013; Staw & Epstein, 2000).

Our review of the extant empirical research reveals only five studies attempting to directly measure perceptual legitimacy. The earliest example was a study conducted by Elsbach (1994) of the legitimacy of the California cattle industry. This study was conducted prior to the typology advanced by Suchman (1995), and therefore treated legitimacy as a unidimensional construct, labeled ‘normative’ legitimacy. Furthermore, the scale developed in this study specifically measured perceptions of legitimacy with respect to a single, fictitious organization in the context of a single industry. The final measure consists of 12 items designed to assess normative perceptions of legitimacy on a 7-point Likert scale. Items included statements such as “The general public approves of the organization’s operating procedures,” “The organization is viewed by business writers as one of the top firms in the cattle industry,” and “The organization has one of the lowest rates of employee turnover in the cattle industry” (Elsbach, 1994: 87). The scale structure was analyzed using principal components analysis. While this measure is a good
first step in capturing individual perceptions of legitimacy, a more generalizable and widely applicable scale that has been subjected to a stronger test of validity is needed.

Foreman & Whetten (2002) provide the second instance of legitimacy measurement. In this study, members of rural cooperatives’ perceptions of the legitimacy of their field were measured. A total of 13 items were developed to capture perceptions of field-level legitimacy, such as “In general, I believe that co-ops are the lifeblood of the rural community” (cognitive legitimacy), “In general, I believe that co-ops have staff and managers with superior professional skills” (pragmatic legitimacy), and “In general, I believe that co-ops have outlived their usefulness” (cognitive legitimacy, reverse-coded). The authors report the results of a confirmatory factor analysis (loadings ranging from 0.19 to 0.9) for both a 1-factor (CFI = 0.878) and 2-factor (CFI = 0.935) structure. However, these scales were designed to measure perceptions of a field or industry, not of an individual organization. In addition, participants were internal stakeholders, with knowledge of the field not typical of external stakeholders such as prospective investors, customers, or the general public. A scale that could capture the perceptions of either internal or external stakeholders would be more generalizable and useful.

To examine the mediating effect of cognitive legitimacy between entrepreneurial preparedness in new venture pitches and funding outcomes, Pollack, Rutherford, & Nagy (2012) develop a 5-item measure of cognitive legitimacy. After one round of preliminary refinement studies, an exploratory factor analysis reduced the final number of items to three: “I envision this business receiving high-profile endorsements in the future,” “I envision this business receiving favorable press coverage in the future,” and “I envision this business having a top management team that will benefit the organization.” To facilitate the measurement of legitimacy in a survey context, Díez-Martín, Prado-Roman, & Blanco-Gonzalez (2013) developed brief measures of
perceived pragmatic, moral, and cognitive legitimacy from a variety of perspectives filtered through the survey respondent’s perception, for example, “You (LI01), your colleagues (LI04), your bosses (LI07): believe that all your organization’s actions help it achieve its goals,” “The community (LE01), clients (LE02), allies (LE03), and government (LE04): consider that the organization’s actions are beneficial to them.” Both of these measures were created specifically for the context of the studies and subjected to limited validation, therefore limiting their generalizability or applicability to other research questions.

Finally, Humphreys & Latour (2013) provide the most recent study measuring legitimacy. In this study, the authors examine the effects of media framing on consumer perceptions of the online gambling industry. As with Foreman & Whetten’s (2002) measure, the level of analysis was the individual’s perception of the industry or field, rather than a focal organization. The authors adopt the measure originally developed by Elsbach (1994) for normative legitimacy, relabeled moral legitimacy. In addition, this study measures cognitive legitimacy in a unique – albeit idiosyncratic – fashion. Rather than a psychometric instrument, the authors infer cognitive legitimacy from response time latencies in an implicit association test. The logic for this novel measurement technique was that since cognitive legitimacy involves classifying an object into a preexisting cognitive category, individuals who perceive an organization to have greater cognitive legitimacy would be able to classify it more quickly, and would therefore exhibit faster response times (Humphreys & Latour, 2013). While this approach is able to capture the passive assumption that is inherent to cognitive legitimacy, a traditional scale measure would enable researchers to be able to capture perceptions of cognitive legitimacy across a wider variety of contexts and research methodologies. Additionally, a consistent approach to measurement enables the testing of the three-dimensional structure and discriminant
validity, essential for the scale to be used by researchers who seek to measure all three dimensions simultaneously.

Together, these studies provide a foundation from which more valid measures may be developed. However, they fail to address the difficulties associated with measuring a complex construct such as legitimacy. Only one of the five studies attempts to measure all three dimensions of legitimacy simultaneously, and they provide no evidence of the three-dimensional structure or the discriminant validity of the measures of each dimension. Additionally, each of the existing measures is specific to the field, industry, or context in which the study was being conducted. This research will therefore contribute to the broader literature on legitimacy by developing a generalizable measure of all three dimensions of legitimacy that can be used to capture an individual perception of a focal organization. The first two dimensions involve the active assessment of both a focal organization’s expected value (pragmatic legitimacy) and its compliance with social norms, ethics, and laws/regulations (moral legitimacy). The third dimension involves a passive assessment of the organization’s taken-for-grantedness and comprehensibility (cognitive legitimacy). To be useful to future researchers, these dimensions can be measured separately or simultaneously, depending on the research context and goals.
METHODOLOGY

Scale Development

To develop and validate the perceptual legitimacy scale, we followed the methodological procedures suggested by Nunnally (1978), Churchill (1979), and Anderson & Gerbing (1988). To begin the development of the scale, we compiled the items from the four previous attempts to measure the three dimensions of legitimacy and assessed them to determine which items could be revised to apply to organizations in general, as opposed to the specific contexts in which they had been developed. These items were revised as needed and used as the initial basis for the pool of scale items. To expand this pool, we conducted two focus group studies to generate and refine a list of additional potential scale items.

In the first focus group study, seven participants who were familiar with the process of scale development were provided detailed conceptual definitions of the three dimensions of legitimacy and asked to generate as many items as possible representing each of the three dimensions. A total of 105 scale items resulted from this initial focus group. In the second focus group study, three participants were provided with the items generated in the first focus group and the items compiled from the existing measures and asked to conduct a sorting task matching each item with its corresponding dimension. Items that were improperly matched by two or more participants or led to disagreement among the participants were eliminated.

Following the focus groups, three independent experts, selected for their familiarity with and knowledge of the relevant literature regarding legitimacy, evaluated the item pool. Each expert was consulted individually, provided with the conceptual definitions of the three dimensions of legitimacy and the pool of items, and asked to revise and refine the items for
content validity. Their feedback led to the generation, deletion, and revision of items, resulting in a final pool of 44 items (12 pragmatic, 16 moral, and 16 cognitive, see Appendix A).

**Studies 1-3: Scale Purification**

We conducted three studies to refine and purify the scale items. These studies followed a common template. Individual participants were provided a brief description of an organization, selected to represent a variety of organizational forms, industries, sizes, and ages. Descriptions ranged from 400 to 700 words and were carefully designed to provide only basic information regarding the organization’s products and services. This was done to ensure at least a minimal degree of familiarity with the organizations, but not to provide enough information to potentially bias any responses. This would force participants to rely primarily on their generalized perceptions, assumptions, and expectations corresponding to the dominant institutional logic of the focal organization’s field. Following the descriptions, the scale items were presented in a random order. Participants were asked to evaluate each scale item for the focal organization and responded to each item on a seven-point Likert-style scale with endpoints strongly disagree/strongly agree. A between-subjects design was used in which each participant evaluated one organization. The data was analyzed both at the level of the individual organization and pooled across organizations. For brevity, only the pooled results are discussed.

Study 1 was designed to assess the reliability and initial structure of the scale. The 44-item scale was administered to 364 undergraduate students at a large Midwestern university in exchange for extra credit in a business course. Participants were provided descriptions of three relatively large, well-known organizations (Walmart, the Cleveland Clinic, and FanDuel). These organizations were selected based on informal *a priori* expectations that they should exhibit
variance on the three proposed dimensions. For instance, we expected that due to the relative newness of the daily fantasy sports industry and the organization itself, FanDuel should exhibit lower composite scores for cognitive legitimacy than either WalMart or the Cleveland Clinic. Similarly, we expected that the Cleveland Clinic’s nonprofit status would lead to higher composite scores for moral legitimacy than either WalMart or FanDuel. Principal axis factoring with oblimin rotation initially resulted in a six-factor solution, based on a combination of eigenvalues and a scree plot. Upon further examination, several items from the four previous attempts to measure legitimacy and from the focus groups were found to be written in the negative, intended to be reverse coded. Since the scale is intended to measure legitimacy, and not illegitimacy, these items were removed. In addition, a number of items, particularly those retained from the existing scales, were identified as referencing field-level legitimacy rather than organization-specific legitimacy. To be consistent with the intended contributions of the proposed measure, these items were revised for subsequent analysis in a second purification study (see Appendix B).

Study 2 followed the same procedure as Study 1, using the revised scale items and different organizations as stimuli. To control for extraneous variance and industry-level effects, three organizations were selected from a single industry of grocery store chains (Whole Foods Market, Giant Eagle, and Save-a-Lot). Following the same procedure as the previous study, the organizational descriptions were provided to a sample of 471 undergraduate students, each of whom evaluated one of the three organizations. The data was again pooled across the organizations for analysis. Principal axis factoring with oblimin rotation yielded a three factor solution, based on a scree plot and eigenvalues greater than one, that explained 50% of the total variance that reflected the three predicted underlying dimensions. Items with factor loadings
greater than 0.3 and cross loadings less than 0.3 were retained. While the statistical analyses aided the selection and retention of items from one study to the next, care was taken to err on the side of retaining too many items if the decision was unclear. The resulting three factors demonstrated acceptable levels of reliability for the six-item pragmatic ($\alpha = 0.86$), nine-item moral ($\alpha = 0.92$), and six-item cognitive legitimacy ($\alpha = 0.79$) dimensions. The factor analysis results of Study 2 are summarized in Table 3. Further examination of the cognitive legitimacy dimension suggested that the majority of retained items were primarily capturing the necessity component of the definition of cognitive legitimacy, and not the taken-for-grantedness component. A new item was therefore added in Study 3 that was intended to capture perceptions of taken-for-grantedness.

--------------------------------
Insert Table 3 Here
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Study 3 followed the same procedure as Studies 1 and 2 to test the refined set of items using a single organization, the Cleveland Clinic, and a more diverse participant pool. Rather than a student sample, 225 participants were recruited from Amazon’s Mechanical Turk survey engine. Analysis of demographic information collected revealed a representative sample of the general public, drawn from 46 States in the United States. Participant age ranged from 21 - 76 years of age (average age = 40). Reported income primarily fell into the following categories: $25,000-$49,999 (37%), less than $25,000 (28%), or $50,000-$74,999 (17%).

Participants were provided with the same description of the Cleveland Clinic used in Study 1 and responded to the reduced set of items from Studies 1 and 2. Principal axis factoring with oblimin rotation was again conducted and items were eliminated systematically for low
factor loadings or high cross loadings. The resulting 12-item scale produced a three-factor solution, based on a scree plot and eigenvalues greater than one, explaining 80.2% of the total variance. All factor loadings were > 0.5 and no item demonstrated a higher cross loading than 0.2. All three factors again demonstrated acceptable levels of reliability for the three-item pragmatic (α = 0.93), six-item moral (α = 0.94), and three-item cognitive legitimacy (α = 0.76) dimensions. Interestingly, three of the revised items from the original Elsbach (1994) scale were retained in the final 12-item scale. The factor analysis results of Study 3 are summarized in Table 4, column 1.

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Insert Table 4 Here
---------------------------

Study 4: Confirmation of Scale Structure and Discriminant Validity

The purpose of Study 4 was to confirm the final structure of the proposed legitimacy scale and ensure that the three factors were capturing separate, distinct dimensions of legitimacy. Following the same procedure used in Studies 1-3, 159 participants recruited from Amazon MTurk were presented with the description of FanDuel used in Study 1 and responded to the 12-item perceptual legitimacy scale. Examination of demographic data collected showed a sample drawn from 49 US States, with participants ranging from 21-65 years of age (average age = 39) and a representative range of income demographics: less than $25,000 (25%), $25,000-$49,999 (34%), $50,000-$74,999 (25%), $75,000-$99,999 (10%), and over $100,000 (6%). We selected FanDuel as the focal organization because at the time of the study, the organization was at the center of a small controversy and had received significant media coverage that presented both
positive and negative aspects of their business practices. As a result, we expected participants to have similar levels of familiarity with the organization, but to exhibit variance in their perceptions of its legitimacy. We further expected this organization to score particularly low on cognitive legitimacy due to the newness of both the organization and the industry, as well as its varying legal status across states. This enabled us to test the ability of the scale to capture judgments of organizations that have questionable legitimacy.

A confirmatory factor analysis was conducted to test the three-dimensional structure of the scale using Stata 14.1. Overall goodness-of-fit statistics suggest that our data fit the model well ($\chi^2_{(50)} = 96.82, p < 0.001; \text{RMSEA} = 0.077; \text{CFI} = 0.967; \text{SRMR} = 0.051$). Values of up to 0.08 for RMSEA and SRMR and greater than 0.90 for CFI are considered acceptable (Bagozzi & Yi, 1988; Hu & Bentler, 1999). To further assess the appropriateness of the three underlying dimensions, we compared the goodness of fit of a single-factor model to the proposed three-factor model, and found that the three-factor model demonstrated a significant improvement in overall fit ($\Delta \chi^2_{(4)} = 498.08, p < 0.001$). In addition, we compared the goodness-of-fit of the three-factor model to a model including a latent factor intended to capture common method bias, and found no significant improvement in model fit (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). The factor analysis results of Study 4 are summarized in Table 2, column 2. To provide additional evidence of convergent validity, we computed the average variance extracted for each composite factor, all of which exceeded the recommended cutoff of 0.5 (Fornell and Larker, 1981). The results are presented in Table 5.

Insert Table 5 Here
Discriminant validity was assessed according to the well accepted criterion proposed by Fornell & Larker (1981), whereby the average variance extracted for each factor should exceed the squared correlation between the focal construct and each of the other latent constructs. Results of the discriminant validity analysis are presented in Table 3, with the square-root of the average variance extracted presented on the diagonal of the correlation matrix. As these results suggest, each factor explains more unique variance than shared variance with any of the other factors, providing evidence of discriminant validity between the three dimensions in the scale.

