

**Entrepreneurial Management**

# **3 Strategies to Convince People That Your Startup Is Legit**

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**Summary.** The approach of three new Chinese EV automakers demonstrates the value of legitimacy for venture building; these firms were able to reach volume production just two to four years after they were founded, compared to Tesla, who took 9 years. They raised nearly \$7 billion in venture funding and all three were recently listed in the U.S. How did they do it? By implementing three actionable strategies to manage legitimacy to access the resources they need: leveraging existing sources of legitimacy, aligning actions with resource holders' expectations, and redefining perceptions or assumptions held by resource holders. [close](#)

To start and grow their firms, entrepreneurs need a lot of things from other people. They need funding from investors, skills and commitment from a founding team, approvals from regulators, collaboration from suppliers, and attention and demand from customers, among other things. But to unlock these, entrepreneurs must establish their legitimacy in the eyes of each of those resource-holders, or “audiences.” They have to show that they’re trustworthy, that they have a good product, and that they can take it to market. This effort is particularly challenging because each of these different audiences has its own criteria for what makes a venture legitimate.

In our research on legitimacy strategies, we looked at China’s high-growth and intensely competitive electric vehicle (EV) market (which also happens to be the world’s largest), where, a new group of entrants is challenging incumbent automakers, including Tesla. Three outsiders in particular — NIO, XPeng, and Li Auto — seem poised to emerge as local champions. All three were typical startups faced with significant liabilities of newness and lacking key resources. But these three firms were able to reach volume production just two to four years after they were founded, compared to Tesla, who took nine years. They raised nearly \$7 billion in venture funding and all three were recently listed in the U.S. And while all three had connections to the auto industry, EV design and manufacturing was an entirely new venture for them.

How did they accomplish this? We found that successful entrepreneurs — new entrants in particular — implement three strategies to build legitimacy and access the resources they need: leverage existing sources of legitimacy, align actions with resource holders’ expectations, and define (or redefine) perceptions or assumptions held by resource holders.

Here’s how these strategies work.

**Leveraging existing sources of legitimacy.**

The first step taken by the founders of all three firms was to leverage their personal resources as a source of legitimacy to attract critical resources, including a core founding team and sufficient startup funding. Founder William Li of NIO leveraged the personal networks he had formed while building BitAuto, an internet portal for auto news, listings, transactions, and social communities for car buyers and drivers. Xiang Li, of Li Auto, leveraged relationships formed while building AutoHome, a similar site. Li also brought AutoHome's existing top management team on board, further increasing investors' confidence in the new firm. While the founders of NIO and Li Auto brought money and people to the table to build legitimacy, the original founders of XPeng brought experience; both had worked as lead researchers in EV control systems and autonomous driving in the state-owned manufacturer Guangzhou Auto Corporation (GAC). They leveraged that to attract Xiaopeng He, initially as an angel investor and then as co-founder and CEO. He leveraged his leadership experience, cash, and professional connections to Alibaba, which had acquired his previous internet browser company, to build the new company's resources and access.

### **Aligning with requirements, norms and expectations.**

In some cases, to project legitimacy and gain access to critical resources entrepreneurs must align their actions with the "rules of the game," including formal regulations and informal but strong norms. For example, even if the leadership team has impressive credentials, investors typically expect them to have substantial "skin in the game." The leaders of these three ventures aligned themselves with this expectation, each of them personally investing over \$100 million in their ventures. Each firm also needed a license to manufacture automobiles. To meet that regulatory requirement and enter the market sooner, NIO and XPeng initially outsourced production to an existing auto manufacturer, while Li Auto acquired a manufacturer with the necessary license.

### **Redefining perceptions and assumptions.**

Finally, all three founders have created a new paradigm for what an EV can be, and which differentiates them from other competitors, including Tesla. They have gone beyond Tesla’s vision of a “smart” EV – based on the operating systems, over-the-air software updates and driver assistance functions – to include platform-based connectivity among customers and online service providers. While Tesla’s smartphone app is integrated with the car’s navigation and functions, those of NIO, XPeng, and Li Auto are also a platform for their users to form friendships and share reviews, photos, experiences and news of upcoming events. NIO, for example, has over 200 thousand daily active users, and 50% of new customers are referred by existing customers. These online relationships are supported by each firm’s network of offline direct-sales and experience stores that are very different from typical 4S dealerships.

Entrepreneurs often ignore the importance of managing the perception of legitimacy when they build a new firm, enter a new industry, or launch a new product. Without legitimacy, entrepreneurs have to enter meetings with cold, unfriendly investors for funding or regulators for approvals, waste many dollars and efforts to acquire users, and struggle with opportunistic co-founders or mediocre suppliers. Such efforts are unlikely to be effective nor efficient. Entrepreneurs without legitimacy with key audiences may keep bootstrapping for years, and only a small number of lucky ones will be able to finally take off.

The approach of these three new Chinese EV makers demonstrates not only the value of legitimacy for venture building, but also all three effective legitimacy-gaining strategies: leveraging existing sources of legitimacy, aligning actions with expectations and requirements, and redefining perceptions of what is “normal” and legitimate. These examples show that entrepreneurs should see legitimacy-building as a key part of the venture-building process, essential to increasing the effectiveness of their resource-seeking and growth acceleration.

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