The legitimation of emerging industries to reduce the investment risk:

An empirical case study in the eSport industry

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Abstract

The purpose of this research is to analyze legitimacy in emerging industries and the effect on the perceived investment risk. This will extend the knowledge on how to increase legitimacy and how it can improve the investment climate to attract potential investors. The research methodology is a qualitative case study. Data is gathered through literature, interviews and documents. The quality of the analysis is supported with triangulation of data gathering and respondent selection. The scope of the research is legitimacy in emerging industries that are truly innovative. Also, the scope incorporates the sociopolitical and regulatory legitimacy of an industry. The research excludes established industries and emerging industries that use incremental innovations because those industries face less adversity in legitimacy. This makes it difficult to analyze the process of legitimation. The analysis resulted in support for the propositions. This means that sociopolitical legitimacy and regulatory legitimacy negatively affect the perceived investment risk. In other words, the higher the legitimacy, the lower the perceived investment risk. Furthermore, the results show a positive effect of sociopolitical legitimacy on regulatory legitimacy. Emerging industries should increase their legitimacy by creating a sociopolitical environment that complies to the norms and values in the industry but is also appealing to potential investors. This sociopolitical environment should be guarded by regulations and enforcements that match with the norms and values in the market. Cooperation is crucial in increasing regulatory legitimacy. An increasing legitimacy results in a decrease in the perceived investment risk. The research got hindered by the consequences of the Covid-19 virus that made the findings even less generalizable than normal qualitative research methodologies. Comparative case studies can increase the generalizability of the findings. Furthermore, qualitative research methods should be applied to statistically prove or disprove the findings of this research.

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List of abbreviations

LAN = Local Area Network

ESIC = ESports Integrity Commission

MLG = Major League Gaming

ESL = Electronic Sports League

Glossary

Franchised league_= A joint venture league, when separate industries combine to perform some kind of economic activity (Stephen F. Ross & Szymanski, 2010, p. 214).

Semi-franchised league = A joint venture league without a buy-in, but with an application and selection procedure.

Non-franchised league = Competition without solidified slots for teams

Emerging industry = New industries emerge when entrepreneurs succeed in mobilizing resources in response to perceived opportunities. Identifying opportunities, assembling resources, and recruiting and training employees are challenges facing all entrepreneurs, and all of these activities require the cooperation and strategic interaction of individuals and groups (Aldrich & Fiol, 1994, p. 647).

Established industry = Industries that have a solidified position in society and are accepted as normal. This type of industry does not conform to the definition of emerging industries.

Disruptive innovations = Disruptive innovations disturb the business models of ecosystem incumbents who are likely to resist and countermobilize (Markman & Waldron, 2014).

Incremental innovations = Changes in an existing product and enables its improvement through new resources, technologies, and design (Santos, da Silva, Braga, Corrêa, & de Almeida, 2020).

1. Introduction

Becoming a legitimate industry is an abstract and challenging task. It is about attaining a solidified place in the society. Remember the time when nobody had a personal computer? Well, that might be tough because computers have solidified their position in society. But how to define that status of an industry? One of the first attempts at defining legitimacy is *"a generalized perception that the actions of an individual or those of an organization are desirable and appropriate within the current system of social norms and values"* (Suchman, 1995, p. 574). The more an industry corresponds to the condition that is set by the current system of social norms and values, the higher the degree of legitimacy of the industry. Increasing the legitimacy should be a focus point for every industry because the research of Díez-Martín, Prado-Roman, and Blanco-González (2013) showed that it has a direct positive effect on the business performance. Industries that perceive a high degree of legitimacy have easier access to resources and stakeholder support (Bansal & Clelland, 2004). Although, their research lacked generalizability due to case-study form. Therefore, their advice is to conduct similar research on legitimacy in different industries. Literature additionally aimed at the process of gaining legitimacy as an industry, which is called 'legitimation' and consists of the actions taken directed at attaining and maintaining legitimacy (Aldrich & Fiol, 1994). Legitimation has been defined as *'the intentional engagement of social actors in specific practices that may lead to achieving legitimacy'* (Wang, Thornhill, & De Castro, 2017, p. 2). Those actions require that the industry influences the way internal and external stakeholders perceive the course of action of the industry (Thomas, 2005). Industries can build legitimacy from different perspectives like market legitimacy and political legitimacy (Radu Lefebvre & Redien-Collot, 2012). This is important because it highlights that the degree of legitimacy is determined by the industry itself, but also by the environment where the industry operates in and the perspective that is used to determine the legitimacy.

Industries experiencing a high degree of legitimacy have stakeholders that accept the course of action the industry is taking. This will result in a better business performance (Díez-Martín et al., 2013). Bansal and Clelland (2004) found that the greater the legitimacy, the fewer unsystematic risk. Unsystematic risk reflects the fluctuations in the stock price that is caused by events that only affect the specific firm. In other words, it is the error term of the systematic risk. This raises questions about whether there are fluctuations in the cumulative stock price of an industry that is caused by events that only affect that industry. In other words, less unsystematic risk leads to a better assessment of the investment risk in individual firms, because the remaining risk is systematic and predictable. Thus, less unsystematic risk will decrease the perceived investment risk. The discussion in their research pointed out that their findings are too limited to conclude that legitimacy has a negative effect on perceived investment risk due to the narrow measurement of legitimacy. Furthermore, the effect of events on the stock price of individual firms are not analyzed through the perspective of an entire industry. In this research, a broader measurement of legitimacy is used to determine the effect of legitimacy on perceived investment risk of an entire industry.

Since the effect of legitimacy on business performance has been identified, this research specifies business performance into perceived investment risk to further explain the effects of legitimacy. The attraction of financial resources come from investors in the form of investments. Olsen (1997) has shown that within investment management, it is important that there is a clear definition and estimation of the investment risk. Furthermore, the research concluded that the perception of the investment risk consists of multiple indicators are aimed at finding a balance between the possibility of returns and potential risk. Yet, MacGregor, Slovic, Berry, and Evensky (1999) state that the objective nature of the risk is not exclusively based on objective financial numbers. Research also showed that the limited knowledge of humans allow for heuristics to influence the perceived investment risk (Olsen, 1997). So, the investment risk is not only based on facts and figures but also on the perception of people on the industry. Thus, another motivation for this research lies in demand for the attraction of investors while there is an unexplained relation between legitimacy and perceived investment risk.

The attraction of investors is particularly crucial for emerging industries competing among each other for financial resources (Aldrich & Fiol, 1994). Even beyond a certain level of legitimacy, there is still a tangible value in increasing the legitimacy (Wang et al., 2017). Industries that are accepted by the industry itself and their environment are established industries in today's society. Examples are computers, smartphones, traditional sports, beer and social media. But when those industries were still emerging, they also faced adversity in the process of gaining legitimacy. It has been identified that emerging industries, by definition, lack legitimacy (Aldrich & Fiol, 1994). Established industries operate according to fixed order, otherwise their identity is unclear to their environment. When there is no such order, like in emerging industries, they must construct one for themselves (Clegg, Rhodes, & Kornberger, 2007). So, the motivation for this research starts with the necessity of increasing the legitimacy in emerging industries and the lack of knowledge on how to increase the legitimacy of those industries.

1.1 Problematics in legitimacy literature

In this paragraph, the literature on legitimacy is reviewed to identify what must be studied to extend the knowledge on legitimacy. This paragraph starts with reviewing in what context legitimacy has been studied and what the construct means from different perspectives. Secondly, the effect of legitimacy on other variables is reviewed to identify an interesting and appropriate effect of legitimacy that has yet to be studied. Thirdly, a review of literature on that dependent variable is conducted. Finally, the overarching problem is formulated to determine the scope of the research. This scope is translated to the main research questions with corresponding sub-questions.

Legitimacy problems are perceived to be a common bottleneck for emerging industries and have been studied since 1940 (Taintor, 1940). The founders upon which a new emerging industry is built, by definition, lack the credibility and familiarity that establish the fundamental basis of interaction (Aldrich & Fiol, 1994). Furthermore, emerging industries need institutional actors that give the industry legitimacy. However, there is a lack of empirical studies that analyze the actions that industries take in order to increase legitimacy (Déjean, Gond, & Leca, 2004). Aldrich and Fiol (1994) formulated actions that help industries in the legitimation process. These actions boil down to collective action taking within the industry and establishing relations with external stakeholders out of other industries and institutions. These actions are formulated out of theory but lack empirical evidence in different industries. Several researchers attempted to analyze the legitimation of organizations and industries in specific environments and industries (Déjean et al., 2004; Radu Lefebvre & Redien-Collot, 2012; Rindova, Pollock, & Hayward, 2006). Nevertheless, additional research is required to analyze legitimation in an industry that does not copy a known business format, but is truly innovative and enters uncharted waters (Aldrich & Fiol, 1994). More recent studies aimed at analyzing the legitimation of institutional actors in traditional sports, leaving a gap in the understanding of how commercial industries can increase their legitimacy (Anastasiadis & Spence, 2020).

Díez-Martín et al. (2013) continued the research direction of analyzing the effect of legitimacy on business performance. They found a positive effect of legitimacy on business performance for a specific type of organization in a specific environment. To extend the knowledge on legitimacy and the relation to business performance, they advised to aim research at generalizing their findings by testing that relation in different industries and environments. This research aims at extending that knowledge by analyzing legitimacy in a different industry with a different environment but does not focus on business performance. This research specifies on the perceived investment risk. This direction complements the research of Díez-Martín et al. (2013), but also contributes to the understanding of the effect of legitimacy on the perceived investment risk that was indicated by Bansal and Clelland (2004). Furthermore, it provides knowledge that is crucial to the survival of emerging industries. This information is crucial because emerging industries, by definition, lack legitimacy (Aldrich & Fiol, 1994).

As mentioned, Bansal and Clelland (2004) found a relation between the legitimacy and risk assessment. Their findings are limited because it only measures legitimacy in the eyes of investors. So, the problem with literature on legitimacy is that it is measured through a variety of stakeholders, affecting the outcome of the research. This can be explained with an example. Take the cancellation of sport events all over the world as a consequence of the Covid-19 pandemic. Sport fans are concerned with their health so they are likely to perceive the action as legitimate, while investors see the evaporation of financial resources and might perceive the action as illegitimate. Another limitation of their research is that legitimacy is perceived as a simple construct, while in fact, legitimacy is a complex and multidimensional construct (Díez-Martín et al., 2013). Thus, this research incorporates multiple stakeholders, both internally and externally, to assess legitimacy of an emerging industry as a multidimensional construct. This will be further discussed in the theoretical framework.

To extend the knowledge of the legitimation of emerging industries and how this affects the perceived investment risk by investors, the aim of this research is to qualitatively research multiple internal and external stakeholders of an emerging industry. In the first phase of the research it is important to get an idea of what the legitimacy of the emerging industry is and how it arrived at that point. For this phase, it is essential to interview primary and secondary stakeholders in the emerging industry. The next phase begins with analyzing the investment risk perception of investors. It will conclude in determining how the perceived investment risk is affected by the legitimacy of an emerging industry.

The overarching problem in this research is formulated as the effect of legitimacy on the perceived investment risk. This relation has been studied, but the limitations in the literature leave an incomplete understanding of the effect of legitimacy on perceived investment risk. The aim of this research is to draw upon the literature on legitimacy and complement the understanding of the relation between legitimacy and perceived investment risk. By doing so, emerging industries can be advised in reducing the perceived investment risk through the increase of legitimacy. Therefore, the main research question that needs to be answered is as follows: *"how do emerging industries increase the legitimacy to reduce the perceived investment risk?"*. To answer this question, legitimacy must be analyzed as a multidimensional construct. The dimensions of legitimacy in this research are regulatory and sociopolitical legitimacy. The research starts by analyzing how expert investors measure the perceived investment risk of emerging industries by answering the following sub question: *"how do expert investors measure the perceived investment risk of emerging industries?"*. This enables us to review what the weight is of legitimacy when measuring the perceived investment risk. Next, a focus on the specific relations between the dimensions of legitimacy and the perceived investment risk is necessary. The effect of regulatory legitimacy is captured in the following sub question: *"what is the effect of regulatory legitimacy on the perceived investment risk?"*. In addition, the effect of sociopolitical legitimacy on perceived investment risk is captured in the following sub question: *"what is the effect of sociopolitical legitimacy on the perceived investment risk?"*. This focus extents the knowledge on how legitimacy, as a multidimensional construct, affect the perceived investment risk. The final sub question is *"how do emerging industries increase their legitimacy?"* and is aimed at formulating some advice for increasing legitimacy in emerging industries. The next paragraph explains the scientific relevance of this research.

1.2 Legitimacy in emerging industries that are truly innovative

In this paragraph, the scientific relevance of this research is explained. To determine the scientific relevance of this research, the gap in knowledge of legitimacy must be clarified. Literature has identified legitimacy as one of the most common and important bottlenecks for emerging industries. There are several characteristics of emerging industries that seem to correlate highly with legitimacy problems. Starting with the characteristic of emerging industries of being a novel type of composition of businesses that by definition lack credibility and familiarity (Aldrich & Fiol, 1994). More recent studies also identified the ability of an increase in legitimacy to make emerging industries more established (Clegg et al., 2007) If the external stakeholders, like investors, in the sociopolitical environment are not familiar with the emerging industry, the degree of sociopolitical legitimacy is low. Furthermore, if industries do not fall in the category of copying an already existing industry, but are truly innovative, there is an absence of regulation and enforcement leading to a low degree of regulatory legitimacy. Additionally, regulative and enforcement authorities are known to resist emerging industries to maintain the position of older and more familiar industries (Aldrich & Fiol, 1994). So, on one hand industries can increase legitimacy in the sociopolitical environment. On the other hand, emerging industries often lack regulative and enforcing support and thereby can increase the regulatory legitimacy. The studies that cited the work of Aldrich and Fiol did not pay attention to the categorization of truly innovative and copying industries. Moreover, the case studies that cited Aldrich and Fiol analyzed legitimacy in a copying industry, like a new stream of education (Radu Lefebvre & Redien-Collot, 2012). This indicates a scientific gap in the understanding of the phenomenon of legitimacy in emerging industries that are truly innovative. The scientific relevance of this gap in knowledge is that truly innovative industries do not copy existing industries and therefore might experience less resistance of those existing industries. So, this research aims at filling that gap by analyzing legitimacy in a truly innovative industry. The practical relevance will be discussed hereafter.