**Study 5: Nomological Validity**

Study 5 was conducted to test the nomological validity of the perceptual legitimacy scale in two ways. First, in addition to our scale, we measured organizational reputation and trust in the organization, two constructs that have previously been suggested to be theoretically related to legitimacy (Deephouse & Suchman, 2008). Organizational reputation was measured using the 15-item corporate reputation scale developed by Walsh, Beatty, & Shiu (2007). Trust in the organization was measured using an adaptation of the three-item trust in the brand scale developed by Sheinin, Varki, & Ashley (2011). As theoretically related, yet distinct constructs, we expect the composite scores for each dimension of legitimacy to be significantly correlated with both reputation and trust, yet not so highly correlated as to suggest the measures are capturing the same underlying construct.

Second, participants were asked to evaluate one of three organizations that were from the same industry but expected *a priori* to vary in their levels of pragmatic, moral, and cognitive legitimacy. Comparisons of the mean scores on the three legitimacy factors for the three organizations should therefore provide evidence of the content validity of the scale items. We
chose to hold the industry constant to control for industry level effects and examine the unique variance on each of the legitimacy dimensions. The airline industry was chosen as the focal industry because most individuals are familiar with airlines, the industry itself is considered legitimate, and according to the Reputation Institute’s 2015 customer satisfaction rankings, many airlines demonstrate modest customer satisfaction ratings, therefore controlling for any potential contamination of our analyses which may be caused by attitudinal halo effects.

Three airlines were selected based on differences in several key attributes we hypothesized would result in different mean levels of legitimacy on each of the three dimensions. We chose American Airlines, a large, well-established, airline, JetBlue Airways, a medium-sized airline with the highest customer satisfaction rating of the major airlines considered, and Baltia Airlines, which is still in the start-up phase. Considering American’s long history of operation, we postulated that this airline should demonstrate higher pragmatic legitimacy than either JetBlue or Baltia. However, given the reputation of the large airlines in this industry, we expected that they might score lower than the other two on moral legitimacy. Because JetBlue is relatively new compared to other airlines, and positions itself with many consumer-friendly policies such as low fares, free inflight Wi-Fi and television, and low baggage/cancellation fees relative to many of their competitors, our a priori prediction was that JetBlue should be perceived as higher in moral legitimacy than the other two. Finally, while Baltia possesses some legitimacy in that it was founded in 1989 and is a registered business traded in OTC markets (ticker: BLTA), it currently has no flights in operation. We therefore expected Baltia to exhibit substantially lower cognitive legitimacy as compared to either of the other two airlines.

Following the same procedure as in the previous studies, we sampled 396 participants from Amazon MTurk and randomly assigned each to one of the three airlines. Once again,
demographic descriptive statistics revealed a representative sample of the general public, drawn from 49 US States. Participants ranged from 19-76 years of age (average age = 37) and represented a wide range of income demographics: less than $25,000 (25%), $25,000-$49,999 (28%), $50,000-$74,999 (25%), $75,000-$99,999 (9%), and over $100,000 (13%). Participants responded to the 12-item perceptual legitimacy scale, corporate reputation scale, and trust in the organization scale for their assigned airline. Before assessing nomological validity, a confirmatory factor analysis was conducted. Overall goodness-of-fit statistics again suggest that our data fit the model well ($X^2_{(50)} = 160.35, p < 0.001; \text{RMSEA} = 0.075; \text{CFI} = 0.967; \text{SRMR} = 0.059$). The factor analysis results of Study 5 are summarized in Table 2, column 3.

Table 4 presents a summary of the correlations between each dimension of legitimacy, reputation, and trust in the organization. As expected, all three dimensions of legitimacy are significantly correlated ($p < .001$) with the composite measures of both organizational reputation (Pragmatic $r = 0.40$, Moral $r = 0.68$, Cognitive $r = 0.52$) and trust in the organization (Pragmatic $r = 0.40$, Moral $r = 0.59$, Cognitive $r = 0.42$). As reputation is a multidimensional scale, correlations were also calculated for each of the five dimensions with the three dimensions of legitimacy. All of the correlations are statistically significant ($p < .001$) and fall between 0.20 and 0.75, suggesting that the scales are measuring distinct but related constructs. It is worth noting that the correlations among the three dimensions of legitimacy demonstrate a slightly different pattern across studies 4 and 5, suggesting that the relationships between the dimensions of legitimacy may vary across different organizations and industries. This further supports the conceptualization of these three aspects of legitimacy as distinct dimensions, as opposed to being reflective of a single higher-order construct.
We next compared the mean values for the three airlines on the three dimensions of legitimacy using a MANOVA. The results for all four omnibus tests yield identical and significant p-values ($p < .001$), so individual ANOVAs were performed for each of the three legitimacy dimensions. Figure 1 presents a summary of the means on all three dimensions. A one-way ANOVA on pragmatic legitimacy revealed a significant effect of organization ($F(2, 394) = 36.27, p < .001$). Planned contrasts revealed that as expected, American was perceived to be more pragmatically legitimate than both JetBlue (American $M = 5.44$, JetBlue $M = 5.10$, $F(1, 394) = 5.63, p < .05$) and Baltia (American $M = 5.44$, Baltia $M = 4.26$, $F(1, 394) = 68.36, p < .001$). JetBlue was also perceived to be more pragmatically legitimate than Baltia (JetBlue $M = 5.10$, Baltia $M = 4.26$, $F(1, 394) = 33.98, p < .001$), which is not surprising given Baltia’s current start-up status and lack of flights.

A one-way ANOVA on moral legitimacy also revealed a significant effect of organization ($F(2, 395) = 47.77, p < .001$). Planned contrasts revealed that as predicted, American was perceived to be less morally legitimate than both JetBlue (American $M = 4.15$, JetBlue $M = 5.27$, $F(1, 395) = 64.59, p < .001$) and Baltia (American $M = 4.15$, Baltia $M = 5.37$, $F(1, 395) = 43.98, p < .001$).
JetBlue and Baltia were not significantly different in perceived moral legitimacy ($p > .10$). Finally, a one-way ANOVA on cognitive legitimacy also revealed a significant effect of organization ($F(2, 394) = 9.76, p < .001$). Planned contrasts revealed that as expected, Baltia was perceived to be less cognitively legitimate than both American (Baltia $M = 3.91$, American $M = 4.61$, $F(1, 394) = 19.34, p < .001$) and JetBlue (Baltia $M = 3.91$, JetBlue $M = 4.30$, $F(1, 394) = 6.46, p = .01$). American and JetBlue were not significantly different in perceived cognitive legitimacy ($p > .05$). Collectively, these results support the nomological validity of our 12-item perceptual legitimacy scale.

**DISCUSSION**

This research makes a methodological contribution to the ongoing research stream examining micro-level foundations of legitimacy by developing a valid measure to capture individual perceptions of pragmatic, moral, and cognitive legitimacy. Across five studies, we demonstrate that our measure has a consistent three-dimensional scale structure and provide evidence of convergent, discriminant, and nomological validity. We assess the generalizability and robustness of the measure by testing its validity using a diverse selection of organizations and industries. We demonstrate that the structure and reliability of our measure is consistent across organizations of different sizes, ages, and types. We further show that our measure can be used to compare the legitimacy of organizations across industries or to identify differences in legitimacy among competitors within a single industry. Our results suggest that this measure can be validly applied to a wide variety of organizations and future research contexts.

The perceptual legitimacy scale is a first step in addressing the call for expanded methodological approaches to understanding individual legitimacy judgments and perceptions.
made by Suddaby, Bitektine & Haack (2017). The ultimate goal of this research stream is to be able to map the process through which individuals arrive at legitimacy judgments, which is beyond the scope of this research. However, the development of a valid psychometric measure of individual legitimacy perceptions provides a necessary preliminary step in this process. The perceptual legitimacy scale enables the comparison of current legitimacy perceptions across individuals, organizations, or contexts, can act as a dependent measure in experimental research designed to identify antecedents and influences on legitimacy perceptions or responses to specific legitimation strategies and activities, and provides a mechanism through which to study changes in individual legitimacy perceptions over time.

In addition, the proposed instrument provides researchers a means by which all three of the dimensions of legitimacy advanced by Suchman (1995) can be measured either simultaneously or individually. This would allow for further evaluation of their structural configuration. For instance, substantial debate has surrounded the relationship between cognitive legitimacy and both pragmatic and moral legitimacy (Dart, 2004; Deephouse & Suchman, 2008; Scott, 2013). One could argue that perceptions of an organization as being pragmatically and morally legitimate could lead to the organization becoming taken for granted and, thus, cognitively legitimate (Laïfi & Josserand, 2016). However, it may also be necessary for an organization to be comprehensible in order to assess its pragmatic and moral legitimacy. One interesting avenue for future research that may be facilitated by this measure would be to examine cognitive legitimacy as either an antecedent or consequent of the other two dimensions.

This research does have several limitations. First, as our goal was to develop a measure of individual perceptions, the participants in our study were drawn from students and Amazon Mechanical Turk. While these populations are generally viewed to be representative of the
external audiences who would be evaluating an organization’s legitimacy, such as potential consumers, it would be beneficial to test the validity of the scale in assessing the perceptions of internal stakeholders as well. Second, in order to control for differences in familiarity with the organizations, participants were presented with descriptions of the different organizations prior to making their legitimacy assessments. It would be valuable to test the legitimacy measure among current stakeholders of an organization, who would be able to form their legitimacy judgments based on their personal experiences with the organization. Finally, while we assessed the validity of the scale across a diverse set of organizations, the majority of these organizations were well-established. It would be interesting to examine whether legitimacy perceptions differ when individuals are asked to judge new ventures as opposed to established organizations.

Legitimacy has evolved to be a core construct in strategic management research due to its central role in organizations’ survival and growth. In order to develop a comprehensive understanding of this key success factor, it is necessary to examine it at both the micro- and macro-levels, capturing both the perspectives of critical institutions and individual evaluators. A perceptual measure of legitimacy contributes to the advancement of this literature stream by permitting future researchers to examine the perceptions of individual stakeholders both internal and external to the organization, enabling a richer and more nuanced understanding of the process through which organizations can achieve legitimacy.
REFERENCES


Appendix
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parsons (1960: p. 175)</td>
<td>&quot;Appraisal of action in terms of shared or common values in the context of the involvement of the action in the social system.&quot;</td>
</tr>
<tr>
<td>Berger &amp; Luckman (1967: p. 92-93)</td>
<td>&quot;Legitimation 'explains' the institutional order by ascribing cognitive validity to its objectified meanings. Legitimation justifies the institutional order by giving a normative dignity to its practical imperatives.&quot;</td>
</tr>
<tr>
<td>Stinchcombe (1968: p. 162)</td>
<td>&quot;A power is legitimate to the degree that, by virtue of the doctrines and norms by which it is justified, the power-holder can call upon sufficient other centers of power, as reserves in case of need, to make his power effective.&quot;</td>
</tr>
<tr>
<td>Maurer (1971: p. 361)</td>
<td>&quot;Legitimation is the process whereby an organization justifies to a peer or superordinate system its right to exist, that is to continue to import, transform, and export energy, material, or information.&quot;</td>
</tr>
<tr>
<td>Dowling &amp; Pfeffer (1974: p. 122)</td>
<td>&quot;...congruence between the social values associated with or implied by [organizations'] activities and the norms of acceptable behavior in the larger social system of which they are a part.&quot;</td>
</tr>
<tr>
<td>Meyer &amp; Scott (1983a: p. 201)</td>
<td>&quot;the degree of cultural support for an organization&quot;</td>
</tr>
<tr>
<td>Oliver (1991)</td>
<td>&quot;social fitness&quot;</td>
</tr>
<tr>
<td>Suchman (1995: 574)</td>
<td>&quot;A generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.&quot;</td>
</tr>
<tr>
<td>Deephouse (1996: 1025)</td>
<td>&quot;The endorsement of an organization by social actors.&quot;</td>
</tr>
<tr>
<td>Kostova &amp; Zaheer (1999: 64)</td>
<td>&quot;Acceptance of the organization by its environment.&quot;</td>
</tr>
<tr>
<td>Bitektine (2011: 159)</td>
<td>“The concept of organizational legitimacy covers perceptions of an organization or entire class of organizations, judgment/evaluation based on these perceptions, and behavioral responses based on these judgments rendered by media, regulators, and other industry actors (advocacy groups, employees, etc.) who perceive an organization’s processes, structures, and outcomes of its activity, its leaders, and linkages with other social actors and judge the organization either by classifying it into a preexisting (positively evaluated) cognitive category/class or by subjecting it to a thorough sociopolitical evaluation, which is based on the assessment of the overall value of the organization to the individual evaluator (pragmatic legitimacy), his or her social group (moral legitimacy) and through the pattens of interaction with the organization and other social actors, the evaluating actor supports, remains neutral, or sanctions the organization depending on whether the organizations provides the benefit(s) prescribed by the prevailing norms and regulations.”</td>
</tr>
<tr>
<td>Legitimacy Type</td>
<td>References</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>------------------------------------------------</td>
</tr>
<tr>
<td>Moral Legitimacy (based on normative approval)</td>
<td>Suchman (1995)</td>
</tr>
<tr>
<td>Cognitive Legitimacy (based on taken-for-grantedness)</td>
<td>Suchman (1995)</td>
</tr>
<tr>
<td>Internal Legitimacy (with organization’s insiders)</td>
<td>Kostova &amp; Zaheer (1999)</td>
</tr>
<tr>
<td>External Legitimacy (with organization’s external constituents)</td>
<td>Kostova &amp; Zaheer (1999)</td>
</tr>
<tr>
<td>Managerial Legitimacy (based on efficiency logic)</td>
<td>Ruef &amp; Scott (1998)</td>
</tr>
<tr>
<td>Technical Legitimacy (based on technology, quality, and qualifications)</td>
<td>Barron (1998)</td>
</tr>
<tr>
<td>Media Legitimacy (equated with legitimacy with the general public)</td>
<td>Deephouse (1996)</td>
</tr>
<tr>
<td>Regulatory Legitimacy (legitimacy with government regulators)</td>
<td>Deephouse (1996)</td>
</tr>
<tr>
<td>Procedural Legitimacy (based on soundness of procedures)</td>
<td>Suchman (1995)</td>
</tr>
<tr>
<td>Consequential Legitimacy (based on the evaluation of outcomes)</td>
<td>Suchman (1995)</td>
</tr>
<tr>
<td>Structural Legitimacy (based on the evaluation of the organization’s structure)</td>
<td>Suchman (1995)</td>
</tr>
<tr>
<td>Personal Legitimacy (based on the charisma of leaders)</td>
<td>Suchman (1995)</td>
</tr>
<tr>
<td>Sociopolitical/evaluative legitimacy (based on existing norms and laws)</td>
<td>Aldrich &amp; Fiol (1994)</td>
</tr>
<tr>
<td>Sociopolitical regulatory legitimacy (= regulative legitimacy, based on existing norms and laws)</td>
<td>Zimmerman &amp; Zeitz (2002); Scott (2014)</td>
</tr>
<tr>
<td>Sociopolitical normative legitimacy (= normative legitimacy, based on existing rules and laws)</td>
<td>Zimmerman &amp; Zeitz (2002); Scott (2014)</td>
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</tbody>
</table>

