How do you follow a flameout?

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Brian Bergman, assistant professor of management, studied the high-profile failure of the world's first social venture accelerator to develop a model of legitimacy repair work by subsequent entrants to an emerging market category.

When new market categories emerge, there's often a standout company that gains traction and blazes the trail for subsequent entrants. Airbnb, Uber and SiriusXM are each examples of what business scholars call beacons, companies that shine a light on a particular market space and confer legitimacy upon those that follow.

But what happens when a beacon fails? Can a spectacular flameout snuff out an entire category?

Brian Bergman, an assistant professor of management at the Freeman School, studied one such failure and writes about it in "When the Beacon Goes Dark:

Legitimacy Repair Work by Subsequent Actors in an Emerging Market Category." The paper, co-written with Brett Smith and Glen Kreiner, appeared in the September 2021 issue of *Journal of Business Venturing*.

In the early-2000s, the world's first social venture accelerator launched in a major U.S. metropolitan area. With favorable press and the support of the philanthropic community, it quickly became a beacon for this new approach to supporting social impact ventures. Less than seven years later, however, the accelerator unceremoniously shut down amid disappointing results and unmet funder expectations.

"I would not say that it was a total failure at all, it certainly did some good," Bergman says. "But it did create challenges for other people that wanted to occupy this space after them. That's really what this paper is about — how organizations follow a very public and leading organization that fails."

The accelerator in question, which the authors do not identify, was founded to be an innovative solution to sustaining social impact ventures in an era of shrinking governmental funding. After five years of underwhelming performance, the organization made a change in leadership and pivoted its strategic direction. After two more years of unmet expectations and dwindling support, the accelerator's board of directors made the decision to cease operations.

A few months later, an existing for-profit venture accelerator in the same city decided to enter the social venture accelerator space. Seeking support from the same local funders that had grown skeptical of the failed accelerator, the new organization raised millions, worked with multiple ventures and went on to become the world's first successful social venture accelerator.

In the entrepreneurship literature, scholars often refer to the concept of legitimate distinctiveness, the idea of being similar enough to peer firms to be perceived as legitimate but different enough to be competitive. In emerging market categories, Bergman says ventures often achieve legitimate distinctiveness by emulating a beacon to gain the legitimacy it confers and then differentiating themselves from the beacon over time to highlight their unique attributes.

"That's a challenge that organizations face all the time," Bergman says, "trying to show I'm part of the team — therefore trust me, believe in me, give me resources — but at the same time, I'm not like everybody else. I have unique values and features that I bring to the market.”

In the vacation rentals category, for example, a company might start off likening itself to Airbnb to gain legitimacy but then position itself as the Airbnb of luxury homes or camping sites to differentiate itself.

When there’s a jolt to the legitimacy of a market category, however, such as in the case of a failed beacon, Bergman says the strategy changes.

“There’s a flip of the formula,” Bergman says. “You need to first differentiate yourself from the beacon and then show how you’re the same, which is the opposite of what we typically see. You gain legitimacy by clearly showing you’re not like that failure, but then there were some good things they were doing and you’re going to keep doing those things.”

When the for-profit venture accelerator entered the social venture market, it began by emphasizing its work with technology startups and arguing that social ventures were just another type of startup. It also retroactively identified some of the businesses it had previously worked with as social ventures to establish a record of success in the space. Once it had differentiated itself from the failed accelerator, it began to align itself with selected aspects of the earlier organization’s business model, such as highlighting the growing role of impact investing and the rise social impact organizations internationally.

“They were really quick to point out that the previous organization was the problem, not the category,” Bergman says. “And since the organization was the problem, here’s what we’re going to do differently.”

The strategy worked, because today the category includes more than 100 accelerator organizations around the world that focus on supporting social impact ventures.

While Bergman’s study was limited to social venture accelerators, he says its findings are applicable whenever a company attempts to follow a high-profile failure.

“Ventures are failing all the time,” Bergman says. “The question is how do entrepreneurs take advantage of those past failures as opposed to just relying on the success stories. If you’re an organization trying to enter a market that is still in flux, leveraging those failures in an intelligent way might be enough to get the market back on track and put yourself in the pole position. In terms of strategy, I think our paper gives a couple of tactics and ways to think about how to take advantage of those setbacks.”