1.3 Legitimacy as a multidimensional construct

Adjacent to the scientific relevance, this research also contains practical implications. This section explains the practical relevance by the hand of two consequences that occur when the scientific gap remains understudied. It has been established that the degree of legitimacy of an industry has several effects on the performance of organizations within that industry (Díez-Martín et al., 2013) and that there is a specific effect of legitimacy on the perceived investment risk (Bansal & Clelland, 2004). What is yet unclear is how these relations are constructed. In other words, it is unclear which specific dimensions and indicators of legitimacy affect the perceived investment risk. So, there is a gap in the knowledge of how legitimacy, as a multidimensional construct, affects the perceived investment risk.

To support the practical relevance of this research, two consequences of the existence of the gap in knowledge in truly innovative environments are formulated. The first consequence being that these industries are not able to base their legitimacy-based decisions on scientific data related to their environment. This is a problem for industries because legitimacy plays a crucial role in the survival of emerging industries (Aldrich & Fiol, 1994; Kostova & Zaheer, 1999; Radu Lefebvre & Redien-Collot, 2012). A lack of knowledge on legitimation counteracts organizations in strategizing. Furthermore, being aware of the effect of legitimacy on business performance is not enough to understand how different industries have to strategize to gain legitimacy (Radu Lefebvre & Redien-Collot, 2012). Business performance is a container concept that means different things in different industries. Therefore, a specific focus on perceived investment risk extents the knowledge on what dimensions of legitimacy must be increased as an industry, to attract investors. Emerging industries often compete for ‘being taken for granted’ to attract potential investors (Aldrich & Fiol, 1994), making the legitimacy important for such industries.

The second consequence of the gap that has been established involves the investors' perception of legitimacy of an industry that affects the perceived investment risk. As of now, it is unknown what dimensions of legitimacy affect the perceived investment risk (Bansal & Clelland, 2004). If this remains unclear, emerging industries can remain blind to the impact of legitimacy on the investor's perception of investment risk. Furthermore, industries have no scientific data on how their actions affect the perceived investment risk. Getting a grip on the content of this relationships contributes to the understanding of investors' risk assessment and strategizing in the process of gaining legitimacy for industries. This also indicates that the further existence of this gap can have major impacts for emerging industries that are in the process of overcoming legitimacy issues and investors that are looking to invest in emerging industries.

Conducting research on the relation between legitimacy and perceived investment risk contributes to extending the knowledge on what dimensions of legitimacy affect the perceived investment risk. Furthermore, it assists industries in strategizing in the attraction of investors by increasing the legitimacy of the industry. The understanding of this relationship provides more exhaustive knowledge on legitimation for industries as a whole. Furthermore, it contributes to the understanding of how investors asses emerging industries in terms of investment risk. Next to the relevance for industries and investors, this research also adds to the understanding of what the 'taken for granted' industry means. In other words, when society perceives an industry as legitimate. The following section provides an outline this research.

1.4 Thesis outline

This research begins with a literature review, which is laying the foundation of the theoretical framework that will be used to analyze the established relations. First, the literature review frames the perceived investment risk. Secondly, the literature review provides insight in how the two dimensions of legitimacy are set up. The third part of the theoretical framework will provide insights in how investment risk is perceived. This results in a framing for investment risk. In all these concepts, the underlying relations with each other will be emphasized. Conclusive, the framework elaborates on the context within which this research is conducted and provide a conceptual model for this research.

After the theoretical framework is finalized, the research methodology is constructed. The research starts by interviewing key stakeholders in the eSport industry and analyze their perception on the legitimacy of the eSport industry. Both internal and external assessment of this relation is necessary. Therefore, primary stakeholders, like employees of eSport organizations, are reviewed as insiders. Secondary stakeholders, like investors, are reviewed as outsiders. With personal connections to both parties, these channels seem viable for data gathering. The second part of the research phase aims at qualitatively explaining the relation between legitimacy and perceived investment risk. The required data for this assessment will be gathered through (potential) investors. These investors can be demographically divergent to increase generalizability of the findings. This contributes to the general understanding of the effect of legitimacy on the perceived investment risk.

After the methodology has been established, the research is conducted, and the results are formulated in chapter four. The conclusive remarks on both the theoretical and practical side are identified in the chapter thereafter. Finally, this thesis will end with discussing the limitations of this research and provide future directions for research.

2. Theoretical background

The theoretical background is formulated to form a framework that is the basis for this research. The current problem with legitimacy in the emerging industries industry is identified to have two dimensions. The relation between legitimacy and investment risk is perceived as negative (Rindova et al., 2006), meaning that an increasing legitimacy will lead to a decreasing investment risk. But the question remains how the different dimensions of legitimacy affect the perceived investment risk. Before creating a theoretical framework, the perspectives on the matters should be clear. In this research, two perspectives will be used. The first perspective is the juridical perspective, used to identify the theories surrounding regulatory legitimacy. The second theoretical lens is the stakeholder-agency theory (Hill & Jones, 1992), which is used to measure sociopolitical legitimacy and determine what actions contribute to the sociopolitical legitimacy (Aldrich & Fiol, 1994). After choosing the perspectives, the theoretical framework can be constructed. The first step is to theoretically frame the perceived investment risk as the dependent variable in this research. The investment risk is measured in the context of potential investors. Next is the theoretical framing of the dimensions of legitimacy (regulatory and sociopolitical). All the assumed relations between variables in the theoretical framework are formulated in the form of a proposition. Finally, a conceptual model is presented that depicts the relationships that are central in this research. Moreover, it will show the separation between dependent and independent variables.

2.1 Variables

2.1.1 Investment Risk

Traditional literature on investment risk often suggests that it has an objective characteristic and that it is measures by hard data, like facts and figures. The resulting choice of investment come forth out of trade-offs made by individuals on the return on investment (Diacon, 2004). More recent literature on found out that investment decisions are not only based on return on investment trade-offs but also on other attributes of the investment (MacGregor et al., 1999). Olsen (1997) specified the attributes of investments that affect the perceived investment risk. These are: a large loss, return below target, business risk, liquidity, knowledge and economic uncertainty. The perception of risk is important when potential investors are limited in their knowledge of the market (Diacon, 2004). In other words, the perceived investment risk is crucial in the decision making of investors when there is uncertainty about the attributes of the investment. Analyzing financial risk perceptions by using the psychometric paradigm was introduced by the Oregon based Decision Research Group and attempts to describe the characteristics of financial hazards. This results in an identification of the relation between these attributes and the risk perception (Slovic, Fischhoff, & Lichtenstein, 1985). Risk perception is a multidimensional and emerging construct. This characteristic of perceived investment risk divides the expert and amateur investors. The expert investors see risk as a function of probabilities and consequences, while the amateurs are more determined by attributes and less by probabilities (Olsen, 1997). Furthermore, individual investors with a lack of knowledge often turn to a group of expert investors to gain their knowledge about the investment (Diacon, 2004). Therefore, this research uses the expert investors as external validator for the legitimacy of the emerging industry. A further explanation of the selection of respondents can be found in the data gathering section in chapter three. The expert investors have to provide insight in how they weigh in legitimacy in determining the perceived investment risk. The assumed direction of the relation in this research is discussed hereafter.

As described in the introduction, there is an assumed relation between how the legitimacy of an industry is perceived and the effect it has on the perceived investment risk. Research found that industries and the involved organizations that obtained a higher degree of legitimacy show less unsystematic risk, leading to an increase in investors. The source for the less unsystematic risk lies in the access to resources and the benefits the firms have from a higher number of business opportunities

(Díez-Martín et al., 2013). These findings come from a specific case-study and need empirical evidence in different contexts to increase generalizability. The behavior of stakeholders that is considered legitimate held no correlation to financial performance in the literature before 2004, but Déjean et al. (2004) found that different types of investors weigh in the legitimacy in their investment decision. For example, investors that have a high sense of justice are more likely to not invest in industries or organizations that do not obey to the law. Furthermore, Bansal and Clelland (2004) found that a higher degree of legitimacy leads to less unsystematic risk. This can be classified as the overarching problem that is being solved by this research. Therefore, the theoretical framework in this research assumes that there is a negative relation between legitimacy and perceived investment risk. This means that a higher degree of legitimacy will result in a decrease in perceived investment risk. The following proposition is formulated according to this assumption:

P1: Legitimacy has a negative effect on perceived investment risk

Indicators, as described, are not only objective but also subjective. The indicators 'business risk', 'liquidity' or 'economic uncertainty' are therefore based on data like business type, profitability, and economic growth but also on more subjective perceptions like competitive position, degree of investor interest and prospect for the economy (Olsen, 1997). So, in this research we assume that if the perception of the industry consists of a low degree of legitimacy, then the investors do not accept the course of action of the industry. This will result in an increase in perceived investment risk. In the next section, the theories on how the construct of legitimacy is build up are framed.

2.1.2 Legitimacy

Literature discussing legitimacy varies in terms of how it is constructed, but come together on the fact that legitimacy is perceived as a multidimensional construct (Aldrich & Fiol, 1994; Díez-Martín et al., 2013; Suchman, 1995). The reason being that the construct of legitimacy is researched from different fields of study that have used different perspectives. The implication for this research is that the legitimacy of an industry should be analyzed through different perspectives in order to get a grip on the construct of legitimacy. Furthermore, legitimacy can be measured internally, that is also known as *"propriety" (*Thomas, 2005*)*. Propriety refers to the perception or belief that an action or policy is desirable, correct, and appropriate according to an individual's personal evaluative criteria (Díez-Martín et al., 2013). Also, legitimacy can be measured externally, which is called the *"validity"*. This refers to individuals' beliefs that they are obligated to respond to social pressure by engaging in certain actions or conforming to certain policies and social norms, even in the absence of a personal sense of propriety (Thomas, 2005). Thus, legitimacy is internally perceived by stakeholders in an industry and determined by their level of acceptance of the course of action. In addition, legitimacy is externally perceived from the stakeholders surrounding the organization or industry (Suchman, 1995). As described, the expert investors provide the external validation of the legitimacy of an emerging industry. Within this research there are two identified dimensions of legitimacy. These are derived from two different theoretical perspectives and will be discussed hereafter.

The development towards legitimacy can be analyzed by making a distinction between the two dimensions of sociopolitical and regulatory legitimacy. Starting with the sociopolitical legitimacy of an industry, it refers to the degree of how much key stakeholders, key opinion leaders, or government officials accept the actions of a specific industry as appropriate or right with the norms and laws in consideration (Aldrich & Fiol, 1994). Later, the sociopolitical legitimacy was further divided into three sub dimensions, being pragmatic, moral and cognitive (Scott, 1994). These dimensions are still being used in current literature on sociopolitical legitimacy (Díez-Martín et al., 2013). What is remarkable about this categorization is that it does not include the regulatory side of things but only focusses on the acceptance of the course of action of an industry by key stakeholders. Thus, an additional dimension of the overarching legitimacy that incorporated the regulative aspect of legitimacy is necessary and will be discussed hereafter. To stay at the sociopolitical legitimacy, it is important to note that different stakeholders perceive the sociopolitical legitimacy of the industry differently and use different values to determine their degree of acceptance. But, what is crucial for an industry in increasing the sociopolitical legitimacy is building trust, increase the perception of reliability, develop reputation and increase legitimacy with institutions (Aldrich & Fiol, 1994). These actions converge around the relationships with all key stakeholders of an industry. Problems that may form a barrier in increasing the sociopolitical legitimacy of an industry can be found in stakeholder theory and are the dependency of the relations, the power distribution and the presence of legitimate institutions (Voinea & Van Kranenburg, 2017). For example, the eSport industry, the distribution of power is a major concern in the legitimation of the industry. In the current state of the industry, the most power lies with game developers. This is due to the fact that they legally own the rights of the games that are being used in eSports (Scholz & Barlow, 2019). Imagine the power of the FIFA if they owned every rights of Football worldwide. This power distribution also determines the dependency relationships that occur in the eSport industry. Since most power lies with the game developers, the other stakeholders are dependent on the game developers. This barrier comes to light in the ongoing debate whether franchised leagues in a competitive environment should be run by a single entity (Stephen F. Ross & Szymanski, 2010) or that the power should reside with the multiple stakeholders (Chao, 2017). Finally, the lack of governing authority in the eSport industry (Hiltscher & Scholz, 2019; Scholz & Barlow, 2019) can be translated to the lack of a legitimate institution that governs the industry.

Secondly, the regulative legitimacy goes further than the acceptance of the industry by stakeholders. The regulative legitimacy is based upon the regulations that flow out of the institutional involvement in emerging industries. This is also why the distinction between copying and truly innovative emerging industries is important. If an industry is truly innovative in its origins, there is a lack of regulations. The regulation must be built. The role of the government in the legitimation process is important and has to be seen separate from the other stakeholders that are involved in the sociopolitical legitimacy because they have the power to transfer and divide resources through regulation and legislation (Hybels, 1995). As mentioned before, the access to resources and stakeholder support are reasons as for why a higher legitimacy leads to a higher business performance (Díez-Martín et al., 2013). The regulative element of legitimacy should be perceived as a different dimension of legitimacy due to the fact that governments have enforcing powers to pursue their interests. Relating this back to the example of the eSport industry, a lack of governing authority has been identified (Scholz & Barlow, 2019). The lack of governing authority results in a lack of regulation and has several side effects that form an obstruction in the legitimation of the industry. For example, maintaining competitive integrity is crucial for sports and also seem to be relevant for the eSport industry (Koot, 2019). To make this example practical, the Adderall debate in the eSport industry emphasizes the need for competitive integrity (Gilbert, 2015). Furthermore, the protection of players is important in the eSport is important, even more so than for traditional sports because the age in eSport is lower (Koot, 2019). The role of governments in these problems is crucial because they can divide resources to institutions in the eSport industry so they can increase their impact. Furthermore, the governments can provide and enforce regulation around the eSport industry. Thereby, an overarching international institution could assist the governments in the online and global environment of eSports (Scholz & Barlow, 2019).

2.1.3 Regulatory Legitimacy

To analyze the regulatory legitimacy, a juridical perspective is appropriate. Law literature provides insight in what regulatory legitimacy is and how it is indicated (Chao, 2017; Stephen F Ross & Szymanski, 2002; Tyler, 2003). Regulatory legitimacy cannot be seen separate from governmental involvement, since the government usually enforces the regulation. The literature lacks a clear definition of regulatory legitimacy but states that the recognition of eSporters as athletes for the law increases the regulatory legitimacy (Chao, 2017). So, to define regulatory legitimacy, the addition of a juridical perspective to the general definition of legitimacy is necessary. In general legitimacy is about the acceptance of the course of action. To add the juridical perspective to legitimacy, law literature is reviewed. In law literature, legitimacy is defined as *"a quality possessed by an authority, a law, or an institution that leads others to feel obligated to obey its decisions and directives. It is a quality attributed to a regime by a population"* (Tyler, 2003, p. 308). So, if the juridical perspective is being added to the general understanding of legitimacy, it changes the acceptance to the course of action to the obligation to obey to the regulations that are provided by institutions. Furthermore, regulatory legitimacy is a quality that can be possessed by institutions that provide regulation. Therefore, it is necessary to identify the institutions that provide and enforce regulation in the industry. Voinea and Van Kranenburg (2017) classified institutions that enforce regulation as regulatory authority.