*Table adapted from Biektine (2011: p. 154)*
### Table 3
Preliminary Factor Analysis Results
Study 2

<table>
<thead>
<tr>
<th>Pragmatic Legitimacy</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>In general, this organization creates value for its stakeholders.</td>
<td>.85</td>
</tr>
<tr>
<td>The policies of this organization cater to the interests of its shareholders.</td>
<td>.75</td>
</tr>
<tr>
<td>I believe the activities of this organization benefit their immediate stakeholders.</td>
<td>.54</td>
</tr>
<tr>
<td>Compared to similar organizations, this organization is better managed and operated.</td>
<td>.46</td>
</tr>
<tr>
<td>Compared to similar organizations, this organization better understands its customers’ needs and concerns.</td>
<td>.44</td>
</tr>
<tr>
<td>This organization’s procedures create value for its suppliers.</td>
<td>.40</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Moral Legitimacy</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most people in the general public would approve of this organization’s operating practices.</td>
<td>.80</td>
</tr>
<tr>
<td>This organization is concerned with meeting acceptable standards for ethical behavior in their field.</td>
<td>.77</td>
</tr>
<tr>
<td>The way this organization operates promotes the common good.</td>
<td>.76</td>
</tr>
<tr>
<td>The general public would approve of this organization's policies and procedures.</td>
<td>.75</td>
</tr>
<tr>
<td>This organization's policies seem appropriate.</td>
<td>.75</td>
</tr>
<tr>
<td>Most people would consider this organization's practices to be moral.</td>
<td>.74</td>
</tr>
<tr>
<td>I believe this organization cares about the well being of their employees.</td>
<td>.63</td>
</tr>
<tr>
<td>This organization is concerned with “playing by the rules.”</td>
<td>.63</td>
</tr>
<tr>
<td>If more organizations adopted policies and procedures like this one, the world would be a better place.</td>
<td>.62</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cognitive Legitimacy</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>I expect to see organizations like this one.</td>
<td>.81</td>
</tr>
<tr>
<td>I believe that this organization is necessary.</td>
<td>.68</td>
</tr>
<tr>
<td>In general, this organization provides an essential function.</td>
<td>.68</td>
</tr>
<tr>
<td>There must be a good reason for the way this organization operates.</td>
<td>.51</td>
</tr>
<tr>
<td>The policies of this organization are typical of its field.</td>
<td>.43</td>
</tr>
<tr>
<td>I tend to take for granted the value this organization provides.</td>
<td>.32</td>
</tr>
</tbody>
</table>

*N = 471*
Table 4
Final Scale Items and Factor Analysis Results
Studies 3-5

<table>
<thead>
<tr>
<th></th>
<th>Study 3 EFA</th>
<th>Study 4 CFA</th>
<th>Study 5 CFA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pragmatic Legitimacy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, this organization creates value for its stakeholders.</td>
<td>.96</td>
<td>.85</td>
<td>.90</td>
</tr>
<tr>
<td>The policies of this organization cater to the interests of its shareholders.</td>
<td>.95</td>
<td>.76</td>
<td>.83</td>
</tr>
<tr>
<td>I believe the activities of this organization benefit their immediate stakeholders.</td>
<td>.82</td>
<td>.96</td>
<td>.95</td>
</tr>
<tr>
<td><strong>Moral Legitimacy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The general public would approve of this organization's policies and procedures.</td>
<td>.94</td>
<td>.76</td>
<td>.88</td>
</tr>
<tr>
<td>Most people would consider this organization's practices to be moral.</td>
<td>.85</td>
<td>.82</td>
<td>.88</td>
</tr>
<tr>
<td>The way this organization operates promotes the common good.</td>
<td>.81</td>
<td>.87</td>
<td>.85</td>
</tr>
<tr>
<td>This organization is concerned with meeting acceptable standards for ethical behavior in their field.</td>
<td>.89</td>
<td>.82</td>
<td>.81</td>
</tr>
<tr>
<td>This organization's policies seem appropriate.</td>
<td>.69</td>
<td>.77</td>
<td>.83</td>
</tr>
<tr>
<td>If more organizations adopted policies and procedures like this one, the world would be a better place.</td>
<td>.90</td>
<td>.88</td>
<td>.83</td>
</tr>
<tr>
<td><strong>Cognitive Legitimacy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I believe that this organization is necessary.</td>
<td>.93</td>
<td>.93</td>
<td>.85</td>
</tr>
<tr>
<td>In general, this organization provides an essential function.</td>
<td>.55</td>
<td>.91</td>
<td>.74</td>
</tr>
<tr>
<td>It is difficult to imagine a world in which this organization did not exist.</td>
<td>.56</td>
<td>.72</td>
<td>.61</td>
</tr>
</tbody>
</table>

*All CFA factor loadings significant at p < .001.*

N = 225  N = 159  N = 396
Table 5
Composite Descriptive Statistics and Discriminant Validity
Study 4

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>AVE</th>
<th>Pragmatic</th>
<th>Moral</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pragmatic</td>
<td>5.40</td>
<td>0.93</td>
<td>0.74</td>
<td>0.86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moral</td>
<td>4.02</td>
<td>1.19</td>
<td>0.67</td>
<td>0.24</td>
<td>0.82</td>
<td></td>
</tr>
<tr>
<td>Cognitive</td>
<td>2.56</td>
<td>1.38</td>
<td>0.74</td>
<td>0.08</td>
<td>0.65</td>
<td>0.86</td>
</tr>
</tbody>
</table>

Square root of AVE for each factor displayed on the diagonal of the correlation matrix.
Table 6
Descriptive Statistics, Cronbach’s Alpha, and Correlation Coefficients of Legitimacy Scales and Related Constructs
Study 5

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>Items</th>
<th>Alpha</th>
<th>Pragmatic</th>
<th>Moral</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pragmatic</td>
<td>4.92</td>
<td>1.27</td>
<td>3</td>
<td>0.92</td>
<td>0.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moral</td>
<td>4.93</td>
<td>1.24</td>
<td>6</td>
<td>0.94</td>
<td>0.04</td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>Cognitive</td>
<td>4.27</td>
<td>1.34</td>
<td>3</td>
<td>0.77</td>
<td>0.43*</td>
<td>0.24*</td>
<td>0.74</td>
</tr>
</tbody>
</table>

Composite Reputation and Trust Measures

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>Items</th>
<th>Alpha</th>
<th>Pragmatic</th>
<th>Moral</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>4.78</td>
<td>0.99</td>
<td>15</td>
<td>0.93</td>
<td>0.40*</td>
<td>0.68*</td>
<td>0.52*</td>
</tr>
<tr>
<td>Trust</td>
<td>4.86</td>
<td>1.26</td>
<td>3</td>
<td>0.92</td>
<td>0.40*</td>
<td>0.59*</td>
<td>0.42*</td>
</tr>
</tbody>
</table>

Reputation Dimensions

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>Items</th>
<th>Alpha</th>
<th>Pragmatic</th>
<th>Moral</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer orientation</td>
<td>5.04</td>
<td>1.07</td>
<td>3</td>
<td>0.85</td>
<td>0.20*</td>
<td>0.75*</td>
<td>0.32*</td>
</tr>
<tr>
<td>Good Employer</td>
<td>5.03</td>
<td>1.13</td>
<td>3</td>
<td>0.82</td>
<td>0.45*</td>
<td>0.54*</td>
<td>0.48*</td>
</tr>
<tr>
<td>Reliable &amp; Financially Strong Company</td>
<td>4.74</td>
<td>1.24</td>
<td>3</td>
<td>0.81</td>
<td>0.54*</td>
<td>0.46*</td>
<td>0.57*</td>
</tr>
<tr>
<td>Product &amp; Service quality</td>
<td>4.54</td>
<td>1.32</td>
<td>3</td>
<td>0.81</td>
<td>0.21*</td>
<td>0.69*</td>
<td>0.35*</td>
</tr>
<tr>
<td>Social &amp; Environmental Responsibility</td>
<td>4.55</td>
<td>1.14</td>
<td>3</td>
<td>0.85</td>
<td>0.29*</td>
<td>0.41*</td>
<td>0.46*</td>
</tr>
</tbody>
</table>

* p < 0.001

Square root of AVE for each factor displayed on the diagonal of the correlation matrix.
Figure 1
Legitimacy Means by Airline
Study 5

Pragmatic Legitimacy | Moral Legitimacy | Cognitive Legitimacy

- American
- JetBlue
- Baltia
Appendix A
Complete Pool of Potential Scale Items

*Pragmatic Legitimacy*

Compared to similar organizations, organizations like this are better managed and operated.¹
In general, organizations like this one create value for their stakeholders.
Compared to similar organizations, organizations like this better understand their customers' needs and concerns.¹
The policies of organizations like this one cater to the interests of their shareholders.
The practices of this organization create value for their employees and customers.
In general, organizations such as this are worthwhile enterprises to support financially.
This organization's products/services provide me value.
I believe the activities of this organization benefit their immediate stakeholders.
This organization is useful to myself or others.
This organization's procedures benefit their customers and suppliers.
Others who deal with this organization find value in their interactions with the organization.
Compared to similar organizations, organizations like this are more innovative in developing new products/services.¹

*Moral Legitimacy*

The general public would approve of this organization's policies and procedures.²
Most people would consider this organization's practices to be moral.
The way this organization operates promotes the common good.
I do not question whether this organization is operating as it should.
This organization is concerned with meeting acceptable standards for ethical behavior in their field.²
This organization deals with people fairly.
I question the ethics of organizations like this.
I believe organizations like this care about the well being of their employees and customers.
I believe that organizations such as this are good for their communities.
Something about this organization seems inappropriate.
The world is better off because of organizations like this.
This organization is concerned with "playing by the rules".\(^2\)
The policies of this organization adhere to acceptable standards as determined by regulatory agencies.\(^2\)
If more organizations adopted policies and procedures like this one, the world would be a better place.
I believe organizations like this care about the well being of their employees and customers.
Most people in the general public would approve of this organizations operating practices.\(^2\)

\textit{Cognitive Legitimacy}

I expect to see organizations like this one.
I believe that organizations like this fulfill a need in the economy.
I tend to take organizations like this for granted.
There must be a good reason for the way this organization operates.
I believe that organizations like this are necessary.
In general, organizations like this fulfill an essential function.
In general, organizations like this are struggling to find their niche.\(^1\)
The policies of this company of typical of organizations in their field.
I am comfortable dealing with organizations like this.
In general, the practices of organizations like this are acceptable.
I believe organizations like this are unusual.
In general, the policies and procedures of organizations like this one make sense.
Most people would understand clearly why this company needs to do what it does
I would feel comfortable interacting with this organization.
In general, I believe organizations like this one have outlived their usefulness.\(^1\)
It is easy to understand why an organization would adopt the types of practices and procedures this organization has.

\(^1\) Original scale item (Foreman & Whetten, 2002)
\(^2\) Adapted original scale item (Elsbach, 1994; Humphreys & Latour, 2014)
Appendix B
Revised Pool of Potential Scale Items

Pragmatic Legitimacy

Compared to similar organizations, this organization is better managed and operated.\(^3\)
In general, this organization creates value for its stakeholders.
Compared to similar organizations, this organization better understands its customers' needs and concerns.\(^3\)
The policies of this organization cater to the interests of its shareholders.
This organization's practices create value for its customers.\(^1\)
This organization's policies and procedures are beneficial to its employees.\(^1\)
I believe the activities of this organization benefit their immediate stakeholders.
This organization's procedures create value for its suppliers.\(^3\)
Others who deal with this organization find value in their interactions with the organization.\(^1\)
Compared to similar organizations, this organization is more innovative in developing new products/services.\(^1\)

Moral Legitimacy

The general public would approve of this organization's policies and procedures.
Most people would consider this organization's practices to be moral.
The way this organization operates promotes the common good.
I do not question whether this organization is operating as it should.\(^1\)
This organization is concerned with meeting acceptable standards for ethical behavior in their field.
This organization deals with people fairly.\(^1\)
I believe this organization cares about the well being of their employees.\(^3\)
I believe that this organization is good for the community.\(^1\)
This organization's policies seem appropriate.
The world is a better place because of this organization.\(^3\)
This organization is concerned with "playing by the rules."\(^3\)
The policies of this organization adhere to acceptable standards as determined by regulatory agencies.\textsuperscript{1}
If more organizations adopted policies and procedures like this one, the world would be a better place.
I believe this organization cares about the well being of its customers.\textsuperscript{1}
Most people in the general public would approve of this organization's operating practices.\textsuperscript{3}

\textit{Cognitive Legitimacy}

I expect to see organizations like this one.\textsuperscript{3}
I believe that this organization fulfills a need in the economy.\textsuperscript{1}
I tend to take for granted the value this organization provides.\textsuperscript{3}
There must be a good reason for the way this organization operates.\textsuperscript{3}
I believe that this organization is necessary.
In general, organizations like this provide an essential function.
The policies of this organization are typical of its field.\textsuperscript{3}
I am comfortable dealing with organizations like this.\textsuperscript{1}
The practices of this organization are acceptable.\textsuperscript{1}
This organization is typical.\textsuperscript{1}
The policies and procedures of this organization make sense.\textsuperscript{1}
Most people would understand clearly why this organization needs to do what it does.\textsuperscript{1}
I would feel comfortable interacting with this organization.\textsuperscript{1}
I expect this organization to have specific policies and procedures.\textsuperscript{1}
It is difficult to imagine a world in which this organization did not exist.\textsuperscript{2}

\textsuperscript{1} Eliminated in Study 2
\textsuperscript{2} Added in Study 3
\textsuperscript{3} Eliminated in Study 3
Projecting Legitimate Hybrid Identities in New Social Enterprise

INTRODUCTION

Social entrepreneurship research has rapidly accelerated over the past decade, largely in response to its rising popularity among practitioners, policy advocates, and press media (Short, Moss, & Lumpkin, 2009). Although scholars have yet to converge on a single, universally accepted definition, most seem to agree that social entrepreneurship involves two necessary conditions. The first is that social entrepreneurs seek to achieve some desired social purpose, provide an innovative solution to a particular social problem, or create value intended to benefit society at large (Austin, Stevenson, & Wei-Skillern, 2006; Mair & Marti, 2006; Santos, 2012). The second is that they use market-based mechanisms in order to achieve their social objectives (Dees, 1998; Zahra, Gedajlovic, Neubaum, & Shulman, 2009). Importantly, the necessity of this commercial feature as being a component of the organization’s core distinguishes the social enterprise from the traditional non-profit organization.

