



The impact of media on the legitimacy of new market categories: The case of broadband internet

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ABSTRACT

Building on research in institutional theory and market categories, we argue that media coverage, through the effects of cognitive and sociopolitical legitimacy, influence the creation of new market categories. Using data on the broadband access industry, we develop and test a media coverage model of market category entries, demonstrating the legitimacy effects of media-based information exchange on the emergence of new market categories. We include two post hoc analyses on mediation effects to test the relationship between population density and media coverage. These results indicate a possible mediation relationship, which we discuss in the implications of our study.

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“And it ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.” —Machiavelli's *The Prince*

1. Executive summary

Building on research in institutional theory and market categories, we argue that media coverage influences the creation of new market categories. This study follows a growing research stream in entrepreneurship that focuses on examining the collective process in which new industries and forms of business are created. A key concern within this research stream is how the legitimacy of such collective activity emerges, where new products and services, business practices, and organizational forms become seen as appropriate and valuable. We argue that the legitimacy of new market categories develops through information exchange among market participants, evident through media coverage of those market categories. As information is shared among various market participants, they become aware of new ways of conducting business, types of organizations and business opportunities involved in the new market category, and governmental and regulatory interests at stake. Our findings indicate that media-based legitimacy

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effects exert a stronger influence on the creation of new market categories compared to the effects suggested by prior theorizing following a population ecology approach. Moreover, this study also provides an opportunity to examine a wider variety of effects on the process of new market emergence.

2. Introduction

In the past, entrepreneurship research has traditionally focused on the attributes of individual entrepreneurs (e.g., Baum and Locke, 2004; Carland et al., 1988; Gartner, 1988; Woo et al., 1991) and their propensity to found new companies (e.g., Baum et al., 2001; Bhave, 1994; Birley and Westhead, 1994; Gartner, 1985). Later research has turned to look at the cognitive and information processing capabilities that entrepreneurs show when making decisions (e.g., Ardichvili et al., 2003; Baron, 1998; Busenitz and Lau, 1996; Hmieleski and Baron, 2009; Mitchell et al., 2002). In addition, there has been considerable research done on the environmental conditions that influence both venture creation and venture failure (e.g., Freeman et al., 1983; Hunt and Aldrich, 1998; Stinchcombe, 1965; Thornton, 1999). Within this research stream, many studies have examined the influence of contextual variables on venture creation. An implicit assumption within these studies is that entrepreneurial activity will arise whenever conditions are “right” (c.f., Schoonhoven and Romanelli, 2001). Therefore, several scholars have taken the perspective that entrepreneurial activity lies at the “nexus of opportunity and individual differences” (Alvarez and Busenitz, 2001; Eckhardt and Shane, 2003; Shane, 2000, 2003; Venkataraman, 1997:123).

In contrast, a less common research stream has a broader conception of collective activity as the principal driving force in processes of venture creation and especially industry creation (e.g., Forbes and Kirsch, 2011; Kennedy, 2008; Mezas and Kuperman, 2000; Rao, 2004; Van de Ven, 1993; Van de Ven and Garud, 1989). Scholars within this research tradition recognize that entrepreneurship can be seen as a collective process that requires effort and coordination of several actors. Researchers are focusing on understanding these market-creating activities of collectivities (e.g., Schoonhoven and Romanelli, 2001). Examples of this research stream include the study of community dynamics in the birth of a new industry (Mezas and Kuperman, 2000), collective claim making in order to gain legitimacy in the early periods of the automobile industry (Rao, 2004), personal networks on the acceptance of a revolutionary new product (Granovetter and McGuire, 1998), and media coverage on impressions of key stakeholders (Kennedy, 2008; Pollock and Rindova, 2003), among other studies. In this study, we contribute to this line of research by examining the effects of industry discourse evident through media coverage in the creation of the broadband internet industry.

These studies concentrate on entrepreneurial opportunities that are located at the collective level (i.e., new industries). As Forbes and Kirsch (2011: 590) recently argued, “the emergence of new industry is an important phenomenon that remains relatively neglected by researchers”. Van de Ven (1993) observed that seldom can an industry be developed by single firms alone in a vacuum of a community or social context (Van de Ven, 1993). Emerging industries then present a variety of challenges to participants (i.e., sellers, regulatory agencies, suppliers, customers, media organizations, etc.) that do not appear in more mature ones—new forms of organizational activity do not fit neatly into existing categories of acceptable business practices, patterns of seemingly appropriate behavior have yet to appear, and regulatory structures have not developed (Aldrich and Fiol, 1994; Kennedy, 2008). Consequently, the achievement of legitimacy can be particularly challenging for new ventures operating in new market categories—at the creation of an industry, when there are few firms and strategies and practices are still developing (e.g., Navis and Glynn, 2010).

In order to better understand the creation of new market categories, a clearer understanding of how legitimacy arises during the earliest moments of industry formation must be achieved. In this regard, recent studies have started to examine the role that field level processes such as social movements (Rao et al., 2000), demonstration events and performance measures (Rao, 1994, 2004), and ceremony rituals (Anand and Watson, 2004) play in the legitimation processes of new organizational forms and/or field formation. In this tradition, scholars are also looking at the role of media in market formation (Kennedy, 2008; Pollock et al., 2008). Scholars recognize that for newly emergent categories, legitimacy might require structural means that reach different audiences and in this way creates and recreates levels of appropriateness of these new organizational forms.

The purpose of this study is thus to examine how different dimensions of legitimacy are created by the use of media and how these different dimensions will influence the creation of new market categories. Moreover, in our analysis, we find that level of density and media coverage types interact in ways not shown by previous research. This study therefore contributes to a better understanding of industry emergence and the role of media in market creation. To do so, we use the broadband access internet companies, as an example of a new market category for a number of reasons. First, the rise of the personal computer industry in the late 1970s and early 1980s, and the subsequent emergence from the 1990s onward of related technologies involving the Internet fueled waves of new types of business centered on telecommunications and information systems. The industry then arose at the intersection of a number of different actors and interests. Second, financial markets and governmental regulators struggled in evaluating these new industries. Third, the legitimacy of the industry would be influenced by a competition over the utility of broadband in a variety of different applications (e.g., high-speed access to Internet, enhanced video services, new telephone functions, or other yet-to-be developed applications). The legitimacy of the new industry would ultimately be shaped by the interaction of this diverse set of influences. Operating over all these interactions, mass media act as an important industry-structuring mechanism that conveys information that builds awareness of and affects the acceptance of the new industry while also shaping its future development.

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