The role of regulatory authority is to clear up and correct for market failures like monopolies or corruption and thereby only come in play when the market fails to correct itself. A priori research, there are three assumed types of institutions that enforce regulation in the eSport industry. These three are governments, federations and firms in the industry (Scholz & Barlow, 2019). During the analysis, all the regulatory authority institutions in the eSport industry have to be established. To add to the institutions enforcing regulation, indicators of the regulatory legitimacy are formulated to measure the degree of that quality and thereby the degree of regulatory legitimacy. Tyler (2003) has identified three indicators of regulatory legitimacy. These are compliance, cooperation and empowerment. This research aims at understanding the efficiency of regulation of the public, but these indicators can also hold for industries. First, compliance directly measures the obligation to obey to the regulation if they agree with the regulation. Indirectly, and possibly more interesting, it is measuring if people still obey the law if they do not agree with the regulation. Which brings us to the second indicator of regulatory legitimacy, being cooperation. If the industry disagrees with the system that is provided by the regulatory authority, it is likely that they will not cooperate with the regulatory authority. Without cooperation, regulatory authorities are unable to regulate the industry. The third indicator is the empowerment. This indicator suggests that the degree of regulatory legitimacy is partly determined by the degree of empowerment by the industry. The degree of empowerment means how much the industry is willing to let the regulatory authority perform action to enforce regulations. In the methodology chapter, these indicators will be operationalized.

Now that the indicators for regulatory legitimacy have been established, it is necessary to frame how regulatory legitimacy relates to perceived investment risk. As mentioned in section 2.1.1, the perceived investment risk is indicated by economic uncertainty. This is exactly what the indicators of regulatory legitimacy seem to counterfeit. If the regulatory legitimacy is perceived as high, it will result in a high degree of compliance with regulation, cooperation of the industry and empowerment by the industry (Tyler, 2003). In other words, the industry feels obligated to obey to the regulatory authority. Since the role of regulatory authority is to correct market failures, a high degree of regulatory legitimacy is assumed to create stability and take away economic uncertainty. This will result in a decreasing perceived investment risk. Therefore, this research assumes that all three indicators of regulatory legitimacy negatively affect the perceived investment risk. The following propositions formulate this assumption into statements:

P2a: Compliance in regulatory legitimacy has a negative effect on perceived investment risk

P2b: Cooperation in regulatory legitimacy has a negative effect on perceived investment risk

P2c: Empowerment in regulatory legitimacy has a negative effect on perceived investment risk

2.1.4 Sociopolitical Legitimacy

In relation to the sociopolitical legitimacy, the old institutionalism states that *"organizations and people have the capacity to construct their own environment"* (Voinea & Van Kranenburg, 2017, p. 30). This results in organizational change in the environment through intra-organizational dynamics because organizations have conflicting internal values and interests (Delmas & Toffel, 2008; Greenwood & Hinings, 1996). New institutionalism indicates that organizations change according to their environment (Voinea & Van Kranenburg, 2017). The theory emphasizes that firms strive for legitimacy because they can be sanctioned for intolerant behavior by institutional pressures (Greenwood & Hinings, 1996). In other words, institutions are the environment that shape organizational behavior. In absence of institutional pressures in an emerging industries, organizations try to govern themselves (Chao, 2017). In that case that the institutional environment is not shaped yet, it is not appropriate to use the institutionalism perspective on the sociopolitical legitimacy. Therefore, another theory should be used to assess the sociopolitical legitimacy.

That theory is the stakeholder agency theory. This theory combines the view of the firms as a connection of contracts between resource-holders and the implicit and explicit contractual relationships between all stakeholders (Hill & Jones, 1992). Moreover, this theory leaves room for the relations with institutions that provide regulation. The agency theory describes an agency theory to be an interaction where one or more persons (so-called principals) ask another person (the agent) to complete a task for them which includes a transaction of some decision-making authority to the agent (S. A. Ross, 1973). In the stakeholder agency theory, one of the parties is the firm and the other is the stakeholder (Hill & Jones, 1992). A stakeholder is defined as a group of constituents who have established a legitimate claim on the firm through the existence of an exchange relationship, or the so-called agency relationship. Stakeholders differ with respect to the size of their stake in the firm (Freeman & McVea, 2001). This caused for different stakeholder influence strategies that are guided by the dependency relationship between the firm and their stakeholders (Frooman, 1999). The stakeholders that are involved in this research are formulated in the methodology.

Now that appropriate perspective and theory is clear, the definition of sociopolitical legitimacy is determined. The sociopolitical legitimacy is defined as *"the process by which key stakeholders, the general public, key opinion leaders, or government officials accept a venture as appropriate and right, given existing norms and laws"* (Aldrich & Fiol, 1994, p. 648). This definition complements the definition of legitimacy by Suchman (1995) because it specifies the stakeholders that determine a industry's sociopolitical legitimacy. Also, this definition suggests that a shareholder focus is too narrow in order to gain sociopolitical legitimacy and it should incorporate all stakeholders. This is also emphasized by the fact that sociopolitical legitimacy increases the access to resources and stakeholder support (Rindova et al., 2006). Another take-away from this definition is that is not measured by the primary stakeholders, but more by the secondary stakeholders.

Following the definition of sociopolitical legitimacy is the formulation of the indicators that can measure the sociopolitical legitimacy. The study of Díez-Martín et al. (2013) produced a framework to measure legitimacy through three dimensions that are based on behavioral dynamics. Their study further divided the sociopolitical legitimacy identified by Aldrich and Fiol (1994). Díez-Martín et al. (2013) further divided sociopolitical legitimacy in the dimensions of pragmatic, moral and cognitive legitimacy (Deephouse & Suchman, 2008). These dimensions are more appropriate then the dimensions mentioned by (Greenwood, Suddaby, & Hinings, 2002) because they used the regulatory dimension, which overlaps with the regulatory legitimacy in this research. Thomas (2005) stated that pragmatic legitimacy judges whether a specific action is beneficial to the evaluator and moral legitimacy judges whether that action is "what should be done". These two dimensions are interest- and judgement-based. The cognitive legitimacy is knowledge-based and is about actions that simplify the decision-making process and helps to solve problems. So, the indicators for sociopolitical legitimacy should measure if the actions of the industry contribute to the evaluator's interest, if those actions are "what should be done". Furthermore, it should identify actions that simplify the decision-making process with acknowledged systems in the emerging industry. In this research, the three dimensions of sociopolitical legitimacy function as indicators. Díez-Martín et al. (2013) produced a measurement model for these indicators, which will be discussed in the operationalization.

After identifying the indicators, the relation between sociopolitical legitimacy and perceived investment risk must be formulated in a proposition. Therefore, it is important to argue for the assumed relation. Research found that an important reason for the effect of sociopolitical legitimacy on business performance comes from the access to resources and stakeholder support (Díez-Martín et al., 2013). What is crucial in the sociopolitical legitimacy is that the stakeholders, who hold valuable resources, accept the course of actions the industry is taking. So, if the degree of sociopolitical legitimacy is high, the industry as a whole and the individual firms within have more access to resources and other support of stakeholders. It is evident that if this is the case, then the potential of an industry is higher than if the degree of sociopolitical legitimacy is low. For example, the diesel scandal that affected the financial performance of Volkswagen. Because all the stakeholders disproved the course of action that Volkswagen took, the firm plunged in shares and had huge financial losses (Mansouri, 2016). Furthermore, this had an impact on the entire industry (Robertson, 2017). Financial losses in such an industry indicate economic uncertainty and increased the perceived investment risk. This can be seen in the shares of Volkswagen, that took a deep dive when the scandal reached the public (Mansouri, 2016). So, the stakeholders involved in the car industry disproved of the course of action, decreasing the degree of sociopolitical legitimacy, leading to an increase in the perceived investment risk. Therefore, this research assumes that all indicators of sociopolitical legitimacy have a negative effect on perceived investment risk. The following propositions transformed these assumptions into testable statements:

P3a: Pragmatic sociopolitical legitimacy has a negative effect on the perceived investment risk

P3b: Moral sociopolitical legitimacy has a negative effect on the perceived investment risk

P3c: Cognitive sociopolitical legitimacy has a negative effect on the perceived investment risk

2.1.5 Interrelation between the dimensions of legitimacy

What is interesting about the Volkswagen example is the fact that both dimensions, regulatory and sociopolitical, legitimacy were affected by the diesel scandal. This seems to indicate that the dimensions are interrelated. To determine the direction of that relation, the antecedents of legitimacy provide insight. The most important antecedent of legitimacy is conforming to the social norms and values in the environment or manipulating those social norms and values (Deephouse & Suchman, 2008). In contrast to regulations, social norms and values are unwritten. This shows that the social norms and values are a reflection of what is appropriate, and the regulations are produced as a reaction to not obeying to those social norms and values. Furthermore, this indicates that deviating from the social norms and values leads to a decrease in sociopolitical legitimacy. This deviation is then corrected by the regulations, like the corrections that are made to correct market failures. If a firm or industry also disobeys the regulations, the regulatory legitimacy will decrease as well.

Besides looking at the antecedents, the results of a regulatory legitimacy can extend the knowledge on the relation between sociopolitical and regulatory legitimacy. The results of regulatory legitimacy can be amplified by a high degree of sociopolitical legitimacy. Regulatory legitimacy is about the sense of obligation to obey to the regulation (Tyler, 2003). Therefore, it can be assumed that if the stakeholders accept the course of action of the industry, they feel more obliged to obey to the regulation. This is because their course of action is not deviating from the social norms and value so much that it is beneficial to disobey to the regulations. In other words, their course of action is already conforming to the social norms and values in a high degree. To take this to the Volkswagen example, first the stakeholders applied pressure on the car industry to decrease environmental impact (Mansouri, 2016). Conforming to this pressure would have maintained the sociopolitical legitimacy. Although, they tried to manipulate the results and not conform to the pressure, they disobeyed to regulation. Not conforming to the regulation could have saved Volkswagen financial resources, but because the scandal reached the public the sociopolitical legitimacy seemed to decrease. Furthermore, this seemed to also decrease the regulatory legitimacy since they got penalized for their actions. So, it started with a decrease in sociopolitical legitimacy and finally led to a decrease in regulatory legitimacy. The other way around, if sociopolitical legitimacy increases, the regulatory legitimacy increases as well. Due to the lack of research on this interrelation between the dimensions of legitimacy, the proposition is formulated on a dimensional level, and not a indicator level. The proposition that formulates this relation is as follows:

P4: Sociopolitical legitimacy has positive effect on the regulatory legitimacy

2.2 Conceptual model

In this section, we translate the identified and defined variables into a conceptual model to visualize all the underlying relationships. Additionally, this model makes a distinction between dependent and independent variables. This section concludes with hypotheses that are tested in this research.

The conceptual model consists of the dependent variable of perceived investment risk and the independent variables of regulatory and sociopolitical legitimacy. The proposition states that the effect of regulatory and sociopolitical legitimacy on perceived investment risk is negative, meaning that an increase in legitimacy results in a decrease of perceived investment risk. Also, it is proposed that there is a positive effect of sociopolitical legitimacy on regulatory legitimacy. This means that an increase in sociopolitical legitimacy leads to an increase in regulatory legitimacy. The proposed conceptual model is shown in *figure 1* and incorporates all the propositions.

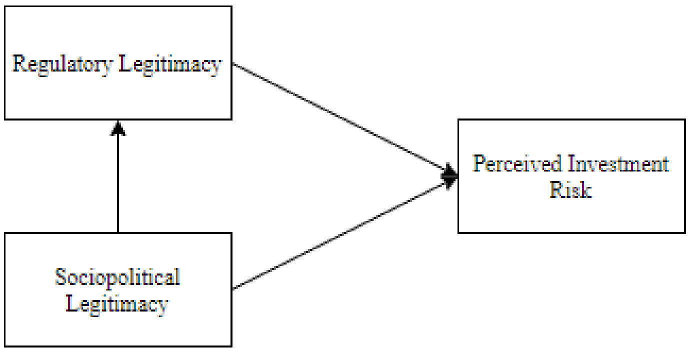

Figure 1: Conceptual model

3. Method

In this chapter, the methodology is extensively described. The emphasis lies on explaining the decision-making process that led to the chosen strategy and methodology. The opening paragraph is used to determine the research strategy. Additionally, the perspective and theoretical reasoning are described in relation to the research objective and question. Secondly, this chapter determines the case and described the contextual environment. It is important to directly link this to the research objective and question. The next paragraph operationalizes the theoretical constructs of the conceptual model to make them measurable. This operationalization of the constructs forms the foundation for the data gatherings phase. Therefore, it is necessary to pull the constructs apart to the core. This enables this research to clarify the nature of the assumed relations. The theoretical framework in chapter two forms the basis for this paragraph. Furthermore, the fourth paragraph of the methodology describes the strategy for data gathering. This involves the sample and its size, sources and analysis strategy and procedure. Finally, the limitations and research ethics are elaborated on.

3.1 Research strategy

The research strategy that is most appropriate to explain the phenomenon of legitimacy in emerging industries and the effect on perceived investment risk, is the case study approach. The case study is based on the constructivist paradigm (Yin, 2011), which states that the truth depends on one's perspective on the construct and is thereby relative to different participants in this research. This paradigm recognizes that humans creation of meaning is subjective but leaves room for some degree of objectivity (Baxter & Jack, 2008). Constructivism is built upon the idea of a social construction of reality (Searle & Willis, 1995). The construct of legitimacy is formed around the acceptance of the course of action (Aldrich & Fiol, 1994), but also on the potential of the industry based on their access to resources for example (Ntim & Soobaroyen, 2013). In other words, legitimacy is based on one's subjective perception but is supported by objective measures. The research on legitimacy comes from a variety of field of studies but lacks empirical evidence, making quantitative research difficult. A qualitative approach is more fitted to research legitimacy at this point in time. This research, in its explanatory nature, aims at answering "how" questions that are being studied in a contextual environment that is relevant to the construct of legitimacy and is therefore appropriate for a case study (Yin, 2011). Other qualitative research strategies that have been reviewed in appropriateness in relation to this research objective are field study, interview study and archive research (Bleijenbergh, 2016). The case study is most appropriate because it can analyze a phenomenon that unfolds within a specific environment. As mentioned, gaining legitimacy is a common problem in emerging markets like eSports. Therefore, it seems to be difficult to separate the phenomenon from the context (Baxter & Jack, 2008). In this situation, a case study is the best option. Because this research uses a qualitative case study as methodology, it is important to make the process iterative. This enables the researcher to make adjustments during the process to bring the desired result closer to discovery with each iteration. Each iteration is mentioned at the point of discovery.