It therefore follows that in order to be a social enterprise, the organization (or entrepreneur) must have two specific, yet distinct objectives that are central to the organization’s existence. Stevens, Moray, and Bruneel (2014) elaborate on this idea, proposing that this underlying duality of purpose manifests as two distinct missions. “The social mission of social enterprise refers to value creation for the ‘public good,’ whereas their ‘economic’ mission refers to value creation for ‘private gain’” (Stevens et al., 2014: p. 6). The missions are then reflected in the organizing activities and processes undertaken by the budding enterprise. As individuals begin to make sense of the organization - its purpose, values, and goals – these organizations begin to develop a hybrid identity (Battilana & Lee, 2014).
Organizational identity is defined as the features of an organization considered most central to the organization’s self-image, distinctive from other similar organizations, and as having continuity over time (Albert & Whetten, 1985). While organizations are often viewed as having a single, unchanging identity, a growing body of work suggests that organizations may - and do - possess multiple identities (e.g. Battilana & Dorado, 2011; Gioia, Patvardhan, Hamilton, & Corley, 2013). These hybrid organizations often experience competing or even conflicting norms, demands, and expectations (e.g. Kraatz & Block, 2008; Smith, Gonin, & Besharov, 2013). Social enterprises are commonly defined as organizations using market-based activities with the purpose of advancing societal welfare (Austin et al., 2006; Mair & Marti, 2006, Zahra et al., 2009). By definition, therefore, social enterprises are a form of hybrid organizations and exhibit dual identities (Townsend & Hart, 2008; Moss, Short, Payne, & Lumpkin, 2010; Battilana & Lee, 2014; Stevens et al., 2014). Prior research has shown that for social enterprises, these dual identities are likely to be a normative identity (reflecting the underlying charity or social logic) and a utilitarian identity (representing the commercial logic) (e.g. Foreman & Whetten, 2002; Moss et al., 2010; Stevens et al., 2014).

These dual identities present a challenge for new social enterprises seeking to be perceived as legitimate. Legitimacy – the perception that the actions of an entity are desirable or appropriate within a set of norms, beliefs, or values – provides a means by which organizations are able to acquire the necessary resources in order to achieve their desired objectives (Suchman, 1995; Zimmerman & Zeitz, 2002; Delmar & Shane, 2004). While managing legitimacy is important for nearly all organizations, it is especially important for new organizations, as they face heightened uncertainty (Aldrich & Fiol, 1994), limited access to resources (Oviatt & McDougall, 1994), and the liabilities of “smallness” and “newness” (Stinchcombe, 1965; Singh
et al., 1986). Prior research suggests that by conforming to the regulatory, normative, and cultural-cognitive logics prescribed by their institutional environments, new organizations are able to more effectively legitimate (DiMaggio & Powell, 1983; Scott, 1995; Deephouse, 1996). In other words, there exist ready-to-wear organizational templates, or forms, which carry with them certain traditions, norms, and expected behaviors.

As founders of new social enterprises, social entrepreneurs must be particularly adept at balancing the tradeoffs imposed by multiple institutional logics in order to gain and maintain their legitimacy (Dart, 2004; Pache & Santos, 2010; Scott & Meyer, 1991). In the absence of a prototype business model or template form, new hybrid organizations face even greater uncertainty in their entry decisions (Scott & Meyer, 1991). For example, social entrepreneurs often struggle over the decision to incorporate as a for-profit or non-profit entity (Kistruck & Beamish, 2010; Townsend & Hart, 2008). In mature hybrid organizations, prior research has acknowledged a variety of internal tensions that may arise as a result of hybridization, such as hiring and socialization policies (Battilana & Dorado, 2010), identity conflicts (Glynn, 2000), and resource allocation (Tracey, Phillips, & Jarvis, 2011). Furthermore, external legitimacy threats also arise, as stakeholders struggle to develop meaningful expectations for these entrepreneurs or organizations (e.g. Pache & Santos, 2013). In summary, hybrid social enterprises represent “natural arenas of contradiction” (Pache & Santos, 2013: 972), creating potential legitimacy problems for these new organizations. In the case of new hybrid organizations, this problem is particularly onerous, as entrepreneurs need to build legitimacy in order to assemble the resources necessary for market entry (e.g. Aldrich & Fiol, 1994; Zimmerman & Zeitz, 2002; Delmar & Shane, 2004).
Surprisingly few studies have examined how and why some social entrepreneurs are able to more effectively navigate this complex institutional landscape in their pursuit of legitimacy. The purpose of the present research is twofold. First, we seek to provide insight into how new hybrid social enterprises acquire legitimacy. Specifically, we ask: how do social entrepreneurs construct their organizations’ hybrid identities in such a way as to maximize their perceived legitimacy? While prior research has focused primarily on how existing social enterprises manage internal threats to their legitimacy that arise from their hybridity (e.g. Battilana & Dorado, 2010; Pache & Santos, 2013), the current research focuses explicitly on how new social enterprises construct their hybrid identities to maximize external perceptions of their legitimacy. This is particularly important because new organizations depend on resources supplied by external stakeholders, and perceptions of the organizations’ legitimacy influence their ability to attract those resources. In doing so, the present study attempts to contribute to a broader understanding of legitimation in the face of institutional pluralism.

Furthermore, we seek to provide a more nuanced examination of how different combinations of core identity elements affect different types of legitimacy, and how these distinct forms of legitimacy affect social entrepreneurs’ ability to acquire tangible resources. To do so, we draw on the well-known types of legitimacy advanced by Suchman (1995), distinguishing between pragmatic, moral, and cognitive legitimacy. Using an experimental design, we develop a crowdfunding decision scenario in which to test the specific relationships between hybrid identities, legitimacy, and the ability of social entrepreneurs to obtain the financial resources necessary for their development and sustainability. Thus, the third intended contribution of this study is to explicitly test how potential external stakeholders perceive an organization’s pragmatic, moral, and cognitive legitimacy, the underlying relationships among
these dimensions, and their effect on potential funders’ willingness to contribute financial resources.

CONCEPTUAL BACKGROUND

Organizational Legitimacy

Institutional theory suggests that environments impose regulative, normative, and cognitive elements with which organizations must comply in order to build legitimacy and support for their organization (DiMaggio & Powell, 1983; Scott, 1995). As stated previously, organizational legitimacy is defined as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 574). Suchman (1995) discusses three types of legitimacy: pragmatic, moral, and cognitive. Pragmatic legitimacy is an active, conscious assessment of an organization’s practices and policies in terms of the practical, expected value that these activities will provide its most salient stakeholders. This type of legitimacy “rests on the self-interested calculations of an organization's most immediate audiences” (Suchman, 1995: p. 578) and is considered the most tangible of the three types. Dart (2004) describes pragmatic legitimacy as a judgment made by stakeholders where “if we get anything out of this, then we consider it legitimate.” (Dart, 2004: 416).

Moral legitimacy is an active assessment of an organization’s practices, policies, and procedures in terms of adhering to social norms and shared values in a manner that promotes societal welfare. According to Suchman, “moral legitimacy reflects a positive normative evaluation of the organization and its activities” (Suchman, 1995: 579). Moral legitimacy differs from pragmatic legitimacy in that it is “based on an evaluation of whether an activity of a focal
organization is the proper one (relative to external norms) rather than whether it specifically benefits those who are making the evaluation” (Dart, 2004: 416).

The third type, cognitive legitimacy, is a passive, subconscious assumption that the practices, policies, and procedures of an organization are both comprehensible and necessary (i.e. taken-for-granted) (Suchman, 1995). Importantly, cognitive legitimacy is distinguished from the other two types in that cognitive legitimacy is not effortful; but rather, a passive judgment (assumption) operating at the level of taken-for-grantedness as opposed to the level of active evaluation. Within a shared cultural-cognitive schema, cognitive legitimacy represents the extent to which an organization’s activities can be “classified, understood, and integrated” by the observer (Humphreys & Latour, 2013: 774).

**Institutional Logics and Organizational Legitimacy**

A key assumption of this perspective is that by securing legitimacy, organizations are able to access the resources necessary for their survival and growth (e.g. Zimmerman & Zeitz, 2002). To do so, research suggests that organizations need to behave according to prescribed frameworks that define the “rules of the game” (Zhao & Wry, 2011). These frameworks, referred to as institutional logics, represent “a set of material practices and symbolic constructions - which constitutes its organizing principles and which is available to organizations and individuals to elaborate” (Friedland & Alford, 1991, p. 248). Kent & Dacin (2013, p. 762) describe institutional logics as the “DNA behind institutions”, composed of “more-or less interrelated schemas, norms, causal explanations, symbols, and other cognitive elements” (citing Van Dijk et al., 2011).
A central prediction of this theoretical foundation is that organizations behaving in accordance with the dominant institutional logic will secure and maintain legitimacy. As a result, new organizations entering an established field must conform to the structures and norms of that field. As fields become more and more institutionalized, the pressures (both strategic and normative) to resemble other organizations in the field leads to greater homogeneity in terms of organizational structure, form, strategy, and symbolism. This result, known as isomorphism, has important implications for both new and existing organizations in terms of how they are able to secure, maintain, and build legitimacy for their organizations (DiMaggio & Powell, 1983).

Research in institutional theory has shown that isomorphism occurs in organizations both structurally and symbolically, and both structural and symbolic isomorphism have been shown to impact organizational legitimacy (Deephouse, 1996; Glynn & Abzug, 2002). For instance, Deephouse (1996) finds that strategic isomorphism, or “the extent to which an organization’s strategies resembled the conventional, normal strategies of an industry” (Deephouse, 1996: p. 1029), increases regulatory and media endorsement of commercial banks. Similarly, Glynn and Abzug (2002) analyze the symbolic isomorphism of organizational names and find that isomorphism at a symbolic level results in greater public understandability of the organization’s identity. These two studies show that isomorphism affects the legitimacy judgments of both critical evaluators (i.e. media and regulatory actors) as well as the general public (Bitektine, 2011).

However, new organizations often find themselves combining elements from two or more institutional logics in ways that may not be familiar to external or internal audiences. Often, the policies, procedures, and actions of these organizations may seem unfamiliar or unexpected to various stakeholders. This may lead to conflicting sets of expectations and demands among the
organization and its internal stakeholders as well as important external audiences (Kraatz & Block, 2008). Social enterprises, situated at the nexus of commercial and social welfare logics, are particularly susceptible to the legitimacy threats arising from their inherently pluralistic nature (e.g. Dart, 2004). Although the social enterprise form is becoming increasingly popular, it has yet to achieve the “taken-for-grantedness” typically ascribed to institutionalized fields. As a result, they represent a fruitful area of inquiry for examining the legitimacy of hybrid organizations (Battilana & Lee, 2014).

**Hybrid Identity and Organizational Legitimacy**

A growing body of research has begun to examine how hybrid organizations negotiate the challenges of these multiple institutional logics. For instance, Battilana and Dorado (2010) examine how hybrid social enterprises are able to differentially achieve their organizational objectives and secure legitimacy through hiring and socialization processes that integrate elements of each logic, rather than compartmentalizing them. In a comparative case study of two microfinance organizations, they find that organizations adopting an integrated hiring and training approach, rather than hiring individuals with backgrounds in either finance or social work, are able to develop a more sustainable organizational culture. Building on this evidence, Pache and Santos (2012) examine the manner by which hybrid employment services organizations “selectively couple” elements from market and social welfare logics in order to project & acquire legitimacy. Rather than decoupling elements from competing logics, these findings suggest that hybrid organizations are most successful when they select intact elements from both logics, which “can enable hybrids to please institutional referents and thus secure widespread support” (Pache & Santos, 2013: p. 995).
Other studies have explored the effects of hybrid logics on organizational legitimacy in a variety of different research approaches. In their analysis of rhetorical strategies of social entrepreneurs, Ruebottom (2013) found that social entrepreneurs are able to project legitimacy through narratives portraying the organization as a protagonist and those who oppose the organization’s objectives as an antagonist. Cooney (2006) argued that the legitimacy of retail services in non-profit organizations depends on different strategies aimed at minimizing mission drift while still enabling non-profit organizations to generate earned income through their commercial initiatives. Di Domenico et al. (2009) examined cross-sector collaborations between corporations and social enterprise. Together, these studies suggest a recurring theme of hybrid organizing; notably, that integration of competing logics tends to lead to more sustainable and positive outcomes than strategies such as decoupling or compartmentalization (e.g. Battilana & Lee, 2014).

Few prior studies have attempted to measure and empirically test the relationships between the various forms of legitimacy and their antecedents and consequences. The exception is Foreman and Whetten (2002), who developed measures of pragmatic and cognitive legitimacy to analyze the effect of rural co-operative members’ hybrid organizational identity perceptions (normative vs. utilitarian) on the legitimacy of the rural cooperative form. Distinguishing between the current identity and the ideal hybrid identity, their results suggest that members’ evaluations of both pragmatic and cognitive legitimacy were primarily driven by the interaction of the current and ideal identity. In other words, “members of a hybrid organization identify with both aspects of its dual identity, and thus find themselves embracing competing goals and concerns associated with distinctly different identity elements” (Foreman & Whetten, 2002: 631-632). Furthermore, they also found that members wanted their organization to be more utilitarian
at the level of the organization, but more normative at the form level, indicating that some confusion exists within the mind of the observer regarding legitimating expectations of hybrid organizations.

While prior research on hybrid social enterprise has started to unpack the effects of various elements of hybrid organizing on organizational legitimacy, much remains to be understood. Research has shown the extent to which stakeholders perceive an organization to be legitimate depends on the degree to which they conform to the shared beliefs, values, and expectations comprising the institutional logic of their field (Scott, 1995; Deephouse, 1996; Glynn, 2000; Glynn & Abzug, 2002). Social enterprise, however, driven by underlying market and social welfare logics, will exhibit some degree of hybridity in the manner by which they construct their identity, simultaneously conforming to and deviating from each of these logics. The extent to which the dual identities are perceived by the external audience as either utilitarian or normative will vary, and this will influence their perceptions of the organizations’ legitimacy (Foreman & Whetten, 2002). For organizations perceived as emphasizing a greater utilitarian identity, external audiences should view the organization as behaving in accordance with a commercial logic, and consequently exhibit greater perceptions of pragmatic legitimacy. Alternatively, for organizations perceived as emphasizing a more normative identity, external evaluators will view the organization as behaving in accordance to the social welfare logic, and therefore perceive the organizations as morally legitimate. Stated formally:

*Hypothesis 1a: For hybrid organizations, emphasis on utilitarian identity will have a positive effect on pragmatic legitimacy judgments.*
Hypothesis 1b: For hybrid organizations, emphasis on normative identity will have a positive effect on moral legitimacy judgments.

