

# **THE ROLE OF CREATIVITY IN THE FORMATION OF INTERNAL AND EXTERNAL LEGITIMACY DURING THE LIFE CYCLE OF AN INTERNET FIRM**

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This study examined the construction and deconstruction of external and internal legitimacy during the life cycle of a creative firm, and helps to bridge two important gaps in the existing literature. First, our data yielded a central conceptual framework highlighting the dynamic nature of the interrelationship between internal and external legitimacy and creativity, in terms of artistic style and creative organization. We did this by operationalizing legitimacy and referring to its various processes and characteristics as constructed in a social and cultural model (e.g. Human & Proven, 2000; see also recent studies by Delmar & Shane, 2006; Lu & Xu, 2006; Vaara, Tienari & Laurila, 2006). Second, we examined the relationship between creativity as an ethos and creative organization and legitimacy, an overlooked element of organizational studies. Our analysis contributes to the understanding of legitimacy formation in new ventures by claiming that survival is highly dependent on the alignment between internal and external legitimacy.

At the center of our approach are the legitimation processes during the lifecycle of the firm. We suggest that creativity plays a pivotal role in constituting both internal and external legitimacy. During the nascent periods, creativity, based on intrinsic motivation, was the prime mover of internal legitimacy, providing a rallying point for actors when resources were scarce and organizational persistence uncertain. Later in the life of the organization, during the internet stage when external legitimacy and resources were successfully acquired, the unique artistic style and esthetic of VirtualArt lost much of its practical importance. Internal conflicts between the creative paradigm and the more technical programming paradigm resulted in the institutionalization of creativity and a movement from the daily practice to a core value and a myth (Meyer and Rowan, 1997). This process was enhanced by the further search for external legitimacy for the purpose of acquiring resources (Zoot and Huy, 2007). Creativity, in terms of style and product, which was embedded in VirtualArt's vision, was no longer part of the organization's strategic logic. Furthermore, overconfident with its reputation for creativity and innovative technology, VirtualArt, as its founder testified, neglected its strategic creativity. Thus, expertise regarding the creative logic of style, product or technology didn't transfer into organizational creativity. During the internet stage, external legitimacy continued to depend upon VirtualArt's past creative legacy. It helped to

recruit capital and provide links to major industry players, however, VirtualArt lacked the creative strategic logic which may eventually have led to its demise.

Zelditch contends that legitimacy formation is a fundamental social process because of its role in producing and reproducing structure in concrete situations of action (2001:13). Studying the processes of legitimacy formation in VirtualArt enabled us to show the dependent interrelationships between internal and external legitimacy and their respective structures and contexts. Artistic identity during the founding period became entrenched in the organization, which provided the internal legitimacy for its maintenance. Once adopted and legitimized, this artistic identity acquired its own inertial characteristics, which attributed artistic values and the criteria associated with them to their 'modus operandi'. However, such inertial characteristics eventually constrained the founder's ability to be a creative strategist.

Thus, we maintain that the internal and external legitimacy dynamics of VirtualArt, which was based mainly on its creativity in terms of artistic style, product and technology, mitigated against its ability to develop a timely creative organizational strategy. We found tension between the internal and external legitimacy initiated through creative identity as a double edged process. On the one hand, creativity was a critical factor in the emergence of the new venture, useful in establishing an ethos and identity that provided internal legitimacy, and supported by intrinsic rewards critical for organizational formation. When successful, it leads to external legitimacy as a strategy that signaled excellence and innovation, with commensurate extrinsic rewards. On the other hand, developing external legitimacy necessitated a deviation from the initial creative ethos and intrinsic rewards. Here, the need for organizational and strategic creativity was required to maintain alignment between internal and external legitimacy. Misalignment, stemmed from the continued usage of creativity as myth, and confined creativity into the domain of artistic style. This eventually led to an inability to face environmental change, the erosion of external legitimacy, and death.