3.2 Determining the case

The next step in the methodology is to determine what the case is, and what is not. A case is defined as *"a phenomenon of some sort occurring in a bounded context. The case is, in effect, your unit of analysis"* (Miles & Huberman, 1994, p. 25). To identify an appropriate case, literature on legitimacy has been reviewed to identify an environment wherein the phenomenon of lacking legitimacy occurs.

A practical case is chosen in order to put the legitimacy of an entire industry in perspective and helps to understand how industries develop toward the position of 'being taken for granted'. As we all know, sports are a widely accepted and universal element of cultures all around the world and have been around since the first signs of running and wrestling over ten thousand years ago. The old Greeks first organized events around sports from the early 796 b.c. and are still present in today's society known as the Olympic games (Barber, 2005, p. 1). All globally played and prestigious sports are still played every four years at the Olympic games. On one hand, this indicates the incremental characteristic of gaining legitimacy. On the other hand, it shows the stability and opportunities it results in. As of today, one of fastest growing forms of competition in the world is waiting for a place in these games as a legitimate sport. This phenomenon goes by the name of eSports, which is a portmanteau of 'electronic' and 'sports' and is also described as competitive gaming (Scholz & Barlow, 2019, p. 2). As of today, there is not a globally accepted definition of the term "eSports". The following definition gives a general idea of what eSport is: *"as institutionalized tournaments, held for entertainment purposes, that have the participation of players whose primary form of income comes from their job as a professional gamer"* (Hiltscher & Scholz, 2019, p. 20). The eSport transcended gaming from small hotel lobbies toward massive sold out arena's with the top of the prize pool surpassing the $25 million for one tournament (Hiltscher & Scholz, 2019). Although the industry is growing in audience, revenue and media attention (Newzoo, 2019), there is still an ongoing debate whether eSport can be considered a legitimate form of sport (Funk, Pizzo, & Baker, 2018; Lee & Schoenstedt, 2011; Pizzo et al., 2018; Potts, 2019). The consequence being that eSport has not been adopted by the most legitimate sport event of all, the Olympic Games. Therefore, eSport developed towards a higher degree of legitimacy but still has some possibility to increase the legitimacy even further, so that eSport is 'being taken for granted'.

Gaining legitimacy is one of the key challenges in emerging industries (Aldrich & Fiol, 1994) and also the eSport industry (Scholz & Barlow, 2019). Furthermore, the current development of franchised leagues in the eSport requires the attraction of investors. Thus, eSport is an appropriate case to analyze the phenomenon of legitimacy and the effect on perceived investment risk. The aim of this research is to analyze actions that contribute to the legitimation of the emerging industry and the effect this has on the perceived investment risk. As Scholz and Barlow (2019) stated, the franchised leagues are a way to stabilize growth and create a thriving environment for the eSport industry. So, the objective of the franchised leagues aligns with the dependent variable in this research. The perceived investment risk is partly driven by economic uncertainty and by stabilizing growth, the economic uncertainty decreases. Furthermore, the effect of legitimacy on that perceived investment risk must show as well. Therefore, the case of eSport can be specified into the franchised leagues.

Like described in the theoretical framework, this research analyzes two types of legitimacy, being regulatory and sociopolitical. Starting with regulatory legitimacy resulting in obligation to obey to regulation through compliance, cooperation and empowerment. Because the franchised model is based on a top-down governance approach that is static, regulation plays an important role in the franchised league (Scholz & Barlow, 2019). The degree of the sense of obligation to obey to those regulations is what measures the regulatory legitimacy. Secondly, the sociopolitical legitimacy is shown by the acceptance of the course of action from the perception of the involved stakeholders. Because the franchised leagues are a specific model that is rising in the eSport industry, it is possible to measure the acceptance of that model in the industry. So, if both regulatory and sociopolitical legitimacy are affected by the franchised leagues, it is possible to review these effects in the light of perceived investment risk. The perceived investment risk before the introduction can be based on documents covering the eSports, but also financial figures like stock prices. The effect of legitimacy on perceived investment risk can be seen in the documents covering the implementation of the franchised leagues but also in the financial figures that are used beforehand. It important to note that there are more developments in the eSport industry that may affect the legitimacy and perceived investment risk. But in case studies, it is crucial to set boundaries to avoid the pitfall of having a case that is too broad (Yin, 2011). In this case the boundary of activity is in place to avoid getting lost in the volume of activities in the eSport industry that affect legitimacy and perceived investment risk.

Not only is it important to find an effect, but also to explain the relation between legitimacy and perceived investment risk. To do so, it is important to develop a mechanism that affects different elements of legitimacy. Reviewing the different effects in relation to the effect on perceived investment risk enables us to see how legitimacy exactly affects the perceived investment risk. Since the franchised leagues are a top-down governance model (Scholz & Barlow, 2019), differences in those models can have different effects on legitimacy and eventually perceived investment risk. Researchers found that governance can improve efficiency and financial performance of organizations by gaining legitimacy (Ntim & Soobaroyen, 2013). Filatotchev and Nakajima (2014) described two different governance structures that are formulated based on the strategic decisions. These decisions are being made on seven factors that drive the governance structure. This results in seven opposites of decisions of how to structure governance based on seven governing factors. Finally, there are two types of governance structures that are identified as 'strategic control' and 'financial control'. In the operationalization will be described how the cases are structured.

The franchised leagues offer a distinction in governance structure that have a different effect on the two dimensions of legitimacy and conclusively in the perceived investment risk. All the elements of this research come together in the franchised leagues in eSports and therefore the effect of legitimacy on perceived investment risk can be studied in this context. To further determine the case, it is important to select franchised leagues to analyze. The two cases are two separate eSport franchised leagues that operate under a different firm. *Activision Blizzard* and *Riot Games* both run franchised leagues but influence their environment through different governance structures. The pool of franchised leagues that can be chosen for this research is limited in volume. Out of this pool, the cases are chosen based on how long the franchised league is running. This must be for one year or more, due to the possibility to measure the effect of legitimacy on the perceived investment risk. The second criteria is that their governance structure deviates from the other case. So, this will lead to one franchised league that can has a governance structure that can be identified as strategic control and the other governance structure should be identified as financial control. Additionally, within the same case the effect on the perceived investment risk of investors is conducted. The franchised leagues that are being studied are analyzed though the perspective of stakeholders that have a relation with the franchised leagues. So, the case is defined as the process of how the franchised league gain legitimacy to reduce the perceived investment risk.

Case studies in this form are specifically appropriate for studying dynamics within a specific environment (Rindova et al., 2006). Even the choice of a single case study can be applicable when researching new phenomena, on a longitudinal basis (Eisenhardt & Graebner, 2007). To research how the governing structure of a franchised league has developed and what the effect on perceived investment risk is, interviews have to be conducted with stakeholders and investors. Additionally, documents by recognized organizations that cover eSports are analyzed to review certain effects of the governing structure on the legitimacy. The longitudinal scale of this research is to measure from one year before introducing the franchised leagues up until one year after the introduction of the franchised league. This way the effect on legitimacy of the governance structure can be measured. It is also important to highlight that only eSport franchised leagues fall within the case, traditional sport franchised leagues can provide useful insights but are not at the center of this research. Furthermore, amateur eSport tournaments or leagues are also not at the center of this research. A point of critique is the generalizability of case studies. But this is rejected by the purpose of the research, being the development of theory and not to test it. Therefore, it means selecting a theoretically suggested case that is appropriate for the research question. The theoretical foundation upon which the case is chosen depends on the theoretical reasons (Eisenhardt & Graebner, 2007). In this case, the theoretical reasons are the revelation of an unusual phenomenon and replication, or contrary replication, of findings from other cases.

After establishing that a case study is most appropriate for this research, the content and type of case study has to be determined. The first choice is the number of cases and their embeddedness (Baxter & Jack, 2008). When using a single case, it is only possible to research a unique or extreme situation with particular settings. The added-value of a multiple case study lies in the fact that differences between two or more situations with different settings can be analyzed to support theoretical replication. This means predicting contrasting results but for predictable reasons (Yin, 2011). In the eSport industry, there are several implications of franchised leagues (Scholz & Barlow, 2019) that all have different settings, or governing structures. The differences in governing structure are driven by governing factors (Filatotchev & Nakajima, 2014) and identifying differences in the two dimensions of legitimacy will result in a predictable power of how the legitimacy affects the perceived investment risk. The second decision in the case study is about the embeddedness. In this case it would be ideal if the embeddedness can be realized. The two different governing structures in franchised leagues, being strategical and financial control, were identified within two different franchised leagues. Nevertheless, extracting internal data out of these specific two leagues could be an impossible hurdle in this case study. Therefore, it is more feasible to leave out the embeddedness and analyze the phenomenon of franchised leagues in eSport without only focusing on the specific two. The end goal is to explain the relationships between the independent and dependent variables. The research is thereby classified as a multiple case study with an explanatory nature without embeddedness in a unique situation.

Within the theoretical framework in chapter two, the relations in the conceptual model can be assumed based on literature. This also means that it is not necessary to generate indicators of the constructs within this research. On the contrary, it is possible to apply a deductive reasoning and apply the literature on other cases. The propositions in chapter two also describe that there are very specific relations that are predicted by literature. The testability and theoretical foundation determine a deductive reasoning (Bleijenbergh, 2016).

3.2.1 Contextual environment

The eSport industry functions as the contextual environment in this research. It is important in case studies to both describe the phenomenon and the context wherein the phenomenon occurs (Yin, 2011). The phenomenon is extensively covered in the theoretical framework. So, in this section, the contextual environment is described. This description of the contextual environment and it's origins also shows the truly innovative characterization of the eSport industry. Within this environment, the relation between legitimacy and investment risk is analyzed. Starting with an attempt to create a widely accepted definition of eSports, Wagner came to the following definition: "*eSports is an area of sport activities in which people develop and train mental or physical abilities in the use of information and communication technologies"* (Wagner, 2006, p. 3). This indicates that eSports is an area within the field of sports, which is defined as: *"an activity involving physical exertion and skill in which an individual or team competes against another or others for entertainment"* (Southern, 2017, p. 65). So, eSports is a subset of sports that focuses on the information and communication technology. By adding eSports under the category of sports, the entertainment part is emphasized as an area of competitive advantage for sports in general. Furthermore, the usage of information and communication technologies highlights the distinctive competitive advantage eSports has over traditional sports (Scholz & Barlow, 2019). With these two definitions, it is difficult to identify the eSporter and the businesses involved in the industry, The earlier mentioned definition of eSports specifies the institutionalized tournaments and the professional gamer. It has to be noted that not only tournaments are applicable in eSports but also leagues. In order to understand what separates eSport from traditional sports and what makes the industry unique in term of characteristics but also capabilities, the exponential expansion of eSports in a time of digitization provides the foundation of the contextual environment for this research.

To understand the economic and cultural groundwork of eSports, the origins of investors and sponsors in eSports can be found in the emergence of tournament operators like Major League Gaming (MLG) and the Electronic Sports League (ESL) around the year 2000. These tournament operators are still present today and have never developed a game. Their core business has always been organizing eSport tournaments. These operators combined the unique audience of eSports with large multinational computer companies like Intel in the form of sponsorships. These operators brought professionalization in the organization of tournaments. They overcome challenges in streaming aspects and attracting sponsors and investors. The industry did so by creating a new form of competition and producing a new form of distributing the content (Scholz & Barlow, 2019). This shows the innovative and flexibility characteristic of the industry. In cooperation with game developers and other stakeholders like investors, professional players and eSport organizations, their interdependent relationship formed the eSport industry. In addition, there were two key developments that helped the industry grow and also formed the unique characteristics of the market. The first being the growing popularity of computer games in general and the increasing consumer literacy. "*In 2012, the Entertainment Software Association (ESA) reported that 49% of all US households own at least one game console, with sales reaching 16.6 billion in 2011*" (Seo, 2013, p. 1544). The second development is the dynamic technological evolution of the internet and digital technologies (Hartmann & Klimmt, 2006). This evolution created solutions for challenges in content distribution (streaming), multiplayer (Vorderer & Bryant, 2012) and other gaming innovations. Using technologies to innovate the industry indicate a truly innovative origins of the industry.

The next important aspect of the contextual environment of this research is the composition of the eSport industry. Scholz and Barlow (2019) conducted a stakeholder analysis and identified primary and secondary stakeholders. This distinction is based on Porter's value chain theory (Porter, 2001). The primary stakeholders are the game developers, professional teams, tournament (or league) organizers, professional players, infrastructure providers, service providers, community enablers and hardware providers. The secondary stakeholders are identified as governing bodies, sport organizations, sponsors, general public, investors, entrepreneurs, media and shareholders. At the center of it all is the audience (Scholz & Barlow, 2019). This research is focusing on the primary stakeholders with the addition of the governing bodies and investors. Since the underlying problem for this research is to monetize the eSport fans, an extensive description of these fans is crucial to find a way to monetize them with governing practices. The characteristics of the eSport fan play a crucial part in this because they are the audience that sponsors want to reach. This is crucial because Newzoo (2019) predicted that in 2018, $359 million of the revenue is originating from sponsorships. An important demographical characteristic of the eSport audience is that in 2015, 57% was male and under 35, and 23% was female and under 35. Furthermore, there are indications that eSport enthusiasts are more often employed in a full-time job and have a higher income than the regular online population. This population is most beneficial for hardware companies because they spend over $3 billion on hardware products in the United States. Also, online subscription-based services like Spotify and Netflix have a high chance to reach their target market through eSport sponsoring. In Brazil, eSport enthusiasts are three times more likely to have a Sportify subscription than the regular online community (Newzoo, 2016). This means that companies that want to target the young adults and the millennials, could reach them through eSport.