The Mediating Effect of Cognitive Legitimacy

The relationship between cognitive legitimacy and the other two types has been a matter of considerable debate among institutional theorists (Aldrich & Fiol, 1994; Baum & Powell, 1995; Scott, 1995). In particular, disagreement exists between whether cognitive legitimacy represents the beginning of the legitimation process or the end of it (e.g. Humphreys & Latour, 2013). On the one hand, cognitive legitimacy represents a level of taken-for-grantedness that can only be in place in relatively well established institutional environments. It could be argued that in order to be truly taken-for-granted, necessary, or inevitable, organizations must first be perceived as pragmatic and morally legitimate. However, both pragmatic and moral legitimacy differ from cognitive legitimacy in that they are both active evaluations, whereas cognitive legitimacy operates at a passive, subconscious level (Suchman, 1995). According to the principle of cognitive economy, individuals will elect to minimize deployment of cognitive resources by resorting to simple decision rules and heuristics (e.g. Collins & Loftus, 1975). As applied to legitimacy evaluations, this suggests that individuals will engage in effortful, active evaluation of an organization’s legitimacy only if they are triggered to do so. In the event that cognitive legitimacy is called into question, evaluators are more likely to begin an active evaluation of pragmatic and moral legitimacy. This line of reasoning resonates with prior theorizing in regard to legitimacy judgments, such as the notion of a “threshold of legitimation” (Zimmerman & Zeitz, 2002), and recent conceptual and empirical work (Bitektine 2011; Humphries & Latour, 2013; Bitektine & Haack, 2015)
In a recent study of the effects of media framing on the legitimation of the online gambling industry, Humphreys & Latour (2013) discuss the relationship between cognitive and moral legitimacy. Drawing on prior research in consumer behavior (e.g. Alba & Hutchinson, 1987), these authors argue that novice users have less developed knowledge structures, or schemas, than experienced users. As a result, they predict that novice users (or ‘nonusers’) will be more prone to assessments of cognitive legitimacy than experienced users, as it represents a more efficient means of evaluating appropriate behavior in an industry environment with which they are not as familiar. In other words, the less developed the existing knowledge structures for classification of an organization or industry, the more an individual relies on implicit assumptions to guide their normative judgments. Based on this reasoning, these authors conceptualize cognitive legitimacy as an antecedent of normative legitimacy, and find empirical support for this claim.

Extending this line of reasoning, we suggest that external stakeholders evaluating new hybrid social enterprises are unlikely to have well developed knowledge structures for evaluating the pragmatic and moral legitimacy of these organizations. As a result, they will depend on implicit assumptions of cognitive legitimacy to develop their active assessments of pragmatic and moral legitimacy. Hence, we advance the following hypotheses:

_Hypothesis 2a: Cognitive legitimacy will mediate the effect of utilitarian identity on pragmatic legitimacy judgments._

_Hypothesis 2b: Cognitive legitimacy will mediate the effect of normative identity on moral legitimacy judgments._
Legal Form and Legitimacy

An important and often challenging decision for the aspiring social entrepreneur is the choice to incorporate as either a for-profit entity or a non-profit entity. A critical factor in this decision is the potential that a particular legal form affords a new venture to acquire financial capital. In some cases, the choice of legal form for social entrepreneurs may be contingent upon the nature of the opportunity itself. For instance, factors related to the opportunity itself such as anticipated profit, market potential, and the competitive environment may affect a social entrepreneur’s decision to incorporate as a for-profit or non-profit form. As hybrid organizations, however, the choice of legal form may further exacerbate the legitimacy concerns of external stakeholders (Townsend & Hart, 2008). For example, social entrepreneurs who incorporate as non-profit may be perceived as less legitimate if they overemphasize the utilitarian elements of their identity. On the other hand, enterprises that incorporate as for-profit may actually be perceived as more legitimate by emphasizing the normative aspects of their identity.

Extant empirical research supports this contention. For example, in their study of work integration social enterprises (WISEs), Pache & Santos (2013) found that founders with a history of primarily either social or commercial activities chose to emphasize elements that corresponded with the opposing logic in order to project legitimacy. As the authors explain, “organizations that come from the commercial sector (i.e. organizations that were founded by or in close partnership with a business company) enacted predominantly social welfare demands, more so than organizations coming from the social sector. In contrast, organizations originating from the social sector enacted a balanced combination of intact social welfare and commercial demands, but still adopted more commercial behaviors than organizations originating from the commercial sector.” (Pache & Santos, 2013: p. 988).
Following these insights, we posit that for new social enterprises, these effects will manifest through their impact on cognitive legitimacy judgments. As discussed previously, external stakeholders are not likely to have sufficiently developed knowledge structures to evaluate the legitimacy of a new social enterprise. However, stakeholders who are familiar with the institutional logics associated with a particular legal form may be able to use their knowledge of the legal form as a substitute for specific knowledge of the organization in the assessment of cognitive legitimacy. We therefore predict that the choice of legal form will moderate the effect of organizational identity on cognitive legitimacy, with the specific directional predictions to depend on the congruence of the legal form with the organizational identity.

*Hypothesis 3a: For-profit organizations emphasizing elements of their utilitarian identities will be perceived as possessing greater cognitive legitimacy than non-profit utilitarian organizations.*

*Hypothesis 3b: Non-profit organizations emphasizing elements of their normative identities will be perceived as possessing greater cognitive legitimacy than for-profit normative organizations.*

Furthermore, we expect that the choice of legal form will also prime individual expectations most strongly associated with the particular form. For instance, non-profit organizations are expected to provide some sort of societal benefit not currently being addressed by either commercial organizations or government agencies. As such, it is reasonable to expect the choice of a non-profit form to prime moral legitimacy judgments. Similarly, the commercial
logic of for-profit organizations generate expectations such as implementing policies and procedures designed to maximize shareholder wealth, thereby priming assessments of pragmatic legitimacy. When social entrepreneurs select legal forms that appear congruent with the dominant identity elements, we anticipate that the relative effect on both pragmatic (for-profit) and moral (non-profit) legitimacy will be amplified. In other words, we expect that hybrid organizations who match their respective blend of normative and utilitarian identity elements will project greater degrees of moral and pragmatic legitimacy, respectively. Stated formally:

*Hypothesis 3c:* For-profit organizations emphasizing elements of their utilitarian identities will be perceived as possessing greater pragmatic legitimacy than non-profit utilitarian organizations.

*Hypothesis 3d:* Non-profit organizations emphasizing elements of their normative identities will be perceived as possessing greater moral legitimacy than for-profit normative organizations.

**Organizational Legitimacy and Funding**

The final objective of the current study is to assess the differential effect that each type of legitimacy has on the ability of a new hybrid social enterprise to attract the tangible resources necessary for its entry into the marketplace. As discussed previously, resources are often provided to organizations that fit the expectations prescribed by their institutional logics (Kraatz & Block, 2008). External evaluations of hybrid organizations are likely to be perceived as inherently riskier than more familiar organizations, due to both uncertainty regarding behavioral
expectations as well as the lack of prototypical forms from which comparative evaluations may be made (Battilana & Lee, 2014). One means by which entrepreneurs can help reduce the uncertainty in the minds of external evaluators is by signaling greater legitimacy (Bitektine, 2011; Bitektine & Haack, 2015; Hoeffer & Green, 2016). For instance, Pollack, Rutherford, and Nagy (2012) examined entrepreneurs’ investment pitches, and found the effect of entrepreneurial ‘preparedness’ on the amount of funding received to be fully mediated by cognitive legitimacy. Following this reasoning, we predict for each type of legitimacy, positive external evaluations will correspond to a greater likelihood of contributing funds to an entrepreneurial venture. Stated formally:

Hypothesis 4a: Cognitive legitimacy will have a positive effect on an individual’s willingness to contribute financial resources to a new hybrid social enterprise.

Hypothesis 4b: Pragmatic legitimacy will have a positive effect on an individual’s willingness to contribute financial resources to a new hybrid social enterprise.

Hypothesis 4c: Moral legitimacy will have positive effect on an individual’s willingness to contribute financial resources to a new hybrid social enterprise.

A summary of our proposed conceptual framework is provided in Figure 1.
METHODS

To examine the effect of the perceived hybrid identities of new social enterprise on external legitimacy judgments, and the effect of each type of legitimacy on willingness to contribute financial resources, we designed an experiment set in the context of a hypothetical crowdfunding campaign. The study consisted of a 2 (utilitarian identity emphasis, normative identity emphasis) X 3 (for-profit, nonprofit, B-Corp) between-subjects factorial design. Hybrid identity and legal form were manipulated by presenting unique descriptions of a non-existent microfinance organization. Example stimuli descriptions are presented in Appendix A. To measure the identity manipulation, utilitarian and normative identity were measured using scales developed by Foreman & Whetten (2002). Scale items are presented in Appendix B.

Pretest

To ensure the effectiveness of our identity manipulation, we first conducted a pretest. A total of 91 participants were recruited from Amazon’s Mechanical Turk worker pool. Each participant was randomly assigned to one of two identity conditions, where they each received a description of the organization presented in Appendix A. To control for potential confounding effects of legal form, the legal form was not included in the pretest stimuli. Descriptions were crafted carefully to ensure that both the utilitarian and normative conditions were descriptions of a hybrid organization, but the specific language was manipulated to either reflect a more utilitarian or normative identity by exchanging words drawn from content analysis dictionaries used in prior identity research (Moss et al., 2010).

Results of the pretest indicated that the manipulation was successful. An independent sample t-test revealed that participants assigned to the utilitarian condition reported perceiving
the organization as significantly more utilitarian ($M = 4.13, SD = 0.67$) than those in the
normative condition ($M = 3.26, SD = 0.70; t_{(89)} = -6.04, p < 0.001$). Participants assigned to the
normative condition reported perceiving the organization significantly more normative ($M =
3.59, SD = 0.84$) than utilitarian ($M = 2.95, SD = 0.94; t_{(89)} = 3.42, p < 0.001$).

Participants

For the experiment, we recruited three hundred and one Amazon Mechanical Turk
workers (176 male) to participate. Participants ranged from 20 to 80 years of age ($M = 37.15, SD
= 12.26$) and spanned all 50 US States. Over half the sample (52.4%) reported an annual income
between $25,000 and $75,000 USD. Neither gender, age, geography, nor location were found to
meaningfully influence our results.

Procedure

Participants were randomly assigned to one of six conditions. Once assigned, at the outset
of the study they were informed they would be reading about an organization incorporated as
either a for-profit, nonprofit, B-Corp. To ensure a minimum degree of familiarity with each legal
form, they were provided a very brief (100-170 words) description of each legal form. These
descriptions are provided in Appendix C. To ensure participants read and understood each legal
form description, we included two attention check questions following the description.

After receiving the background information on legal form, participants were then
instructed to imagine a scenario in which they worked a few extra hours the previous month and
have an additional budget of $100 to spend. Next, participants were told:
“You are looking at a crowdfunding website specifically designed for entrepreneurs creating organizations with a social cause or purpose. As you browsed the projects listed on the website, you found a number of them particularly compelling. In the next frame, you’ll find an example of one of the descriptions listed for an organization that you’re considering contributing to.”

Next, participants read a description of an organization they are considering contributing to (see Appendix A for an example of the description). The same description was presented in all six conditions, with the only difference being the manipulated identity language and legal form. The organization description was developed using a registered Benefit Corporation’s “About Us” section of their website as the template and pretested to ensure that it would be perceived as incorporating a mix of utilitarian and normative identities.

After receiving the organizational descriptions, participants were then asked whether or not they would be willing to contribute funds to this campaign. If they answered “yes”, they were then asked how much they would be willing to contribute ($0-$100). Next, participants were asked to rate their perceptions of the organization’s legitimacy using the measures developed in Essay 1. After measuring their legitimacy perceptions, we measured the extent to which participants perceived the organization as either normative or utilitarian using the scales developed by Foreman & Whetten (2002). As a robustness check, we then provided participants definitions of normative and utilitarian identity, and asked participants to rate their perceptions of the organization on a sliding scale ranging from 1 (normative) to 100 (utilitarian). Finally, we collected attitudinal measures and basic demographic information and participants were debriefed and thanked for their participation.
Results

Exploratory factor analysis (varimax rotation) of the identity variables provide a two-factor solution (eigenvalues > 1), consistent with prior research (e.g. Stevens et al., 2014). Examining the rotated factor matrices, the utilitarian items all demonstrate high factor loadings (> 0.9) and reliability ($\alpha = 0.98$), but the normative items displayed suboptimal results, with factor loadings ranging from 0.42 to 0.82 and reliability ($\alpha = 0.83$). Furthermore, the mean values in the utilitarian condition for utilitarian (M = 4.02) and normative (M = 3.92) identity were not significantly different ($p = 0.27$). In the normative condition, the utilitarian (M = 3.37) and normative (M = 3.67) identities did achieve statistical significance ($p < 0.01$), but the effect was rather small. As a result, we conclude that the manipulation failed to work as intended.

Examining the previously developed measures of organizational legitimacy, exploratory factor analysis yielded a three-factor solution, as expected, and acceptable factors loadings and reliability for the pragmatic ($\lambda > 0.8$, $\alpha = 0.91$), moral ($\lambda > 0.74$, $\alpha = 0.93$) and cognitive legitimacy dimensions ($\lambda > 0.62$, $\alpha = 0.82$). Confirmatory factor analysis demonstrated strong overall model fit ($\chi^2 = 131.6, p < 0.001$; RMSEA = 0.07; CFI = 0.97) for the legitimacy measures.

To test our hypotheses, we conducted a MANOVA where the dependent variables were specified as each of the three legitimacy dimensions. Table 1 provides summary statistics for each legitimacy dimension by condition. Due to the failure of the manipulation, the results are not significant, suggesting that hypotheses 1(a) and 1(b) are not supported. Further, because no main effects can be observed, hypotheses 2 and 3 could not be tested. Omnibus multivariate test statistics showed no significant effect of identity on legitimacy (Pillai’s Trace = 0.003, $p = 0.814$;
Wilks’ $\lambda = 0.884, p = 0.814$). As shown in Table 2, only the effect of legal form on pragmatic legitimacy achieved significance in this model.

