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Gaining legitimacy in converging industries: Evidence from the emerging market of functional food

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Summary This study offers new insights on legitimacy and legitimation strategies in the peculiar setting of converging industries. Companies that decide to enter converging markets have to face stakeholders who are uncertain about their needs and claims. Grounding on a strategic perspective to legitimacy, we analyzed the legitimation strategies implemented by two companies that entered the market of functional food in Italy when it was emerging from the convergence of the food and the pharmaceutical industries. Results show that legitimation strategies combined pragmatic, moral and cognitive traits, but that moral and cognitive traits were pre-eminent. Legitimacy was pursued through peculiar cross-legitimation strategies, i.e. leveraging on the legitimacy gained by one group of stakeholders in order to win legitimacy by another one. The study shows that legitimation is path-dependent also in converging industries and companies should take into account their legitimacy legacy when entering a converging market. Moreover, companies concentrate their efforts to legitimation towards the subset of stakeholders that managers perceived as the most critical. In our cases they were consumers, the scientific community and employees. Finally, the implications of these outcomes have been discussed to provide a panel of managerial implications and areas for further research.

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Introduction

The dynamics generated by globalisation, deregulation, harmonisation, and technological development have blurred the concept of industry boundaries and accelerated the convergence of value propositions, technologies and markets (Choi & Valikangas, 2001). Industry convergence has

emerged as a fashionable and controversial phenomenon in contemporary industries (Hacklin, 2007). In the last decade, this phenomenon affected many industries and generated new business areas. For instance, the convergence of books, music and video generated the *infotainment* business area (Brand, 1987); the convergence of insurance and banking generated the *bancassurance* business area (Cummins, 1991; Leach, 1993); the convergence of cosmetics and drugs generated the *cosmeceutics* business area (Pralad, 1998); and, finally, the convergence of telecommunication, computing and consumer electronics generated the

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smartphones and mobile services business area (Hacklin, 2007).

Companies in converging industries are possibly exposed to new customers, new employees, new suppliers, new business partners, new competitors, and new regulators, whose behaviours and expectations are often magmatic and blurred (Hacklin, 2007). Thus companies, in order to succeed, have to redesign their products/services, processes, competences and behaviours to realign them to the new stakeholders' perceptions, needs and beliefs (Long & Driscoll, 2008). If they are unable to do that, a legitimacy question might emerge, and, as Meyer and Rowan (1991, p. 50) noted, "any organisation that lacks an acceptable legitimated account of its activities is vulnerable to claims that it is negligent, irrational or unnecessary".

This, even besides the very phenomenon of industry convergence, makes the quest for legitimacy tremendous for every company. A recent and dramatic example of the relevance of legitimacy-related issues in contemporary management challenges is BP (British Petroleum) oil spill in the Gulf of Mexico. During that crisis, the society as a whole raised serious doubts about the "right of existing and operating" of companies that pursue profit without taking in the adequate account risks for both people and environment. Because of this, BP was obliged to pay tremendous efforts to save its image and reputation, but also to preserve its right to exist and operate.

Similar concerns about legitimacy are salient in converging industries. An example comes from the probiotics market, i.e. the market of milk-based beverages with an augmented content of lactobacilli for favoring different body functions. This market emerged around World War II with specialized para-pharmaceutical companies, but it has attracted the interest of public opinion and customers recently with the entering of big food companies such as Nestlè and Danone. These companies have stressed on the "food nature" of probiotics-enhanced products by introducing conventional dairy-product flavours and formats and enlarging the distribution in grocery retailers. Their entry in this market has generated an emblematic case of business area created by the convergence between food and pharmaceuticals (Bröring, Cloutier, & Leker, 2006). Market analysts agree that functional foods will represent a double digit growth market over the next years. Nonetheless, this business area is dominated by uncertainty (e.g., Bröring et al., 2006) about the "value" of products since their effectiveness to prevent diseases is still questionable and the regulation framework since it is still evolving. This uncertainty makes consumers and other key stakeholders (e.g., regulators, healthcare professionals, healthcare researchers) suspicious about functional food companies and raise concerns about the legitimacy of both the products and the suppliers (Bhaskaran & Hardley, 2002).

The European Food Safety Authority (EFSA) concluded in November 2010 that the evidence the food companies had submitted to support more than 800 health claims about the benefits of various food additives-probiotics *in primis* was limited or inadmissible. Many food companies such as Danone have to change their advertising and information to consumers policies to avoid litigation. This example is revelatory of a major managerial challenge that managers have to face while entering in converging industries (Choi,

Eldomiatty, & Kim, 2007; Lamberti & Lettieri, 2009). They actually have to face a twofold legitimacy quest. On the one hand, they must behave in such a way to preserve the trust and legitimisation by the incumbent stakeholders, and on the other hand, they must gain the trust and thus the legitimisation by the new stakeholders they must interact with after the entry in the converging market (Brenkert, 2002).

The management of legitimation strategies has found a comprehensive theoretical discussion in past literature, and particularly in the work by Suchman (1995). He pointed out an overview of the strategies that companies operating in traditional industries may implement to gain, maintain, and repair legitimacy. Nonetheless, these results have never been extended to converging industries. The consequence is that, despite the growing pace of industry convergence (Hacklin, Marxt, & Fahrni, 2010), managers still lack evidence and recommendations to ground their strategies when entering or governing the growth of converging industries.

Our study contributes to narrow this gap. First, it adds original insights about how managers implement strategies aimed at winning stakeholders' trust in converging markets by addressing their expectations. Our evidence suggests that companies often do pursue legitimation from one group of stakeholders by leveraging on the legitimacy already gained from other groups that are perceived as highly reliable. Second, our study shows that managers have to implement wide-range strategies affecting the whole value-chain and the relationships with key stakeholders to sustain market entry and growth in business areas that emerged from industry convergence. These strategies are mainly incremental to previous approaches to legitimacy-related issues. This finding suggests that legitimation strategies in industrial convergence are the result of the convergence between the answers to previous and new stakeholders' claims. In this view, legitimation strategies in converging market are affected by the companies' legitimacy legacy.

These contributions are gathered by the in-depth investigation of two paradigmatic companies operating in the functional food market in Italy. Functional food market (sometimes referred to as "nutraceutics" market-e.g., Bröring et al., 2006) is the market of food products that "contains a component (which may or may not be a nutrient) that affects one or a limited number of functions in the body in a targeted way so as to have positive effects on health" (Roberfroid, 2000); products like probiotics, vitamin enriched products, prebiotics and similar lie in this category. The first case is an early-mover, pure player grappling with the turbulent growth of the Italian functional food market. The second case is a company competing in the traditional dairy market that have decided to approach the functional food market in response to its astonishing growth.

Legitimacy: A strategic view

Many theoretical frameworks and taxonomies of practises have been argued with respect to legitimacy. Drawing from past research, we made sense of a mass of often contradicting-theories, concepts, and evidence to develop a conceptual framework to support our investigation.

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