The reason for this young audience lies in several factors like the online environment and the rise of gaming (Scholz & Barlow, 2019). With the digitization, audience was given the opportunity to interact with people in the industry. This created a blurry border between audience and participants and created an ongoing dynamic interaction between the two (Taylor, 2012). But what binds them together is a *"self-professed passion for video games"* (Weststar, 2015, p. 1244). This passion for video games is also what burrs out the border between eSport and gaming in general (Scholz & Barlow, 2019). *"We need casuals playing games we [the hardcore players] don't necessarily care about so that they can* *watch us now and then and enjoy themselves"* (Schenkhuizen, 2013, p. 31). This means that talking about the potential about the eSport industry is also about the potential of video games in general in order to understand in which direction eSport is developing and that the audience could be any gamer in general. Moreover, it highlights the interdependence between stakeholders within the eSport industry. All eSport stakeholders depend on each other to obtain growth for the industry (Scholz & Barlow, 2019). An important implication for the essence of the audience in the eSport industry is that they should be central in the dominant design of a business model. Also, this characteristic of the entire eSport industry is important when trying to understand how the dynamic interaction between all stakeholders should be governed. This brings us to the next stakeholder that is highlighted in this research, namely the governing bodies. The role of governing bodies within the eSport industry is widely debated in the academic literature, yet unsuccessful in practice (Chao, 2017; Koot, 2019; Scholz & Barlow, 2019). But due to the recent developments around franchised leagues, that can be seen as product of governance by the game developers (Seo, 2013), the importance of governing practices has emerged again.

3.3 Operationalization

The operationalization of the construct of legitimacy is divided into two dimensions. It is debatable that legitimacy consists of different dimensions but as described, these two dimensions correspond the most to the problems that are identified in the context. Additionally, it allows this research to evaluate the legitimacy on an industry level and not on an individual organizational level. Starting with the first dimension of legitimacy, being regulatory legitimacy, the indicators have been extracted from the theoretical framework. The indicators come from law reports that have analyzed the regulatory legitimacy. The three indicators that are identified are the result of increasing the regulatory legitimacy. Without these indicators, an industry will not be perceived as being regulatory legitimate (Chao, 2017; Stephen F. Ross & Szymanski, 2010; Tyler, 2003).

3.3.1 The two dimensions of legitimacy

In *figure 2* the different dimensions of legitimacy and the corresponding indicators are formulated. These two dimensions are based on the theoretical perspectives that are used to analyze legitimacy. The indicators are based on the theoretical framework. To start, the regulatory legitimacy is measured per institution that provides regulation in the industry. These must be identified during the research. Furthermore, regulatory legitimacy can be measured with compliance, cooperation and empowerment and is based on the research of Tyler (2003). With these indicators the regulatory legitimacy can be measured by determining the sense of obligation to obey to the regulations. Compliance can be measured by identifying regulations that have been enforced by regulatory authority and reviewing if the stakeholder has obeyed to these regulations. This form of compliance is short-term orientated. But since obeying to these regulations is usually a result of coercive power, the long-term compliance must be measured as well. This type of compliance is more long-term orientated based on voluntary motives. This brings us to the indicator of cooperation. Cooperation is an important indicator of regulatory legitimacy because it allows for cooperation between the regulatory authority and stakeholder to make sure every stakeholder obeys to the regulation and is based on a voluntary motive. Therefore, the cooperation can be measured by collective action taking between regulatory authority and stakeholders to ensure the obeying of the regulations. This shows a form of long-term compliance. The final indicator of regulatory legitimacy is empowerment and is about the willingness of the use of discretion by the regulatory authority. This can be measured by reviewing the opinion of the eSport industry on the appropriateness of the regulations and enforcement of those regulations.

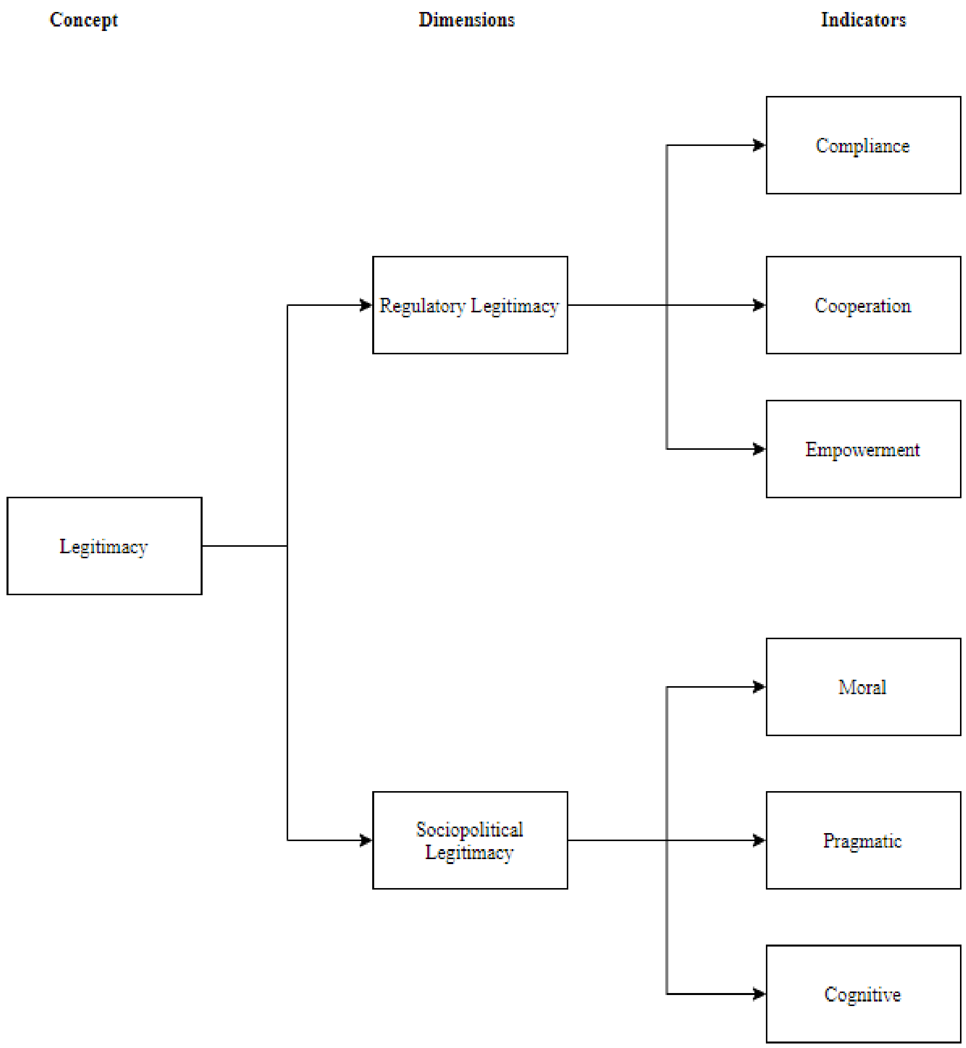

Figure 2: Operationalization of legitimacy

The second dimension of legitimacy in this research is the sociopolitical legitimacy. *One can measure sociopolitical legitimation by assessing public acceptance of an industry, government subsidies to the industry, or the public prestige of its leaders*" (Aldrich & Fiol, 1994, p. 648). In other words, the acceptance of the course of action by the stakeholders in the environment can be measures through outings of acceptance by stakeholders to the industry. The indicators that are being used in this research come from a research by Díez-Martín et al. (2013), in which they formulated a corresponding measuring method. To measure the indicators pragmatic, moral and cognitive, the research uses internal and external participants to the research. In this research, the primary stakeholders will be used as internal respondents. The secondary stakeholders will function as external respondents. The stakeholders in the eSport industry have been identified in the contextual environment. The measurement tool comes from the same research by Díez-Martín et al. (2013) and is listed in *table 1*.

	Pragmatic	*Moral*	*Cognitive*
Propriety (internal)	You, your colleagues, your bosses: believe that all your organization's actions help it to achieve its goals	You, your colleagues, your bosses: believe that all your organization's actions are "what should be done" regardless of whether they contribute to meeting goals	You, your colleagues, your bosses: believe that your organizations carries out its activities in the best possible manner
Validity (external)	The community, clients, allies and government: consider that the organization's actions are beneficial to them	The community, clients, allies and government: consider that the organization's actions are "what should be done," regardless of any personal benefit	The community, clients, allies and government: consider that the organization solves problems in the best possible manner

Table 1: Operationalization of Sociopolitical Legitimacy

Source: Díez-Martín et al. (2013)

3.3.2 The framing of franchised leagues

In order to use franchised leagues as a mechanism to analyze the relation between legitimacy and perceived investment risk, it is important to frame the leagues into two different cases. Based on the theoretical framework, these two deviating cases experience different degrees of legitimacy. These differences occur when analyzing the structure of the franchised leagues based on the governing factors that are provided by Filatotchev and Nakajima (2014). To start explaining what these franchised leagues are, a comparison to the traditional sport leagues can help to understand this new development in eSports. In the United States, franchised leagues are formed around major national sports like baseball, football, basketball and ice hockey (Chao, 2017). The league consists of distinct franchises (teams or clubs) that are economically interdependent (Stephen F. Ross & Szymanski, 2010). The game developers own the intellectual property of the game and have complete control over the governance structure (Chao, 2017). The *ownership structure* is classified as a governing factor (Filatotchev & Nakajima, 2014). The ownership structure of the *Activision Blizzard's* leagues is characterized by a more dispersed ownership, while *Riot Games* stays in complete control of their league.

The leagues in traditional sports take the form of a joint venture, which is defined as a *"business undertaking by multiple stakeholders engaged in a single defined project. Each stakeholder shares equal control over the venture and also shares both profits and losses"* (Stephen F Ross & Szymanski, 2002, p. 743). What differentiates the eSports franchised leagues from the traditional sports franchised leagues is that they are comprised of more stakeholders. The stakeholders in franchised eSport leagues are the game developers (Activision Blizzard), the league or tournament organizational bodies (Call of Duty League or ESL), the teams that contract the players to play within their organizational body (NRG, Cloud9 or Immortals), the professional players that contract to play on teams (Seth "Scump" Abner), the sponsors (GFuel), and, often, a streaming site as the content distributor like Twitch, Mixer or Youtube (Bayliss, 2016). Instead of adopting the same joint venture structure as the traditional sport leagues, the game developers have chosen a privately sponsored league and thereby maintain the only owner of the league (Chao, 2017). But *Activision Blizzard* and *Riot Games* have adopted different governance structures. The financial control in the *relationship between external stakeholders* is defined as "shareholder supremacy", while the strategic control structure highlights the stakeholders (Filatotchev & Nakajima, 2014).

Game developers being the only governing authority generated their 'input' legitimacy, which made the 'output' legitimacy irrelevant because the game developers own the intellectual property of the game (Chao, 2017; Hiltscher & Scholz, 2019). This is a different categorization of the dimensions but helps to understand that game developers attained a strong market position in the eSport industry. This is an issue for the eSport organizations because game developers see themselves as game developers and not as sport providers (Chao, 2017). Unlike their strong market position, the core business of game developers is not necessarily the eSport. Furthermore, eSport has been seen as marketing tool during the early roots of competitive gaming. So, game developers do not always operate franchised leagues because it is their *raison d'être*, but, see the leagues as a tool for their marketing. *Activision Blizzard's* main function for eSport is still as marketing tool (Koot, 2019). Thus, eSports is not their main source of income, selling the game is. This compares to the eSport focus of *Riot Games*, as stated in their mission and vision (Riot Games, n.d.). This difference is an indication of how the governing factor of *board monitoring focus* affects the choice between strategic and financial control (Filatotchev & Nakajima, 2014).

The franchised leagues in eSports are comparable to the franchised leagues in traditional sports. Although they are comparable, eSport dissociated themselves from the traditional sports due to the fact that the creators of the franchised leagues in eSport have opted for privately sponsoring leagues (Chao, 2017). This decision is driven by the governance factor of *accountability and reporting* (Filatotchev & Nakajima, 2014). *Activision Blizzard* expressed a more hands-off approach to eSports and do not see themselves as the sport provider but as the game developer (Taylor, 2012, p. 163). To manage their eSport leagues, *Activision Blizzard* acquired *Major League Gaming* (MLG) in 2015 (Ravan, 2017). This indicates more of a financial control governance structure (Filatotchev & Nakajima, 2014). The other franchise owner in eSports, *Riot Games*, do fully control the league and provide the governance practices (Chao, 2017). Thus, *Riot Games* uses a more strategical control approach towards their league. This resulted in the prominent and leading role of *Riot Games* and *League of Legends* in the eSport industry (Segal, 2014).

Nonetheless, both game developers own the intellectual property of the game and therefor have a copyright on all the content that is distributed. This gives the game developer the opportunity to direct the revenue stream within franchised league. The involved teams in traditional sport leagues have a say in the direction of the revenue stream, but this is not the case for the eSport teams (Chao, 2017). This means that the game developers decide who can organize competition on their game and they direct that via licenses (Taylor, 2012). Furthermore, this changes the income structure for the eSport industry as compared to the traditional sport leagues. The latter has broadcasting rights for television as their primary source of income and can distribute this equally across all teams. The former also relies on content distribution with broadcasting as their primary source of income but have to gain that in a newly formed online environment. Because eSport leagues do not rely on broadcasting contracts with cable television, it possible for game developers to bring out new games consistently (Chao, 2017). There is a shift in this structure, because the broadcasting rights of *Activision Blizzard's* new *Call of Duty* and *Overwatch* leagues are bought by Youtube in an exclusive $160 million deal (Stern, 2020). Such deals are absent for *Riot Games* by which they maintain all broadcasting rights. This leaves room for a focus that is not only aimed at financial incentives, but also focus on the triple bottom line, including social performance indicators (Filatotchev & Nakajima, 2014). This different approach is the result of the governing factor of *managerial incentives* and guides the choice between strategic and financial control as governing structure (Filatotchev & Nakajima, 2014).

Furthermore, the regional monopolies are an essential element in the franchised league of *Activision Blizzard* but not in the franchised league of *Riot Games*. Since the teams are regionally based, the franchise gives them a monopoly within that region. Although this seems a counter competition practice, courts found it legal (Chao, 2017). The franchised league of *Activision Blizzard* has city-based eSport teams that are built upon local communities' support. In comparison, the *Riot Games* franchised league is not bound by region for eSport teams (Chao, 2017). The regional monopoly of the city-based teams do not have the risk of being replaced by other teams from that region. The driving force that directs this decision is the governing factor of *risk management and control* (Filatotchev & Nakajima, 2014).

In conclusion, Stephen F. Ross and Szymanski (2010) stated that sport leagues should look more like McDonalds and less like the United Nations. What they meant by that is that while cooperation among competing firms may lead to substantial benefits for the cooperating companies, *"there is a substantial risk that transactions costs will result in the operation of jointly-held assets in an inefficient manner as those assets are controlled by member firms whose individual interests may differ from those of the collective whole"* (Stephen F. Ross & Szymanski, 2010, p. 259). So, McDonalds franchises are not competing with each other because they fall under the same firm but do cooperate. Therefore, they all focus on objectives of the collective firm. This also differentiates between *Activision Blizzard* and *Riot Games*. The more hands-off approach of *Activision Blizzard* emphasizes the need for external governance, while the complete control of *Riot Games* internalizes the governance and makes them less reliable on external governance. This indicates the effect of the governance factor of *external governance* (Filatotchev & Nakajima, 2014). Therefore, an eSport GSO is incorporated as external governance for the franchised league of *Activision Blizzard*, while *Riot Games* internalized the governance structure.