Examining the post hoc test statistics, the benefit corporation form was perceived as possessing significantly more pragmatic legitimacy than the non-profit form ($MD = 0.62, p < 0.001$). The same effect was also observed for the for-profit form as compared to the nonprofit form ($MD = 0.89, p < 0.001$). However, our analysis revealed no further significant differences in perceptions of either cognitive or moral legitimacy based on legal form.

Finally, to test the results of our final set of hypotheses, we conducted a logistic regression where the dependent variable was coded as a 1 if the participant decided to contribute, otherwise 0. The results of our logistic regression analysis are presented in Table 3. Both cognitive ($\beta = 0.68, p < 0.001$) and moral legitimacy ($\beta = 1.05, p < 0.001$) are significant in the predicted direction. Therefore, hypotheses 4(a) and 4(c) are supported. Pragmatic legitimacy does not appear to have a significant impact on the likelihood an individual will contribute funds. Hypotheses 4(b) is not supported.
DISCUSSION

The present research hopes to provide several contributions to extant literature on hybrid social enterprise. First, while prior research has examined legitimation strategies within *mature* hybrid enterprise (e.g. Pache & Santos, 2013), the current study examines how *new* social enterprise can more or less effectively legitimate. Second, while many prior studies have examined the *internal* tensions that arise from institutional pluralism in hybrid organizations, we explicitly focus on *external* perceptions of legitimacy. Third, this study is the first to explicitly measure all three forms of legitimacy and test their structural relationships simultaneously.

Although we failed to find support for several of our hypotheses, we expect that this is likely due to either a manipulation that was not strong enough to produce the intended effect or a flawed measure of utilitarian and normative identity. As an avenue for future research, achieving the desired manipulation of normative/utilitarian identity, or revisiting the psychometric instruments used to operationalize these constructs may prove extremely fruitful. Despite these shortcomings, the present study contains several relevant insights.

First, two of the three dimensions of legitimacy appear to be powerful predictors of crowdfunding success. This finding serves two important purposes. First, it empirically demonstrates the mediating effect that perceived legitimacy has on financing outcomes in new ventures, an effect that despite being explicitly assumed, has yet to be established in the broad literature on organizational legitimacy. Second, this result provides evidence of predictive validity to the psychometric instruments developed in the first essay.

Another interesting insight to emerge was the benefit corporation form was perceived significantly higher on pragmatic legitimacy than the nonprofit form. Although the external validity of experimental studies is a limitation, further research investigating the emergence and
institutionalization of this new organizational form may prove to be particularly interesting, and offers a wide range of potential theoretical contributions. For instance, paradox theory and dialectic theory (e.g. Smith and Lewis, 2011) both offer opportune arenas for contribution were the legitimacy of the benefit corporation form found to be consistently greater than the nonprofit form, particularly for social enterprise. These results are non-trivial and provide useful information for aspiring social entrepreneurs considering the adoption of the B-Corp form.

It is our hope that the present study will contribute to ongoing discussions among institutional theorists and social entrepreneurship scholars regarding the various antecedents and consequences of the hybridity of social enterprise. In doing so, we hope to provide much needed theoretical and practical insights into the formation, management, and funding of new social enterprise.
REFERENCES


Appendix
Table 1: Descriptive Statistics of Legitimacy Dimensions by Condition

<table>
<thead>
<tr>
<th>Condition</th>
<th>Normative Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pragmatic</td>
<td>4.91</td>
<td>1.20</td>
</tr>
<tr>
<td>Moral</td>
<td>5.34</td>
<td>1.11</td>
</tr>
<tr>
<td>Cognitive</td>
<td>4.21</td>
<td>1.41</td>
</tr>
</tbody>
</table>

Table 2: MANOVA Results

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>F-statistic</th>
<th>Df</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pragmatic Identity condition</td>
<td>0.152</td>
<td>1</td>
<td>0.697</td>
</tr>
<tr>
<td>Moral Identity condition</td>
<td>0.857</td>
<td>1</td>
<td>0.355</td>
</tr>
<tr>
<td>Cognitive Identity condition</td>
<td>0.055</td>
<td>1</td>
<td>0.814</td>
</tr>
<tr>
<td>Pragmatic Legal form</td>
<td>15.324</td>
<td>2</td>
<td>0.000</td>
</tr>
<tr>
<td>Moral Legal form</td>
<td>0.884</td>
<td>2</td>
<td>0.414</td>
</tr>
<tr>
<td>Cognitive Legal form</td>
<td>0.280</td>
<td>2</td>
<td>0.860</td>
</tr>
<tr>
<td>Pragmatic Identity x Legal form</td>
<td>0.698</td>
<td>2</td>
<td>0.498</td>
</tr>
<tr>
<td>Moral Identity x Legal form</td>
<td>1.870</td>
<td>2</td>
<td>0.156</td>
</tr>
<tr>
<td>Cognitive Identity x Legal form</td>
<td>0.508</td>
<td>2</td>
<td>0.602</td>
</tr>
</tbody>
</table>

Table 3: Logistic Regression Results, Legitimacy and Willingness to Contribute

<table>
<thead>
<tr>
<th>Condition</th>
<th>Coefficient</th>
<th>SE</th>
<th>Odds Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pragmatic</td>
<td>0.137</td>
<td>0.132</td>
<td>1.147</td>
</tr>
<tr>
<td>Moral</td>
<td>1.055***</td>
<td>0.179</td>
<td>2.871</td>
</tr>
<tr>
<td>Cognitive</td>
<td>0.683***</td>
<td>0.140</td>
<td>1.982</td>
</tr>
</tbody>
</table>

*p < 0.05, **p < 0.01, ***p < 0.001
Pseudo R² = 0.31; Log likelihood = -143.73
Figure 1: Conceptual Model

Hybrid Identity

Utilitarian

Normative

Legal Form
- For-profit
- Non-profit
- B-Corp

Cognitive Legitimacy

Pragmatic Legitimacy

Moral Legitimacy

Willingness to Contribute

H1a
H1b
H2a
H2b
H3a
H3b
H3c
H3d
H4a
H4b
H4c
Appendix A: Sample Organizational Description Stimuli
(B-Corp condition)

Please read the following description carefully:

Organization A was founded in 2015 as a B-Corporation by a small team of colleagues with experience in commercial banking who, while traveling together, discovered what they believe to be a tremendous market opportunity. The idea was to provide microloans to entrepreneurs and small businesses seeking loans smaller than those offered by traditional banks and credit unions.

They describe their organization as follows:

“Our knowledgeable staff of committed loan specialists work closely with our network partners and customers to deliver the most affordable microloans on the market. We specifically hire individuals with strong backgrounds in finance and commercial banking to develop innovative lending options that not only provide our customers access to financial resources, but also provides our organization profitable returns. Even so, our interest rates are consistently below the industry average, and to date we have already helped multiple organizations successfully access the financial tools they need to move their businesses forward. We provide our customers access to our business resources, such as consulting opportunities and innovative service offerings designed to help small businesses achieve their goals and obtain the autonomy and financial independence they seek. In addition to our competitive rates, we promise the very best customer service available. We are always looking for new opportunities to amplify our vision and economic impact by expanding our networks and providing our customers the most affordable microfinancing options available.”

- (Utilitarian condition)

"Our knowledgeable staff of committed loan specialists work closely with our network partners and customers to deliver the most affordable microloans on the market. We specifically hire individuals with strong backgrounds in both finance as well as social work and sustainable development to work together to build creative options that not only provide our customers access to much needed financial resources to improve their quality of life, but also provide our organization profitable returns. Our interest rates are consistently below the industry average, and to date we have already helped multiple clients successfully access the financial tools they need to move their businesses forward. We provide our customers access to a variety of resources, such as educational opportunities, designed to help small businesses and entrepreneurs around the world eradicate poverty and build environmentally friendly and financially sustainable business ecosystems in their own backyards. In addition to our competitive rates, we promise the very best customer service available. We are always looking for new opportunities to amplify our vision and economic impact by expanding our networks and providing our customers the very best microfinancing options available."

- (Normative condition)
Appendix B: Identity Scales

**Utilitarian Identity** (Foreman & Whetten, 2002): *Please indicate your perception of the importance that this organization’s managements places on each of the following aspects (1 = Not at all important, 7 = Very Important):*

- Price of products or services
- Customer Service
- Professionalism/expertise of staff
- Quality of products/services
- Value of products or services

**Normative Identity** (Foreman & Whetten, 2002): *Please indicate your perception of the importance that this organization’s managements places on each of the following aspects (1 = Not at all important, 7 = Very Important):*

- Environmental sustainability
- Social relationships with stakeholders
- Community involvement
- Health and well-being of employees, customers, and suppliers
- Commitment to social values/ideals
## Appendix C: Legal Form Descriptions

| For-profit | “A for-profit corporation is an organization which aims to earn profit through its operations and is concerned with its own interests, unlike those of the public (i.e. non-profit corporation). This kind of company makes shares of ownership available to the general public (or restricts them to private groups, such as the founding team). Such organizations are not typically aided by the government, as they are working for private financial gains, unlike a non-profit organization. Managers of for-profit organizations are expected to act in the best interests of their shareholders; in other words, they have a fiduciary responsibility to maximize shareholder return on investment. Consequently, for-profit corporations may be held liable for spending company funds on initiatives that do not serve the objective of maximizing shareholder return on investment.” |
| Nonprofit | “Nonprofit organizations (NPOs) are defined by their existence to serve a specific social cause or purpose (other than the pursuit of financial profits). A nonprofit organization uses its surplus revenue to further achieve its purpose or mission, rather than distributing its surplus revenue to individuals as profit or dividends. Most nonprofit organizations in the USA are registered with the IRS as a 501(c)(3), meaning they are exempt from paying income taxes as long as they meet the criteria described as “exempt purposes”: charitable, religious, educational, scientific, literary, public safety, fostering sports competition, and preventing cruelty to children or animals.” |
| Benefit Corporation | “A benefit corporation or B-corporation is a corporate form available in certain U.S. States, designed for for-profit companies that wish to consider society and the environment in addition to profit in their decision-making process. The purpose of a benefit corporation includes creating general public benefit, which is defined as a material positive impact on society and the environment.

Benefit corporation law differs from state to state. While corporations generally have the ability to pursue a broad range of activities, corporate decision-making is usually justified in terms of creating long-term shareholder value. A commitment to pursuing a goal other than profit as an end unto itself may be viewed as inconsistent with the traditional perspective that a corporation’s purpose is to maximize profits for the benefit of its shareholders. The B-corp form allows companies registered as B-corps to pursue other goals in addition to long-term shareholder value maximization. Unlike traditional non-profit organizations who may not distribute earnings to owners/shareholders, Benefit Corporations are free to earn profits and distribute their earnings to their owners/shareholders.” |
FITTING IN WHILE STANDING OUT: OPTIMAL DISTINCTIVENESS IN CROWDFUNDING SOCIAL ENTERPRISE

INTRODUCTION

The formation of any new enterprise requires the successful recruitment, assembly, and deployment of resources, perhaps most notably and elusively, financial capital (e.g. Shane & Cable, 2002; Gompers & Lehrer, 2004). In recent years, technological advancements and globalization have enabled several alternative financing models to take hold, particularly as attractive options for aspiring entrepreneurs (Bruton et al., 2015). Many of these new financing models, including microfinance as well as peer-to-peer lending and equity networks, leverage online crowdfunding platforms to aggregate financial contributions from many transactions. In one of the first studies to examine crowdfunding, Shwienbacher & Larralde (2010) propose the first broad definition of crowdfunding as “an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes” (Shwienbacher & Larralde, 2010: p. 4). This definition was later amended by Mollick (2014), who proposed a more refined definition for the purpose of crowdfunding research in entrepreneurial contexts, defining crowdfunding as the “efforts by entrepreneurial individuals and groups - cultural, social, and for-profit - to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries.” (Mollick, 2014: p. 2).

Crowdfunding platforms where individual backers typically contribute small sums of capital in exchange for either debt, equity, a reward, or simply the satisfaction of donating to a cause, have proliferated rapidly over a brief period of time, and now represent a fairly standard
means by which entrepreneurs vet new products and services and supplement financing for their ventures. By 2012, over 800 crowdfunding platforms were in operation, with nearly $2.7 billion invested in projects (Massolution, 2013). Following President Obama’s approval of the Jumpstart Our Business Startups (JOBS) Act in 2012, this number increased to $6.1 billion in 2013, and $16.2 billion in 2014 (Massolution, 2015). As a result, we find ourselves in the midst of the emergence of a new financial institution, one that has already begun to fundamentally alter the system of new venture finance.

Although several studies have examined crowdfunding in prosocial contexts, such as microloans issued through the crowdfunding platform Kiva (Allison et al., 2013; Allison et al., 2015; Moss et al., 2015), to date no studies have explicitly examined the crowdfunding activities of social entrepreneurs specifically. Lehner (2013) proposes a research agenda and conceptual model for the crowdfunding of social ventures, and discusses the opportunities for examining legitimacy in this context. Together, these studies represent what is an ongoing and incomplete process of institutionalization: the emergence of the crowdfunding institution on a collision course with cognitive legitimacy. However, our actual understanding of these critical antecedents remains highly fragmented; boundary conditions remain unidentified or yet to be examined, methods of analysis vary from study to study; and conflicting empirical results exacerbate this confusion.

In this study, we extend the emerging body of literature exploring the underlying drivers of crowdfunding success by adopting a neoinstitutional perspective and restricting our analysis to the crowdfunding activities of social entrepreneurs. The institutional perspective suggests that in

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1 Although a number of Kiva campaigns are legitimate accounts of social entrepreneurship, a large proportion represent efforts to provide relief funds for situations and projects that fall well outside the scope of social entrepreneurship. For example, some of the categories Kiva projects are classified under include “single parents” and “refugees”.
order to raise financial capital, new ventures must be perceived as legitimate (Aldrich & Fiol, 1994; Zimmerman & Zeitz, 2002; Delmar & Shane, 2004; Tornikoski & Newbert, 2007). Social enterprises are believed to face a unique challenge in their legitimating process due to their inherent hybridity (e.g. Dart, 2004; Battilana & Lee, 2014). Prior research has shown that isomorphism - the degree of conformity to institutional norms - is necessary for the legitimation of any venture (e.g. Deephouse, 1996). At the same time, however, organizations need to remain differentiated to maintain their competitive advantage and unique positioning in the marketplace. Achieving the appropriate balance between isomorphism and differentiation is known as optimal distinctiveness (e.g. Brewer, 1991; Deephouse, 1999; Zhao, Fisher, Lounsbury, & Miller, 2017). This study expands our theoretical understanding of the legitimation of new social ventures by examining how the expression of hybrid identities can be a useful means by which social entrepreneurs position themselves as optimally distinct in order to achieve crowdfunding success.

We examine the effects of social enterprises’ hybrid identities by conceptualizing them as a type of rhetorical strategy used to communicate legitimacy and distinctiveness. To do so, we gather a unique dataset from a crowdfunding website designed specifically for projects with a distinct social or environmental purpose, and test the degree to which these projected identities affect crowdfunding outcomes by analyzing the descriptions of crowdfunding projects of social entrepreneurs. Following prior research (Moss et al., 2010; Payne et al., 2011; Allison, Blakley, Short, & Webb, 2015), we use computer aided text analysis to compute the degree to which a project projects either a normative, utilitarian, or hybrid identity. Much of the extant analyses examining crowdfunding outcomes focus on large datasets gathered from Kiva, a microlending platform (Allison, McKenny, & Short, 2013; Allison et al., 2015; Moss, Neubaum, & Meyskens,
2015) and Kickstarter, a reward-based crowdfunding platform for creative projects (Kuppuswamy & Bayus, 2013; Frydrych, Bock, Kinder, & Koeck, 2014). The data gathered for this study provide a unique opportunity to examine the effectiveness of rhetorical strategies in communicating optimally distinct hybrid identities by focusing specifically on the phenomenon of crowdfunding social ventures. As a result, this study contributes to our understanding of institutional isomorphism by demonstrating the role of communicating optimally distinct organizational identities as a critical antecedent of crowdfunding success.

CONCEPTUAL BACKGROUND

Factors Contributing to Crowdfunding Success

The rise of crowdfunding occurred rapidly, as the innovation diffused across several countries almost simultaneously. The global adoption of crowdfunding as a viable alternative form of entrepreneurial finance was driven by globalization and advances in web technology, and was accelerated in the wake of the global financial crisis in 2008-2009 as the supply of more traditional financing resources diminished. Some of the first crowdfunding platforms offered gifts, rewards, or perks as incentives for contribution, which functioned particularly well for the many art and entertainment projects and organizations that took advantage of this new model. Over time, crowdfunding models have expanded to include a variety of incentives, including royalties, debt crowdfunding (peer-to-peer lending), and equity crowdfunding (Bruton et al. 2015). The most popular models of crowdfunding are summarized in Table 1. Despite the rising popularity and overall success of the crowdfunding financing model not just in the United States, but globally, there has been little peer-reviewed research on this topic (Mollick, 2014). As a result, our theoretical understanding and overall research approach remains “in its infancy”
(Bruton et al., 2015). Because crowdfunding involves vastly different dynamics than traditional funding models, emerging norms, and an ongoing quest for field-level legitimacy, it is of both theoretical and managerial importance to gain a deeper understanding of both the antecedents and consequences of crowdfunding activities.

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Insert Table 1 Here

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To date, the majority of research in crowdfunding has focused on the factors that contribute to crowdfunding success. Schwienbacher & Larralde (2010) present a case study of a successfully crowdfunded company, and conclude that crowdfunding entrepreneurs may be more successful by leveraging their online networks, using information asymmetry strategically, and motivating their stakeholders to be active participants in the campaign. Agrawal, Catlini, and Goldfarb (2010) examine the effect that geographic proximity has on crowdfunding outcomes. Using data gathered from a crowdfunding platform called Sellaband, this study found that crowdfunding investments are independent of geographic proximity, but local investors tended to be the first to invest in a campaign. Kuppuswamy & Bayus (2013) looked at the relationship between the duration of a campaign and the number of backers contributing funds in Kickstarter campaigns. They found a U-shaped relationship between the amount of time elapsed and the number of backers, suggesting that backers are more likely to contribute within the first and the last weeks of a campaign. In an exploratory analysis of 421 Kickstarter projects in the State of New York, Frydrych et al. (2014) identified several factors that the authors argue act as
legitimating signals and are associated with successful crowdfunding outcomes. In this analysis, no significant difference was found between successful and unsuccessful campaigns in terms of duration, reward-level structure, or the presence of a video. However, the authors do present evidence that successful projects tend to have lower funding targets, and projects with pairs and teams demonstrate higher success rates than do projects of individual entrepreneurs.

Allison, McKenny, and Short (2013) examined the rhetorical strategies of microenterprises to assess the effects of different rhetorical strategies on the speed with which campaigns are funded. Using computer aided text analysis to code different rhetorical strategies presented in *Kiva* project descriptions, the authors find that rhetorical narratives involving language high in *blame* (redirecting attributions of negative outcomes), and *present concern* (creating a sense of urgency) increase the speed with which microloans are funded, but rhetorical narratives emphasizing prior *accomplishment*, *tenacity* (conveying confidence and totality), and *variety rhetoric* (in which the narrative focuses on a diverse choice of words as opposed to repetition) lead to slower funding (Allison et al., 2013). This study also found that rhetoric emphasizing prior *accomplishment*, as well as *concrete* rhetoric (focusing on tangible objects, individuals, and organizations) both have a negative effect on microloan funding in a crowdfunding context. Furthermore, rhetoric emphasizing *blame, present concern, leveling* (diminishing individual differences in favor of referencing the audience as a whole), *tenacity*, and *variety* all were shown to demonstrate a positive effect on microloan funding (Allison et al. 2013). Extending signaling theory, Moss, Neubaum, and Meyskens (2015) examine the different effects of microenterprises’ signaling either elements of an entrepreneurial orientation (EO) or a virtuous orientation (VO) on the likelihood of being funded. Using publicly available data from the online microlending crowdfunding platform *Kiva*, the authors found that organizations that
signal elements of an entrepreneurial orientation were more likely to receive microloans than organizations that signal a virtuous orientation.

Allison et al. (2015) draw on and extend cognitive evaluation theory to examine how framing organizational narratives as either a business opportunity (extrinsic cues) or a prosocial opportunity (intrinsic cues) affects crowdfunding outcomes, specifically the speed with which campaigns are funded. Again using Kiva data, the results of their regression analyses show that lenders generally respond more positively to narratives framing the venture as an opportunity to help others (intrinsic cues), and less positively when framed as a business opportunity (extrinsic cues). Also building on cognitive evaluation theory, Cholakova & Clarysse (2015) conducted a field experiment to explore the factors influencing the decision to contribute to crowdfunding campaigns in terms of intrinsic motivations (helping others, belonging to a community, trusting others) versus extrinsic motivations (receiving rewards). The results of a logistic regression show that both equity and reward-based contribution is motivated primarily by extrinsic (financial/utility) rewards, while intrinsic rewards had no effect on individuals’ willingness to contribute to a campaign.

In the present study, we contribute to this growing body of literature by empirically examining an unexplored antecedent of crowdfunding success exclusively in the context of social enterprise: the degree to which a social venture communicates a normative identity (emphasizing the social purpose of the organization), utilitarian identity (emphasizing the more commercially oriented aspects of the organization), and hybrid identity. Social enterprise is thought to be an ideal context in which to examine the effects of organizational hybridity on legitimacy (e.g. Battilana & Lee, 2014), and the success of crowdfunding campaigns is thought to reflect the degree to which an emerging enterprise is perceived to be legitimate (Frydrych et
Accordingly, examining the crowdfunding outcomes of social ventures provides a theoretically rich context to explore the interplay between hybrid identities, legitimacy, and crowdfunding success. We conceptualize the type of identity communicated by a crowdfunding project to be a form of rhetoric intended to persuade an individual backer to contribute funds to the campaign. Accordingly, we now turn our attention to the literature that has examined the legitimating effects of rhetoric.

**Conceptual Framework and Hypotheses**

Research in the neoinstitutional tradition has proposed that rhetorical strategies have a significant effect on individual level legitimacy judgments (e.g. Hoeffer & Green, 2016). Collectively, these studies show the different ways that organizations and institutional entrepreneurs affect macro-level institutional change through micro-level processes involving the construction of new institutional vocabularies (Creed et al., 2002) and reinterpreting symbolic meanings to reflect the goals and values of the organization or entrepreneur (Suddaby & Greenwood, 2005). As a result, the collective schemas that serve as a reference point for individual level legitimacy judgments can be and are shaped by the strategic deployment of targeted language. As argued in essay 2 of this dissertation, these individual legitimacy judgments mediate downstream outcomes such as individual willingness to fund a project or new venture.

Research examining a variety of organizations has identified specific strategies for projecting legitimacy through language and rhetoric. Studies examining resource acquisition in new ventures has suggested that storytelling and narratives have a strong effect on the legitimacy and justification for new ventures (e.g. Cornelissen & Clark 2010). For example, Greenwood &
Suddaby (2002) show how institutional entrepreneurs affect institutional change at the field level through narratives appealing specifically to moral legitimacy judgments. Ruebottom (2013) illuminated how social entrepreneurs project legitimacy by framing narratives in which the organization is cast a protagonist and the “system” in which they seek to affect change is cast as the antagonist. Van Werven et al. (2013) develop a conceptual model illustrating several different strategies that enable organizations to balance the isomorphism needed to achieve legitimacy while also maintaining distinctiveness for the purpose of strategic differentiation. In this model, the authors argue that entrepreneurs use different types of arguments to balance the tension of, on the one hand, being similar enough to the broad category to be considered legitimate, yet distinctive enough to be distinguished from other firms.

According to this theory, as compared to entrepreneurs with incremental innovations, entrepreneurs introducing radical innovations have more difficulty establishing legitimacy, but less difficulty differentiating themselves. Alternatively, more incrementally innovative products/services are more easily categorized and perceived to be legitimate, but the arguments then shift to focus on how they are distinct. This draws on a large body of literature in strategic management that focuses on the tension of optimal distinctiveness; how firms achieve legitimacy through isomorphism to field/industry level norms and expectations, but also must balance the need for strategic differentiation and competitive advantage by maintaining a distinct identity and strategy (e.g. Deephouse 1999; Zhao et al. 2017). Research in strategic management has shown that optimal distinctiveness is an important predictor of a variety of organizational outcomes, such as innovation activities (Roberts & Amit, 2003; Tan, Shao, & Li, 2013), return on assets (McNamara, Deephouse, & Luce, 2003), and stock market value (Zott & Amit, 2007), among others.
The logic for the argument posited by Van Werven et al. (2013) is that stakeholders perceiving organizations, particularly new organizations, first assign legitimacy to the project by categorizing it in broad terms. After being categorized, stakeholders then make comparative judgments relative to other organizations that are members of the same category, determining the degree to which this new organization is distinct (Bitektine, 2011). Entrepreneurs must therefore be particularly careful in deploying language that signals they are both a legitimate member of a category, but distinct enough to be considered appropriately differentiated and capable of maintaining a competitive advantage.

As hybrid organizations, research has shown that social enterprises possess both a normative and a utilitarian identity (Moss et al., 2010). Achieving the strategic balance between isomorphism and distinctiveness may be particularly challenging for social entrepreneurs, as their inherent hybridity may create conflicting sets of expectations (e.g. Battilana & Dorado, 2010; Pache & Santos 2013; Battilana & Lee, 2014), thereby making categorization more difficult. However, social enterprises are easily distinguished from purely commercial enterprises by the presence of a specific social cause or purpose (Austin, Stevenson, & Wei-Skillern, 2006; Stevens, Moray, & Bruneel, 2015). Accordingly, we argue that social entrepreneurs emphasizing those elements communicating their normative identity, or their “orientation toward cultural, educational, or expressive functions whose purpose is to maintain patterns of socialization that promote the legitimization of organizational directives (Albert & Whetten, 1985).” (Moss et al., 2010: p. 812) will be readily categorized. As such, legitimacy should be established through the expression of a normative identity, and crowdfunding outcomes should be positively associated with such language. Stated formally,
**H1:** A greater expression of a normative identity will be positively associated with successful crowdfunding outcomes among social enterprises.

The utilitarian identity refers to the organization’s emphasis on economic production (Albert & Whetten, 1985; Moss et al. 2010). In some cases, it may be argued that the normative identity is assigned primacy, and the expression of an overly-utilitarian identity could cause irreconcilable cognitive conflict, serving to delegitimize the venture. On the other hand, if social enterprise is categorized according to the expression of a normative identity, communicating the more utilitarian elements of the organization may seek to improve the within-category comparison, affording a particular social venture a healthy degree of perceived distinctiveness. In this case, we argue that the expression of a utilitarian identity would be beneficial for social entrepreneurs engaged in a crowdfunding project. We therefore hypothesize,

**H2:** A greater expression of a utilitarian identity will be positively associated with successful crowdfunding outcomes among social enterprises.

In many cases, the hybridity of this relatively new organizational form has been shown to cause a number of potential legitimacy threats (Dart, 2004; Battilana & Dorado, 2010; Pache & Santos 2013). In the context of crowdfunding, the limited amount of prior research suggests mixed results. For instance, Allison et al. (2015) found that lenders generally respond more positively to narratives framing the venture as an opportunity to help others, and less positively when framed as a business opportunity. These results contrast starkly with those found by Moss et al. (2014), who, using the same data, showed that organizations portraying a *virtuous*...
orientation (VO) were less likely to receive funding than those portraying an entrepreneurial orientation (EO). In one instance, pragmatic legitimacy judgments (presumably associated with the expression of a utilitarian identity) appear to dominate, and the other, moral legitimacy judgments (normative identity) take precedence.

In a departure from much of the literature suggesting hybridity may harm a venture’s legitimacy, in the context of raising financial capital via crowdfunding, we argue that the opposite will occur. If the expression of a normative identity helps to categorize social ventures and grants them at least some face-validity and legitimacy, and the expression of a utilitarian identity helps to differentiate an individual organization, then a hybrid organization expressing both identities should find a point of optimal distinctiveness. In this case, we expect the positive benefits from both identities to manifest as successful outcomes in crowdfunding campaigns. Accordingly, we propose the following hypothesis:

\[ H3: \text{The expression of a hybridity identity will be positively associated with successful crowdfunding outcomes among social enterprises.} \]

**METHODS**

**Data**

In this study, we focused specifically on social enterprises and/or social entrepreneurs raising funds to support their ventures through crowdfunding campaigns. The relevant population therefore includes both nascent social enterprises, started either by individuals or teams, as well as existing social enterprises raising funds for the launch of new projects, products, or programs. To capture a representative sample, we gathered the data from the crowdfunding web platform
StartSomeGood.com, an Australian-based website dedicated to crowdfunding campaigns with an explicit social or environmental cause. To date, StartSomeGood has successfully funded 790 projects, raising a total $7,611,290 USD.² To ensure the sample consisted of social enterprises, the data was gathered systematically according to the following procedure.