The deviating governance structure with the governing practices that are in place in the two different franchised leagues provide a mechanism to analyze the relation between legitimacy and perceived investment risk. The differences between the three types of governing structures based on the governing factors led to the mechanism that is depicted in *Appendix #*. This mechanism is changed during the analysis when it was identified that three different forms of competition. At first the distinction was made between two different franchised leagues. After the iteration, the three governing structures that were identified are the franchised league, semi-franchised league and non-franchised league.

3.3.3 Measuring perceived investment risk

Finally, the dependent variable of perceived investment risk is operationalized by using a framework developed in earlier research on investment risk. The indicators that are identified for perceived investment risk are further elaborated through examples of how it can be measured. It is important to note that these indicators have an objective and a subjective side. *Table 3* sets out all the indicators for perceived investment risk with the measurement examples.

Indicator	*Example*
A large loss	Loss of principal, large drop in price, large negative return, etc.
Return below target	Downward price fluctuation, cut in dividend, nonpayment of interest, etc.
Business risk	Beta, debt level, cost control, competitive position, industry type, etc.
Liquidity	Ability to sell quickly, degree of investor interest, volume, etc.
Knowledge	Amount, quality, and timeliness of information about the firm
Economic uncertainty	Prospect for economy, the market, interest rates, etc.

Table 2: Operationalization for perceived investment risk

Source: Olsen (1997)

3.4 Data gathering

To start the data gathering procedure, it is important to select the sources and sample for this research. The sources for this research can be categorized into two groups. The first group is categorized as interviews. Within the interview category, the research aims at analyzing the legitimacy of the eSport industry. The sources are respondents from a diversity of stakeholders that hold a relation with the franchised leagues in eSport. This source enables this research to gather data on how these different franchised leagues experience different levels of legitimacy. To analyze the effect of the legitimacy on perceived investment risk, expert investors are being interviewed. Their perception on the investment risk and how it is affected by the different dimensions of legitimacy provides insight in the relation between legitimacy and perceived investment risk. The expert investors can be approached by contacting investment firms like banks. Analyzing legitimacy from both internal and external stakeholders gives a full perception on legitimacy of the eSport industry and the effect on the perceived investment risk. The aim is to interview five different employees of stakeholders to get a broad view on the legitimacy of eSports. Additionally, the goal is to interview two expert investors. The complications of the covid-19 virus might form a barrier for interviews. Nevertheless, the goal is to use interviews as a data source.

The second group of sources is documents. These function as a supportive source to fill in the gaps of the first group. Not all dimensions of legitimacy are just based on perception. Hard data about the legitimacy state of franchised leagues directly contributes to the legitimacy. For example, the regulatory legitimacy is based on juridical rulings. There can be a difference in how investors perceive the market potential, although they base that on their personal perception. Another example lies within the regulatory legitimacy. On one side, stakeholders in the eSport industry perceive regulatory legitimacy as high due to the overall obedience of stakeholders. On the other side, news documents can be the hard facts that identify disobedience to the regulations. The documents that can be used in this research are news reports on developments around franchised leagues in the eSport industry and market data. Bleijenbergh (2016) further categorizes the documents in term of business documents like annual reports and business websites and media like news outlets and blogs.

The interviews in this research have a semi-structured form. This form is useful when the research has a deductive reasoning and there are propositions that are assumed based on literature (Bleijenbergh, 2016). The semi-structured interviews serve to provide guidelines towards the formulated propositions. In addition to the guidelines, the semi-structured interviews leave room for follow-up questions if important insights require more attention. To elaborate on that, take the interviews with stakeholders as an example. If the respondent comes with an additional driver that determines his acceptance of the course of action of the industry that is not incorporated in this theoretical framework it is important to follow that direction to fulfil the theoretical framework for the dimension of sociopolitical legitimacy. Secondly, the documents, being business and media documents, fill in the gaps of the semi-structured interviews and provide supportive data on insights gathered from the interviews. For example, if the investors perceive the franchised leagues as equally legitimate in the business dimension based on the market attractiveness before and after the introduction of franchised leagues, market revenue before and after the introduction can counterfeit or support their statement.

Next to the structure of the interviews, it is important to strategize in the recruitment of respondents. One of the key aspects of the eSport industry is that it has a global orientation, making the options for respondents seem limitless. The downside of this is that face-to-face interviews might not be possible or preferred by the respondent, especially during the corona pandemic. To reach the stakeholders in the eSport industry, the network of the researcher plays an important role. The history in the industry and the relations with people in the industry are a point of entry to the eSport industry. Furthermore, email and social media are going to be of assistance in developing and maintaining new and old relations with key stakeholders in the industry. For example, the LinkedIn social media makes it insightful who are working in the eSports and these people could be the starting point of gathering respondents.

To analyze the data gathered from documents it is crucial to emphasize the longitudinal characteristic of this research. The case that is being studied are the formation of franchised leagues that have provided the eSport industry with stability in the form of a governing structure. The relations that are being studied differ in terms of before and after the introduction of these franchised leagues. Therefore, the effect of the governing structure on perceived investment risk through the mediating role of legitimacy can best be analyzed by looking at the legitimacy and perceived investment risk before and after the introduction. The appropriate method when a crucial event leads to drastic changes is defined as a interrupted time series analysis strategy (Yin, 2011).

3.5 Limitations and research ethics

In this section, the limitations of this research will be elaborated. Furthermore, this section encloses how this research deals with these limitations and what the consequences are for the results. Additionally, a research ethics guideline is formulated to maintain ethical integrity during this research.

3.5.1 Limitations of this research

The first most important limitation in this research is the generalizability of the case study. Case studies are useful to discover new phenomenon, but lack the ability to generalize the findings to other industries (Yin, 2011). But, in relation to research on legitimacy, there have been several case studies (Déjean et al., 2004; Rindova et al., 2006). Together with these case studies, this research contributes to the general field of knowledge on legitimacy. Although the case study has a low degree of generalizability, the usage of different types of stakeholders and respondents increases the external validity of this research. The consequence of different respondents is the transferability of the findings to stakeholders that are not incorporated as respondents in this research. On the other side, this case study uses several data sources and theories that improve the internal validity of the research. Starting with the usage of multiple data sources, being key stakeholders and documents. Using multiple data sources is called triangulation of data sources and increases data credibility and "truth value" (Yin, 2011). Secondly, this research uses theory triangulation because it uses two different perspectives on the construct of legitimacy. This improves the theoretical validity of the results (Bleijenbergh, 2016).

The second limitation to this case study is concerned with the objectivity of the researcher. Case studies are the strongest when the researcher is an expert in the field of that case study and has knowledge about that industry (Hodkinson & Hodkinson, 2001). In this case, the researcher is a long-time follower of the industry and has knowledge about how it operates. But this brings us to the limitation of objectivity. Due to the long-time relation with the industry it may become difficult to remain fully objective all the time. It is therefore important to continuously test the interpretations of the researcher with people that are involved with the research but not with the eSport industry. For example, the first and second examiner of this thesis. Furthermore, it is important to leave out interpretation during the interview, so the respondent should receive the transcript of the interview and be asked if he approves his or her statements in the interviews.

The final limitation to touch upon is the difficulty in translating the complexity of the phenomenon into a relatively simple explanation. This is partly due to the difficulty in translating social dynamics into a report, but also in the iterative process of qualitative research (Hodkinson & Hodkinson, 2001). Social dynamics and iterative processes are difficult to document. Therefore, the research strategy needs to be as elaborate as possible. Additionally, it is important to document most of the findings in summarizing tables or documents so that all the findings can be found during the research and when formulating the results.

3.5.2 Research Ethics

To maintain ethical integrity, the five principles for an ethical research of APA are used as guidelines for ethical behavior. The first principle is to discuss intellectual property frankly (Žukauskas, Vveinhardt, & Andriukaitienė, 2018). What is meant by that, is that there should be no conflict in the who receives credentials for this research. Since this research is a thesis, the only researcher that produces and analyzes the problem is the master student. Additionally, the examiners provide feedback and are incorporated in the credentials and are mentioned on the title page. The effect of specifically mentioning the examiners is to minimize the chances of conflict. The second ethical principle is to be conscious about multiple roles (Žukauskas et al., 2018). For this principle, there are no pre-defined problems that harm the integrity of this principle. The third principle is to follow informed-consent rules (Žukauskas et al., 2018). What is important to maintain this principle during this research is to fully inform the participants in what they are participating in. By anticipating possible concerns of participants and informing them about that, the ethical integrity can be maintained. The fourth principle is that of privacy and security (Žukauskas et al., 2018). To maintain privacy, the participants will be asked it hey want to be anonymous in this report. It is important to mention that the organization, or at least the type of stakeholder, has to be mentioned for the quality of the findings. The security of the personal data that is gathered in this research will be guaranteed through external storage devices. By leaving the data off the cloud and on external storage devices, the chances of the data leaking out are nihil. The final ethics principle is that of tapping into ethics resources (Žukauskas et al., 2018). Before interviewing participants, they will be asked to read the five principles of research ethics by APA to align the expectations of both parties involved in the research. All these actions should maintain the ethical integrity of this research.

4. Analysis

In this chapter, all the gathered interviews and documents are analyzed to understand the relationships within the conceptual model. The goal to assess the propositions that have been formulated in chapter two. This helps to maintain the broader focus so that data that is not directly related to the research question will still be analyzed (Baxter & Jack, 2008). Before starting the analysis, the procedure is described. The analysis starts by transcribing all the interviews that have been conducted. A full transcription of the interviews is chosen to avoid any bias in the selection of important data. This extensive method allows for the most robust data analysis (Young et al., 2018). This transcription and the additional documents are coded according to the operationalization of all the variables from the previous chapter. The coding is conducted in the qualitative data analysis software called Atlas.ti. Due to the prior knowledge on this topic, a deductive coding strategy is chosen. After the coding of the documents and transcriptions, neighboring quotations and concepts are put together to understand the relations on the indicator level. The reporting of this process is structured as follows. It starts with reporting the analysis of the perceived investment risk variable to understand how it is measured in emerging industries. Second, the analysis thoroughly reviews the relations between the indicators of the two different dimensions of legitimacy and of the perceived investment risk. Lastly, the report shows the analysis procedure of the effect of the franchised league on the legitimacy of the eSport industry. By analyzing this effect, it is possible to evaluate strategic actions to increase the legitimacy in emerging industries. The paragraphs end with the assessment of the according proposition that are used to interpret the results and draw conclusion in the following chapter.

4.1 Analyzing the perceived investment risk

As stated above, this section covers the measuring of the perceived investment risk. The theoretical framework in chapter two provided indicators of the perceived investment risk, but this operationalization is incomplete and outdated (Olsen, 1997). The iterative characteristic of this research allowed us to complement the indicators that have already been found. The completion of the indicators that fully cover the perceived investment risk allows us to understand how it is measured in emerging industries. Often, these industries are not able to provide the data upon which the indicators are measured. As an investor told, *"it is the art of being an investor to make the right decisions and analysis"*. What this citation shows is that investing is not just about analyzing data, but what separates an investor from others is the interpretation of that data and the prediction of the missing data. Moreover, the interpretation of data and prediction of missing data differs per investor and is subjective. Yet, it was hard to allocate this condition to one of the indicators. These findings indicated a lack of subjectivity in the operationalization of perceived investment risk. That is why the indicator of subjectivity in the measuring of the perceived investment risk is added to the operationalization.

Furthermore, the indicators were formulated in a time of capitalism dominated by a neo classical economic school. This changed in 2011 when the capitalism was reinvented by creating shared values (Kramer & Porter, 2011). To make the indicators of perceived investment risk more appropriate to these times, a social impact indicator is required. This was also stated by an investor, *"some investors have a strong social impact or societal drive and they find it less important to have a strong output"*. In this context the output was purely financial. This indicates that there is a subjective preference in the perceived investment risk. Additionally, it is believed that the impact on society is directly related with the financial output and go together. The citation of *"if you solve a societal problem, you can aspect it automatically generates a market demand for it*" shows this. Also the other way around, if there is no positive impact on society, then there is no financial output and acceptation from the market. So, the operationalization of perceived investment risk is complemented by *impact on society* and *subjectivity*. After adding these indicators to the operationalization of the perceived investment risk, the aim is to test whether the other indicators weigh-in the perceived investment risk of emerging industries among investors.

Continuing with *economic uncertainty*, that is about the uncertainties in the prediction of the development of a market (Olsen, 1997). The risk profile differs between emerging markets that are truly innovative and those that are not. Investors make a distinction between emerging markets that arise from disruptive and incremental innovations. This research aims at emerging markets that are truly innovative and therefore arise from disruptive innovations. That the uncertainties of an emerging market are larger than emerging markets with incremental innovations is supported by an investor with the statement, "*If a development is disruptive, there is more risk to that the development goes worse than expected or even fail"*. This makes the indicator of economic uncertainty more important in emerging industries that are truly innovative, but also are harder to predict.

Extending to the consequences of economic uncertainties is that of the *potential for a large loss*. At the end of the day, investors want to earn back their investment one way or another. This does not mean that every individual investment must earn itself back, but more that the collection of investments overall must be earned back. To earn back the overall investments, individual investments are evaluated in terms of the *potential for a large loss*. If the individual investment has a high *potential for a large loss*, the likelihood of the overall investment not being earned back increases. Due to the economic uncertainties that are existing in emerging industries, these industries show a greater *potential for a large loss*. But because of the uncertainties, investors are not counting on profits over their investments in the first years. On the contrary, the interviews show that investors expect to make a profit after three to five years. So, *"If they see that, after five years, there is still no money, they will extract their money and everything collapses"*. This citation supports the indicator of a *potential for a large loss* and also shows how it relates to emerging industries. If an emerging industry does not proof itself within the first three to five years, it can collapse.

Then how does this affect the perceived investment risk within the starting three years? Therefore, the indicator *potential for a return below target* provides an understanding. Investors can work with so-called "*milestones"*. In the interview with an investor, it was stated that by building in milestones to reduce the *potential for a return below target* through something like a bankruptcy. Reaching those milestones supports investors in their prediction of making a profit of their investment in three to five years. The milestones represent the targets of the investor. If milestones are not reached, investors see an increase in the risk of not making profit after three to five years. This affects the perceived investment risk because these figures can contradict the industries claim for their potential. *"For us it is about on what grounds these predictions are made and did they truly receive feedback from the market in which they operate"*. This is especially important for emerging industries since their potential is the most important claim to attract investors due to the lack of evidence in the market. This was also stipulated in the interviews with stakeholders in the eSport industry. They experience a growth in power in negotiating with sponsors if they can support their claim for potential with audience growth figures.