First, campaigns were filtered by keyword to include only those labeled “social enterprise.” This was done to ensure that all observations collected fit the definition of social enterprise, as many of the campaigns listed are targeting very specific causes and had no market-based mechanism or organizational affiliation. Next, campaigns were filtered to include only those for which fundraising had ended. Incomplete or ongoing campaigns were not included in the final sample. Finally, campaigns were screened to ensure they were not mislabeled as social enterprise, with the general criterion that they had to be projects supporting organizational initiatives with a clear, market-based mechanism.³ As a result, the final sample included 89 completed campaigns from a total of 19 different countries. All text present on each project’s page was copied into a separate document, which was later inputted into a computer aided text analysis program, DICTION (v7). Campaign completion dates ranged from February 2012 until June 2017. Importantly, campaigns are only funded if they meet their stated goal within the allotted time (30 days); the final sample included 50 successful campaigns and 39 unsuccessful campaigns. The average successful campaign raised $16,083 USD.⁴

² As of June 16th, 2017
³ For instance, one campaign labeled “social enterprise” was raising funds for a charity dinner event to host a social entrepreneur as the keynote speaker. This campaign was excluded from the sample as it failed to meet the broad criteria of social enterprise as defined above.
⁴ All currencies were converted to USD based on standard exchange rates as of June 13th, 2017.
**Variables**

*Dependent Variable: Amount Raised.* To operationalize crowdfunding success, we captured two variables to compute the dependent variable. First, campaigns that achieved their tipping point goal were coded as either successful (1) or unsuccessful (0). Next, the success dummy variable was multiplied by the total amount the campaign raised. Because all the campaigns in our sample raised some amount, but only those who met or exceeded their goal received the funding, the computed dependent variable corrects for failed campaigns for whom the final amount raised was zero.

*Normative and Utilitarian Identity.* Following prior research in social entrepreneurship using computer aided text analysis to create count variables based on preexisting and validated dictionaries from prior research (Short, Payne, Brigham, Lumpkin, and Broberg, 2009; Moss et al., 2010), we compute aggregate values for both utilitarian and normative identity in the following manner. For each observation \(i\), we calculated the relative frequency of utilitarian \(\text{util}_{(i)}\) and normative \(\text{norm}_{(i)}\) identity elements using the DICTION v7 software program. Consistent with Moss et al. 2010, the utilitarian identity consisted of a formative index, calculated by adding the computed values of growth, entrepreneurial orientation (autonomy, proactiveness, competitive aggressiveness, innovativeness, and risk taking), and an emphasis on products. Normative identity was calculated in the same manner, as an aggregation of computed values for geographic domain, public image, and an emphasis on the customer. Consistent with the dictionaries and methodology of Moss et al. 2010, we also included the DICTION variable Commonality in the normative identity index. “Commonality is a calculated variable that draws on DICTION’s proprietary pre-built dictionaries to highlight agreed-upon values of a group while rejecting idiosyncratic modes of engagement and is based on Etzioni’s (1993) concept of
communitarian thinking… Higher values represent a greater realization that a venture is a member of a broader community, and thus represent the people dimension of a normative identity” (Moss et al 2010: p. 813). Summary statistics for all variables are presented in TABLE 2.

Hybrid Identity. To operationalize the degree of hybridity present in each description, we calculate a value representing the degree hybridity of these two distinct identities. To combine the normative and utilitarian identities in a way that appropriately accounts for the relative presence of both identities, we have adapted the formula originally suggested by Thompson, Zanna, and Griffin (1995) and used frequently in subsequent research for computing attitudinal ambivalence (e.g. Jewell 2003). After scaling both normative and utilitarian identity variables by dividing each by their respective maximum value, hybrid identity is calculated according to the following formula:

\[
Hybrid Identity_{(i)} = \left(\frac{util_{(i)} + norm_{(i)}}{2}\right) - \left|util_{(i)} - norm_{(i)}\right|
\]

Control Variables

We also included several relevant control variables in this analysis that may be expected to influence successful crowdfunding outcomes in this context. The initial stated goal was included to control for campaign success/failure based on having either a very low or very high target goal. This variable was log transformed in our final analysis. To control for network

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5 For a full list of the words included in the DICTION dictionaries, see Moss et al. (2010).
effects, we also included the number of supporters, as entrepreneurs/ventures with larger networks would likely draw more support, and the dynamics of crowdfunding support have been shown to influence outcomes (Agrawal, Catalini, and Goldfarb, 2015; Kuppuswamy & Bayus, 2015). In addition, to control for possible effects of longer videos and text description, we included controls for the video length (in seconds) and total number of words in the description.

Following procedures used in prior research (e.g. Allison et al. 2013; Allison et al. 2015), we controlled for both accomplishment and concreteness. In addition, we controlled for rhetorical emphasis on blame (redirecting attributions of negative outcomes), present concern (creating a sense of urgency), leveling (diminishing individual differences in favor of referencing the audience as a whole), tenacity (conveying confidence and totality), and variety rhetoric (in which the narrative focuses on a diverse choice of words as opposed to repetition), as these all were shown to demonstrate a positive effect on microloan funding (Allison et al. 2013). Finally, to control for idiosyncratic factors between projects in different countries, we created dummy variables corresponding to each of the 19 countries represented in the sample.

**Model and Analysis**

To test our hypotheses, we use a Tobit regression model (Tobin, 1958). This method of analysis is most appropriate for testing the relationship of observable independent variables and a censored outcome variable with latent values that cannot be observed. Due to the failed campaigns raising zero dollars (39 of 89 total observations), the dependent variable in this sample is left censored at 0. Such censoring violates the normality assumption of ordinary least squares and will result in biased, inconsistent estimators.
The Tobit model assumes that a latent variable $y^*_i$ depends linearly on the independent variable(s) $x_i$ via a regression parameter $\beta$ (as in the case of Ordinary Least Squares regression). The observed dependent variable $y_i$ is equal to the latent variable $y^*_i$ when values of $y^*_i$ are positive and equal to 0 otherwise, such that:

\[
    y_i = \begin{cases} 
        y^*_i & \text{if } y^*_i > 0 \\
        0 & \text{if } y^*_i \leq 0 
    \end{cases} 
\] (2)

\[
    y^*_i = x'_i \beta + \epsilon_i 
\] (3)

The Tobit regression model uses maximum likelihood estimation for the parameters, where the likelihood function is defined as:

\[
    L(\beta | Y, X) = \prod_{i=1}^{N} \left[ \frac{1}{\sigma} \phi \left( \frac{y^*_i - x'_i \beta}{\sigma} \right) \right] \left[ \Phi \left( \frac{0 - x'_i \beta}{\sigma} \right) \right] 
\] (4)

where $\phi$ is the standard normal probability density function and $\Phi$ is the standard normal cumulative distribution function.

Results

Table 2 presents the descriptive statistics and correlations for our sample of crowdfunding campaigns. The results of our Tobit regression analysis are summarized in Table 3. Out of a total of 89 campaigns sampled, 50 of them met or exceeded their goal, while 39 failed to reach their goal. Examination of the correlations and variance inflation factors indicated multicollinearity was not a problem in this sample. For consistency, standardized parameter estimates are reported.

Hypothesis 1 suggested normative identity would be positively associated with successful crowdfunding outcomes. Our analysis shows an insignificant parameter estimate for normative
identity ($\beta = -2.046, p = 0.161$). Thus, hypothesis 1 is not supported. In fact, across several specifications, normative identity demonstrated this negative valence, with $p$-values approaching significance. Hypothesis 2 proposed utilitarian identity would be associated with successful crowdfunding outcomes due to the distinctiveness it affords these hybrid organizations. The results of our analysis show that, as predicted, emphasizing a utilitarian identity is in fact associated with successful crowdfunding outcomes ($\beta = 2.971, p = 0.018$). Hypothesis 2 is supported.

Hypothesis 3 posited hybrid identities would also be positively associated with successful crowdfunding outcomes. As shown in Model 2 (Table 3), the computed hybrid identity variable was positive and significant ($\beta = 2.881, p = 0.021$). Therefore, hypothesis 3 is supported. Interestingly, the positive effect of hybridity appears to be driven largely by the degree of utilitarian identity expressed. The correlation between hybrid and utilitarian identity was very high ($r = 0.95$). Further examination of the distributions of both the utilitarian and normative identity variables provides some additional insight worth considering. In this sample, nearly all the projects analyzed expressed a substantial amount of normative identity language ($\mu = 81.7$) with relatively little variance ($\sigma = 10.51$). However, while on average the utilitarian language was expressed to a lesser degree ($\mu = 11.35$), we observe substantially more variance (as a proportion of the mean) in the sample ($\sigma = 5.57$).
DISCUSSION

The successful assembly of necessary resources such as financial capital is a critical step in the entrepreneurial process (Gompers, 1995). Entrepreneurship research has examined many forms of traditional financing, such as venture capital and angel investing (e.g. Shepherd, 1999; Sorenson & Stuart, 2001; Shane & Cable, 2002), but as a relatively new and increasingly popular means of raising capital, crowdfunding has only recently begun to receive much attention in the academic literature (e.g. Moss et al., 2015). This study contributes to the emerging literature on crowdfunding as an alternative form of entrepreneurial finance (Allison et al., 2013; Mollick 2014; Agrawal et al., 2015; Allison et al., 2015; Moss et al., 2015), as well as the broader literature regarding social entrepreneurship as a type of hybrid organization (Battilana & Dorado, 2010; Moss et al., 2010; Pache & Santos, 2013; Battilana & Lee, 2014; Stevens et al., 2015) in several ways. First, we conceptualize the hybrid identities of social entrepreneurs as a rhetorical strategy used to convey legitimacy in a crowdfunding setting, and demonstrate that despite displaying both a utilitarian and normative identity, the presence of more utilitarian language is associated with superior crowdfunding outcomes. Furthermore, although not statistically significant in our model, the presence of additional normative identity not only fails to improve crowdfunding outcomes, it may actually have an adverse effect. As an avenue for future research, examining the potential negative effects of social entrepreneurs overemphasizing a normative identity using a larger sample of social entrepreneurs’ crowdfunding projects would be most interesting.

As a second major contribution, our analysis provides a unique operationalization of hybrid identity, and shows that contrary to what much of the institutional theory literature would predict, projecting a hybrid identity appears to have a legitimating effect for social entrepreneurs.
Once again, further research testing this effect using an alternate source of data would help to establish the generalizability of this inference. While we acknowledge the relatively small sample size, taken from only a single crowdfunding platform, as a limitation of this study, these results have important implications both for social entrepreneurship theory and practice. Prior research suggests that the tensions arising from blending both commercial and social welfare logics can be problematic and cause legitimacy threats within social enterprises (e.g. Battilana & Dorado, 2010).

Third, prior research conceptualizing social enterprise as a form of hybrid organization has focused almost exclusively on the legitimacy challenges these organizations face by examining mature organizations (Pache & Santos, 2013; Battilana & Lee, 2014). In this study, restrict our analysis to nascent and newly created ventures. Further, extant research has primarily conceptualized legitimacy as an internally managed aspect of hybrid organizations (Battilana & Dorado, 2010). To our knowledge, this is the first study to assess the perceived legitimacy of new hybrid social ventures among external stakeholders. This raises another limitation of this study: we assume that successful crowdfunding outcomes is a consequence of being perceived as legitimate. As an avenue for future research, measuring the perceived legitimacy of campaign backers and modeling it as a mediator of success would prove a useful and fruitful avenue of research. For instance, the results of the second essay of this dissertation suggest that both cognitive and moral legitimacy may drive the decision to contribute, whereas pragmatic legitimacy does not appear to have this effect. Further research is needed to validate these results.

Finally, this study contributes to the literature on optimal distinctiveness by demonstrating how hybridity can be used a rhetorical strategy to signal both legitimacy and
distinctiveness in social entrepreneurship. While nearly all the crowdfunding campaign
descriptions we analyzed utilized strong normative language to pitch their projects, with
relatively little variance, we observed a different trend regarding utilitarian language. Across our
sample, the utilitarian identity was expressed far less than normative language, but with a
proportionally greater amount of variance. This observation is consistent with prior research on
the dual identities of social enterprise (Moss et al., 2010; Stevens et al., 2015), and may also be
an artifact of the operationalization or normative versus utilitarian identity. For instance, the
mean for commonality variable score was very high both in this study as well as in prior research
(Moss et al., 2010), suggesting the inclusion of this variable may inflate the normative identity
measure. However, those organizations that positioned themselves as more utilitarian appeared
more professional and efficient, which may provide potential campaign backers greater
confidence in these organizations’ effectiveness. The results of our analysis support our
hypothesis that among social entrepreneurs, while the normative rhetoric may serve as a
necessary condition and provide some legitimacy to the venture, the utilitarian rhetoric enables
them to achieve optimal distinctiveness, and therefore more successful outcomes.

In conclusion, this study provides an early empirical analysis of hybrid social enterprise
in a crowdfunding context and provides evidence that for social entrepreneurs, hybridity can be a
rhetorical strategy used to signal both legitimacy and distinctiveness. For social entrepreneurship
scholars, our analysis suggests the need for future research exploring the role of legitimacy and
distinctiveness in securing financing from other traditional sources. For social entrepreneurs, this
study demonstrates the importance of embracing hybridity and pitching not only the social
mission of the organization, but also the more utilitarian aspects to position themselves as
differentiated and optimally distinct from other social ventures.
REFERENCES


Appendix
<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation</td>
<td>Individuals/organizations post projects or causes and request donations. Reciprocity from the fund raiser is not required.</td>
<td>GoFundMe, GiveForward, crowdrise</td>
</tr>
<tr>
<td>Reward (or perk)</td>
<td>Funders provide capital in exchange for various perks or rewards, usually organized in hierarchies, with larger contributions yielding more attractive rewards. The most popular form of crowdfunding. These platforms typically involve a deadline (30-60 days) and a funding goal.</td>
<td>Indiegogo, Kickstarter, RocketHub, StartSomeGood</td>
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<td>Debt (peer-to-peer lending)</td>
<td>Enables individuals to provide direct loans to others using the crowdfunding platform as an intermediary.</td>
<td>LendingClub, Kiva, KivaZip</td>
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<td>Equity</td>
<td>Commercial projects solicit funds from the crowd in exchange for equity shares. Subject to oversight by securities regulatory authorities. The least common form of crowdfunding, particularly in the United States.</td>
<td>AngelList, EarlyShares, EquityNet</td>
</tr>
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Table 2: Descriptive Statistics and Correlations (N = 89) ‡

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‡ Correlations > |0.2| are significant at \( p < 0.05 \).
Table 3: Results of Tobit Regression Analysis for Amount Raised

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Standard errors reported in parentheses.
N = 89
†p < 0.1, *p < 0.05, **p < 0.01, ***p < 0.001
§19 countries, 18 dummy variables included but not reported in the model, United States reference category.