As is often the situation, businesses apply for investments. The literature shows that the perceived investment risk is indicated by the *liquidity* of the business. This is indicated by the degree of investor interest and ability to sell quickly. So, it boils down to the question of how much money is actually in the industry. This was also found in the following citation of an investor when coming with an example, *"an interesting business, but already a lot of loans. That is a lot of risk"*. The more loans a business has, the less revenue it is generating. This was defined as the balance between revenue and development costs and can be viewed as a sort of *"proof of concept"* or, as a respondent called it, *"orders in the pipeline"*. It is imaginable that this is difficult for emerging industries that need the investment to realize the *"proof of concept"*. But if that is proven in practice through a positive evaluation of the liquidity, it decreases the perceived investment risk because part of the risk is being taken away through practical evidence.

The following indicator is the *business risk*. In the theoretical framework, this is defined by figures like debt level and cost level but also by indicators like competitive position and industry type. The debt level is indicated by the *liquidity* so correlates with the *business risk*. Furthermore, the competitive position and industry type also indicate the business risk because a bad competitive position or an industry with low margins, high debts or a low cost control level can lead to a return below target or even a large loss. What this means according to investors is that innovations in existing markets often experience higher margins than disruptive innovations in emerging markets. On the contrary, the disruptive characteristic in emerging industries allows businesses to achieve more market share. Therefore, the evaluation of the *business risk* of innovations in emerging markets has more weight allocated to competitive position than to the industry types with cost control levels, debt levels and margins. Since a disruptive innovation in an emerging industry creates or disrupts a new market, the competitive position determines how much of that new or disrupted market can be pulled towards the business. Supported by these facts and figures, investors estimate the remaining risk for the investment. This estimation is the bases for the percentage of company shares the investor asks for their investment.

The final indicator of perceived investment risk in this research is the indicator of *knowledge*. According to the literature this is about the amount and quality of the information about the investment demanding business. This also showed in the previous indicators that are all based on information about the business and the market. The indicators are built upon the knowledge of the business and market. What makes this a crucial indicator for emerging industries is that these markets lack *knowledge*. Indicators on itself do not mean that much, as *"it is all about upon which these expectations and predictions are based on"*. This means that a market with high expectations and predictions of profitability and revenue can be perceived as a market with a low investment risk but the arguments supporting these expectations and predictions can make or break the investment. This is where an investors said that they call in the help of experts in that specific industry. An example comes from one of the stakeholders that owns an eSport consultancy bureau that assists customers like *"Ministerie van Defensie"* in using eSports to reach younger audience.

P1: Legitimacy has a negative effect on perceived investment risk

Supported: it has been identified that market demand is indicated by *"proof of concept"* and this is perceived as a form of legitimacy. Because the investors weigh-in the market demand in their perceived investment risk, it is affected by the perception of the legitimacy of the industry. Furthermore, the analysis of the perceived investment risk shows that investors do not only base their investment decisions and estimation of the perceived investment risk on objective figures. Instead, there is room for a subjective interpretation of the industry, business and people behind the business. This subjective interpretation is incorporated in the effect of legitimacy on the perceived investment risk.

4.2 Indicators of regulatory legitimacy that affect the perceived investment risk

The analysis procedure of this paragraph is like the previous paragraph. The relation between regulatory legitimacy and the perceived investment risk is analyzed on an indicator level. The analysis starts by analyzing the links between *compliance* and indicators of perceived investment risk. Then, the links between *cooperation* and the indicators of perceived investment risk are evaluated. Finally, the relation between *empowerment* and indicators of perceived investment risk is analyzed. Before analyzing the relations, the organizations that provide regulations in the eSport have been identified. There have been four identified regulative authorities, being the league operator, the game developer, governments and governing bodies like the ESports Integrity Commission (ESIC). The government was left out of this research because the regulations from the governments of different countries variate too much. This makes the amount of data on this topic that could be analyzed insufficient to draw conclusions. The dependency relations are important to understand because each regulative authority experiences a different regulatory legitimacy.

4.2.1 Compliance

Compliance is measured by the feeling of obligation to obey to the regulations of a regulative authority. An important part of the *compliance* to take into consideration is the dependency relation between the stakeholder and the regulative authority. The first dependency relation that was identified was that between the league operator and the game developer. This was also emphasized in the literature and was mentioned in the interviews with the stakeholders. The league operators are dependent on the game developer because they own the software of the game. Therefore, all the rights of the game, including competition and broadcasting, are in the hands of the game developer. Game developers can internalize the league and be independent from the league operators. The second dependency relation that was identified was between the eSport teams and the league operators. It is impossible for eSport teams to maintain competitive integrity and operate a league. This results in a dependency of eSport teams on league operators. This dependency relation is less powerful because there are more league operators than there are game developers. The final dependency relation is that game developers, league operators and governance bodies dependent on governments for approval and regulations.

After establishing the dependency relations, the relation between *compliance* and *business risk* is analyzed. *Business risk* comes forth out of competitive position and cost control for example. Meta, as the league operator for the Benelux in the game *League of Legends*, is dependent on the game developer *Riot Games* because they provide Meta with a license for the exclusive right to organize competition in the game for the Benelux region. To earn that license, Meta must comply to the so-called *"in-game ruling"* that has been formulated by *Riot Games*. Meta can slightly modify these regulations to make them more appropriate to the region. But because they are dependent on the game developer, the degree of *compliance* is high. The same *compliance* can be seen from eSport teams and the league operator. The eSport teams must comply to the regulations of Meta because otherwise they are unable to compete and receive sanctions. This was also indicated by the absence of disobedience to the regulations. There were only reports of violations due to not being aware of the precise regulations. This can be attributed to the regulations being new and not to disobedience. To relate this to the perceived investment risk, an investor stated that *"it is the question how much the politics and regulations are realistic in practice and get picked up by the market"*. What was meant by that is that disobedience to the regulation indicates a mismatch between the regulations and practice and can be perceived as a *business risk*. He continued with *"it might fit within the regulations, but if the end-user is not willing to pay that amount for it then it will not happen. It has to go together"*. So, the higher the degree of *compliance,* the lower the *business risk*.

To advance to the next relation, being *compliance* and the *potential for a return below target*, the other side of *compliance* provides insight. The previous relation was explained through disobedience. But *compliance* also has another side. Complying to the regulations of regulative authorities can grant the industry and businesses benefits. This is also supported in the theoretical framework, in which it was identified that industries and businesses that experience a higher level of legitimacy have an improved access to resources. In general, you can take the example of subsidies. Complying to a certain criterion can grant the industry and businesses subsidies that decrease the *potential for a return below target*. To cite an investor, *"what also plays a role are the environmental factors. If you are in a region with a development society with interesting incentives like subsidies, then that is interesting for the investment to reduce the risk profile"*. To connect this with the case study, complying to the regulations that are provided by Meta by eSport teams grants them a spot in the franchised league. This will give the eSport teams financial stability and will reduce the *potential for a* *return below target*. Also, if Meta does comply with the regulations of *Riot Games,* the license will be maintained, and Meta's *potential for a return below target* will decrease.

The relation between *compliance* and the *potential for a large loss* lies in extension of this. If the license is provoked, Meta can lose a great amount of their investment because they must pay for the license and all the other operational costs. The license can also be provoked if the eSport teams do not comply to the regulations of Meta. So, a low degree of *compliance* results in an decrease in the *potential for a large loss.*

The final relation is between *compliance* and *liquidity*. To understand this relation, Meta has sent a document that contained the guidelines for the application for the franchised league that the eSport teams had to fill-in. Within this document, the relation between *compliance* and *liquidity* was found. In this section of the document, the eSport teams were asked to state their budget and financial projections. When this came up with in the interview with the operational manager of Meta, it was mentioned that the eSport teams need the possibility to grow alongside the franchised league. This required them to have a financial stable position. So, if the eSport teams comply to the regulations of Meta, their *liquidity* will improve. It was also stated by an investor that a disbalance in *liquidity* creates financial obligations and that this increases the perceived investment risk.

P2a: Compliance in regulatory legitimacy has a negative effect on perceived investment risk

Supported: the more *compliance* there is, the lower the perceived investment risk. Compliance is identified as an indication of how well the regulations fit the market. If the regulations do not fit the market, it means that the regulations do not correct appropriate for market and social failures. This creates a situation in which it is more beneficial for businesses in that industry to disobey to the regulations. This creates *economic uncertainties* because the prospect of the market is more difficult to predict. Furthermore, because businesses disobey to the regulations, they can suffer from sanctions and this increases the *business risk*. Moreover, it increases the *potential for a large loss*.

4.2.2 Cooperation

This paragraph is focused on the relations between *cooperation* and the indicators of the perceived investment risk. *Cooperation* is measured through the cooperation between regulative authorities and stakeholders that must adhere to these regulations. In the previous paragraph the regulative authorities have been identified. In this paragraph, the cooperative actions between eSport teams and league operators indicate *cooperation*. But since league operators must adhere to regulations provided by the game developer or a governance body, *cooperation* is also indicated by cooperative actions between league operators, governance bodies and game developers. The analysis identified four relations between *cooperation* and indicators of the perceived investment risk and these will be discussed below.

To start, the relation between *cooperation* and *economic uncertainty* has been analyzed. As mentioned earlier, an investor stated that the regulations must go together with the practice. It has been identified that by cooperating with the regulative authorities, the regulations can be modified according to the practice. An example for this effect can be found in the cooperative actions from EGL and the ESIC. They work together to test for substance abuse at offline events to maintain the competitive integrity. In theory, substance abuse is forbidden. But in practice, there are still incidents of substance abuse because the control is not as far as in traditional sports. The *cooperation* between the stakeholders makes sure the regulations go together with the practice. In turn, this leads to less *economic uncertainty*.

Continuing with the relation between *cooperation* and *business risk*, cooperative actions between the named stakeholders that affect the *business risk* have been identified. The analysis showed that the implementation of franchised leagues created intensive *cooperation* between the involved stakeholders with a long-term orientation. This *cooperation* allowed all stakeholders to influence the regulations so that these regulations fit the practice. Because they now can affect the regulations, they can push their own values into the regulations. This improves the competitive position of individual stakeholders but also of the stakeholders combined in the franchised league. Another practical example of how this relation works in practice is that of a recent change in regulations in Meta's franchised league. At first, players from Academy teams could not play in the franchised league. Academy teams are the second teams of eSport teams that are active in the franchised league. It is comparable to *Jong Ajax* playing in the *Keuken Kampioen Divisie*, while regular "*Ajax"* plays on the highest Dutch level in the *Eredivisie*. The change in regulation was pushed through by eSport teams in the franchised league because they think that it is important for the accretion of talent. This led to a change in regulation that took away *business risk* for the eSport teams. So, the *cooperation* can decrease the *business risk* of individual stakeholders, but also for the industry in general.

Another relation was found between *cooperation* and the *potential for a return below target*. This relation was identified when analyzing the interviews in terms of broadcasting rights. It is common knowledge that traditional sport teams often generate a large percentage of their revenue through broadcasting rights. This is not the case for Meta's franchised league and there are no indications that Activision Blizzard shares the income through broadcasting rights with the eSport teams. This is something that can be accomplished through *cooperation*. During one of the interviews, there were two deals mentioned that relate to this topic. The first one being the sale of broadcasting rights from ESL to Facebook and the second one is the sale of broadcasting rights from Activision Blizzard to Youtube. Cooperative actions between the eSport teams and the league operators could alter these regulations to serve the interests of the eSport teams. This shows that *cooperation* leads to a decrease in *the potential for a return below target*.

The final relation that has been identified is between *cooperation* and *knowledge*. This was identified in one of the interviews when the lack of *knowledge* in the industry was being discussed. The situation that came up was about *Riot Games* does not share data about their players database. Meta, but also the eSport teams, could not persuade *Riot Games* in sharing this information. This shows how more *cooperation* between stakeholders and regulative authority leads to an increase in *knowledge*. Meta generated more knowledge by creating a report about the eSport industry in the Benelux that is purchasable for the eSport teams. This shows that *cooperation* can increase the *knowledge*.

P2b: Cooperation in regulatory legitimacy has a negative effect on perceived investment risk

Supported: the higher the degree of cooperation, the lower the perceived investment risk. Cooperation increases the match between regulative authority and the market through structural communication with stakeholders. Cooperation between regulative authorities and stakeholders is an indication that the regulations serve the market by correcting market social failures. This has direct effects on financial figures like the *potential for a return below* target, but also decreases the amount of *business risk*. Furthermore, because cooperation leads to a better match between regulation and practice, it indirectly affects the perceived investment risk through *compliance*. But the most crucial element of the effect of *cooperation* on the perceived investment risk comes through the increase in *knowledge* that occurs. *Knowledge* can increase the understanding of all the other indicators of perceived investment risk. Because emerging industries often lack *knowledge,* this is crucial in the relation between *cooperation* and perceived investment risk.

4.2.3 Empowerment

The following paragraph is about the *empowerment,* which is the third and final indicator of regulative legitimacy. *Empowerment* means the willingness of the use of discretion by the regulatory authority. This can be measured by reviewing the opinion of the eSport industry on the appropriateness of the regulations and enforcement of those regulations. This data for this part of the analysis was gathered in the interviews by asking about enforcement of regulations in the eSport industry and in franchised leagues specific. The opinion of the respondents where then evaluated in terms of appropriateness. This evaluation is used to determine the degree of *empowerment* of the regulative authorities by the internal and external stakeholders in the industry.

The first relation that was found is the that between *empowerment* and *economic uncertainty*. As mentioned, *economic uncertainty* is measured through the prospect for the economy, the market and interest rates. To understand the relation of *empowerment* and *economic uncertainty*, it is important to understand the consequences of a low and high degree of *empowerment*. A low degree of *empowerment* means that internal and external stakeholders do not approve the enforcement of the regulations. As an investor suggested, this is an indication of the regulations not corresponding to the reality and an absence of market acceptation. On the other side, a higher degree of *empowerment* results in regulations that correspond with the interests of the market. All four stakeholders in the eSport industry mentioned that the franchised leagues internalize the regulations and the enforcement of those regulations. The consensus is that this creates the possibility for a conflict of interest. But because of the earlier described dependency relations between franchised league, game developer and eSport team, the stakeholders must comply to the regulations. They must comply because the regulative authority has coercive power over them. In addition, the franchised leagues are not connected with an overarching governing body like the ESIC. This shows that stakeholders in the eSport can comply to the regulations but do not empower the regulative authority. Therefore, the degree of *empowerment* in the eSport industry is perceived as low. The consequence is that internal stakeholders step out of the eSport industry and external stakeholders are less attracted to the eSport industry. The motive lies in the perception that the enforcement of the regulation is unfair and is acted out only in the interest of the franchised league or game developer. Because of the presence of this motive to not get involved in eSports, it creates *economic uncertainty*.

Advancing with the relation between *empowerment* and *knowledge*, the analysis identified how these relate to each other. Like in previous relations with indicators of legitimacy and *knowledge*, the relation goes the opposite direction. The analysis identified an example of this relation. As stated before, most enforcements of regulations can be attributed to a lack of *knowledge* about the regulations because these are recently formulated. If the *knowledge* on the regulations and enforcement of those regulations increases, the internal and external stakeholders can decide prior to their involvement if they want to comply to the regulations. But on the contrary, if the *knowledge* is low, stakeholders can be caught off guard when they receive sanctions for not complying to the regulations. This results in not agreeing with the enforcement of the regulations. A stakeholder mentioned that *"we formulate the regulations prior to the competition. So, if that situation occurs, then you are unlucky. I agree with that"*. What was meant by that is stakeholders that accept the regulations prior to the competition must deal with the consequences, even if that negatively affects their personal interests. But an increase in *knowledge* can avoid stakeholders to accept the regulations without knowing the enforcement of these regulations. In turn, this leads to an increase in *empowerment*.

The final relation is that between *empowerment* and *social impact*. To analyze this relation, it is crucial to understand that regulations are in place to correct for market failures. This has been described in the theoretical framework. This is important because the analysis discovered that these market failures also contain social failures of the market. The example that showed this is about the earlier mentioned *"in-game rulings"* that is formulated by the game developer. These rulings contain behavioral guidelines like not leaving the game to early or the use of offensive language. Therefore, a high degree of *empowerment* means that the internal and external stakeholders find the enforcement appropriate to correct the social failures in the market. To cite an investor, *"everyone is expected to abide by the law. So, I see that as a kind of precondition. That the product or service, that it fits within* *the legislative controlling power".* So, a high degree of *empowerment* results in a higher degree of *empowerment* because the environment accepts the regulations as appropriate corrections of social failures.

P2c: Empowerment in regulatory legitimacy has a negative effect on perceived investment risk

Supported: the more *empowerment* there is towards regulative authorities, the lower the perceived investment risk. When there is more *empowerment,* it means that the stakeholders trust the regulative authorities in creating appropriate regulations. Furthermore, they trust the regulative authorities in correctly enforcing the regulations. Because they allow the regulative authorities to correct for market failures, there is less *economic uncertainty* and *business risk* and thereby affects the perceived investment risk. Additionally, it indirectly affects the perceived investment risk because it enables *cooperation* and increases the *compliance*.

4.3 Indicators of sociopolitical legitimacy that affect the perceived investment risk

To analyze the effect of sociopolitical legitimacy on the perceived investment risk, this section focuses on that relationship on an indicator level. To start, the relations between *pragmatic* and the indicators of the perceived investment risk are analyzed. Second, the relations between *moral legitimacy* and the indicators of perceived investment risk have been analyzed. Finally, the relations between the indicators of perceived investment risk and the *cognitive legitimacy* have been analyzed.

4.3.1 Pragmatic legitimacy

The indicator of *pragmatic legitimacy* for the sociopolitical legitimacy measures the perception of internal and external stakeholders on how much they feel that the actions of the industry contribute to the objective of the industry. This means that the starting point is the perception on the objectives of the industry. According to an investor, emerging industries that are truly innovative have the goal to *"solve a problem or to create an opportunity".* The output is the indicator of how much the industry contributes to solving that problem or seizing that opportunity. According to an investor, a positive output also generates legitimacy for the industry. To take this relation to the case of eSports, the identified goals of eSports are to grow the industry as a whole and reach a full-time status. According to investors, these goals are similar in emerging industries except for industry specific goals. In this case the full-time status is about enabling players, coaching and staff to have eSports as their primary and only form of work so that they generate all their required income through eSports. So, what *pragmatic legitimacy* really indicates is how much confidence the internal and external stakeholders have in that the actions contribute to growing the industry as a whole and reaching full-time status. Now that is has been defined what *pragmatic legitimacy* really measures, the relations with the indicators of perceived investment risk are be analyzed. There were eight relations identified between *pragmatic legitimacy* and the indicators of perceived investment risk that will be discussed hereafter.

The *economic uncertainty* is measured through the prospect of the economy, the market and interest rates. This shows that the *economic uncertainty* is not only based upon facts and figures, but also on the believe that the industry will grow. That is also were the connection between *pragmatic legitimacy* and *economic uncertainty* becomes evident. If the internal stakeholders believe the actions contribute to the objective of the industry, then it is likely that they will conform to these actions. Conforming to the actions is more predictable than not conforming to the actions. This indicates that a higher degree of *pragmatic legitimacy* can take away uncertainties and result in less *economic uncertainty*. This effect was shown by implication of the franchised league in eSports. This league combined several stakeholders in the eSport that conformed to the actions of building a franchised league. The operating manager for the Dutch League from Meta, stated that their league attracted new investors in football clubs like PSV Eindhoven and RSC Anderlecht. Also new investments were attracted through sponsoring. These investors were attracted through the stability that was provided by the league. Without conforming to the franchised league as action in the industry, these parties would have never invested in the league. This was also suggested by the eSport manager from ESL Benelux, that has opted for a non-franchised league. He stated that *"The moment you (the eSport team) are assured for a spot in the league for the upcoming years, you can bind sponsors much more easily"*. An investor also accounted for this relation as he stated that *"As the support base grows and if the investor has found a solution for the problem, then you will have a different risk profile"*. A different risk profile was meant in a positive way. This shows that conforming to the actions of the industry takes away *economic uncertainty*.

In extension of the different risk profile of an industry with a high degree of *pragmatic legitimacy*, businesses also come with risks on an individual business level that are indicated by the *business risk*. An individual business that does not conform to the actions of the industry is not taking part in the collective action taking of the industry. Let us take the example of ESL as the organization that does not conform to the actions of implementing a franchised league. It has been identified that the franchised league attracted investors that have not invested in eSports up until the implementation of the franchised league. This indicates that the competitive position of franchised leagues towards investors is better than non-franchised leagues like ESL. So, the more stakeholders conform to the franchised leagues as action for the industry, the better the competitive position towards investors. In comparison to the league of ESL, Meta guarantees eSport teams a spot in their league for a longer period. The stability and competitive position of Meta results in a lower *business risk* and a lower perceived investment risk.

The next indicator is the *potential for a large loss*. Investors aim to minimize the *potential for a large loss*, making this an important indicator of the perceived investment risk. The previous indicators showed that industries with a higher degree of *pragmatic legitimacy* are financially more interesting for investors. Yet, it does not show a direct relation with the *potential for a large loss* because even though the industry conforms to the actions, since they think it contributes to the objective of the industry, there is still a *potential for a large loss*. Even so, if the trust in the actions of the industry is over-estimated, then the volume of that large loss can be higher. This is shown by the example of the Overwatch League that is analyzed through an article from The Washington Post about investments in the Overwatch League. This example was brought up by several stakeholders in the eSport. The most important insight is that the investments in the Overwatch League go up in the tens of millions to realize the growth of eSports. The CEO's of eSport teams that have invested in the Overwatch League, like Andy Miller from NRG eSports, believe that eSport can grow towards the size of traditional sports and therefore invest these huge amounts of financial resources into the Overwatch League (Miller, 2019). But if their estimated potential for eSports does not translate to a practical growth of the eSports, then the losses can be larger than if the potential was estimated lower. Several stakeholders in the eSport mentioned that this might be the case because they see a decline in the performance of the Overwatch League. This is an important indication that an over-estimation of the legitimacy of the industry can lead to an increase in the *potential for a large loss* and thereby the perceived investment risk. Another example that was mentioned by several stakeholders in the eSport and shows this effect, is that of the 100 Thieves situation. They were a top contender in the pre-franchising competition model of Call of Duty. But when the franchised league was implemented, they did not invest and now are no longer part of the Call of Duty league. The reason for that, according to the stakeholders in the eSport but also stated by 100 Thieves CEO Matt "Nadeshot" Haag during one of his streams on Twitch.tv, was the perception on the required investment of participating in the franchised league. It was perceived to be too high in relation to the increased revenue it could provide. Meta has mitigated for this risk by reducing the required initial investments for eSport teams by not asking for a buy-in for a spot in the league but selecting teams based on their application. That is why they call their league a semi-franchised league.

In terms of the *potential for a return below target* indicator of the perceived investment risk, investment seeking businesses often come to investors with a so-called *"hockey stick growth"* for their business. The consequence is that the targets are based on these types of growth and are characterized as high risk and high reward. The analysis up until this point has shown that a higher *pragmatic legitimacy* leads to the attraction of investors from different perspectives and higher expectations. This in turn will lead to higher targets and a higher probability that those targets are not reached. How this indicator relates to the *pragmatic legitimacy* is like that of the indicator of *potential for a large loss*. So, the effect of *pragmatic legitimacy* is that it amplifies the *potential for a return below target* because if the *pragmatic legitimacy* is higher, then the targets will be higher and the probability of not reaching those targets increases. The other way around, if the *pragmatic* legitimacy is low, then the targets will be lower and the probability of reaching those targets increases. This indicates that there is a positive effect of *pragmatic legitimacy* on the *potential for a return below target*.

Continuing with the indicator of *liquidity*, it has already been mentioned that a bad *liquidity* of a business or industry means a disbalance between loans and owned financial resources. A disbalance in liquidity to the loans side was characterized as a high perceived investment risk. As an investor stated, *"this creates financial obligations that have to be fulfilled. That must be in balance with the revenue and development costs"*. To analyze the relation between *pragmatic legitimacy* and *liquidity*, the effect of *pragmatic legitimacy* on that disbalance between loans and owned financial resources must be identified. It has already been identified that a higher degree of *pragmatic legitimacy* can result in a financially attractive industry because the stakeholders in the industry collectively act towards the same goal. But if you perceive investments as financial obligations, a higher degree of *pragmatic legitimacy* can lead more investments and more financial obligations. Furthermore, it can result in a disbalance between loans and owned financial resources. This also contributes to the earlier mentioned potential of a collapse of the industry if the investments have not been earned back after five years.

Advancing to the indicator of *knowledge*, that has been identified as the quality measure of all the other indicators. *Knowledge* is all about the grounds upon which the other indicators are based. What an investor mentioned is that they gather advice from experts to increase their *knowledge* about the particular market. As we have seen, *pragmatic legitimacy* is about the trust in the actions of the industry and their contribution to the goals of the industry. What several respondents told about trust is that it is about the *knowledge* upon which this trust is built with an additional subjective component, which will be discussed hereafter. In contrary to the other indicators, the relation between *knowledge* and *pragmatic legitimacy* follows the opposite direction from first to latter. The more accurate and complete the *knowledge* about an emerging industry, the more accurate the *pragmatic legitimacy*. The reason being is that more and accurate interpretation of the *knowledge* about the market and industry gives a better understanding of how the actions of the industry contribute to the growth and full-time status. In turn, a more accurate to reality *pragmatic legitimacy* reduces the *potential for a large loss* and *potential for a return below target*. This effect has been described in the specific section about those relations.

Moving to the *social impact*, which shows that investors also weigh-in the social impact of the industry in their perceived investment risk. The amount of weight that is allocated to the social impact varies per investor. An investor mentioned that, in theory, the *social impact* is indicated by a market demand. If there is a market demand, there is a *social impact*. But in practice, this is not always the case. An investor named a controversial example, namely the illegal market of drugs. In our society, people are aware that drugs are harmful for the well-being of our society. By the theoretical logic, there should be no market demand. Yet, in practice, there is a market for drugs but on the illegal circuit. What this shows is that the *social impact* has to be measured *"per business case"*. This is also where the relation between *pragmatic legitimacy* and *social impact* becomes visible. If more internal and external stakeholders in an emerging industry believe that the actions contribute to the goal of the industry, then it is assumable that they value the impact the industry has on the society. But because it is only assumable, it is important to focus on the relation between *moral legitimacy* and *social impact*. This is part of the next paragraph.

The last relation that was found between the indicators of the perceived investment risk and the *pragmatic legitimacy* is the *subjectivity*. Normally, investors want to make every decision on objective data. Yet, emerging industries often lack objective data. Therefore, the interpretation of available data and estimation of the missing data plays a crucial role in the perceived investment risk of emerging industries. The insight in this relation that is provided by the analysis of the interviews is that the goals of an industry can be different then the goals of the investor. An investor mentioned that he has experience with investors that only invest in their region or only in technological innovations due to different goals for their investments. This is also an example of how a *social impact* can be incorporated in the perceived investment risk. To take this back to the case of eSports and the relation with *pragmatic legitimacy*, stakeholders in the industry have the goal of growing the entire industry. Investors have a focus on earning back their investments. Investors would benefit more if only the businesses that received their investment would grow, to say it bluntly. So, not aligning goals between investors and industries shows the importance of *subjectivity* in the perceived investment risk.

P3a: Pragmatic sociopolitical legitimacy has a negative effect on the perceived investment risk

Supported: the more *pragmatic legitimacy,* the lower the perceived investment risk. The power of the effect of *pragmatic legitimacy* on the perceived investment risk is indicated by the relation it has with all indicators of perceived investment risk. It shows how much the stakeholders think the actions of eSport contribute to the goals of the industry. The goals in most emerging industries is to grow the entire industry. If there is a high *pragmatic legitimacy*, then the stakeholders will conform to these actions and the industry is aligned in the direction it is going. The approval of this direction comes from figures about the growth. If the growth is not appropriate, the industry is less likely to think that the actions contribute to the goal of growth.

4.3.2 Moral legitimacy

The *moral legitimacy* is measured by identifying the degree of the believe that the actions of the industry are *"what should be done"* regardless of their contribution to the goals of the industry. An insight that came up during the interviews is that *moral legitimacy* is a question about ethical responsible behavior of the industry. Due to the iterative nature of this research, this was implemented in the questions after the first interview. In contrary to the *pragmatic legitimacy*, *moral legitimacy* is not about the contribution of the actions to the goals of the industry. *Moral legitimacy* is about if the actions are perceived to be ethically responsible. To analyze the effect of *moral legitimacy* on the indicators of the perceived investment risk, it is important to identify what actions are perceived to be ethical and unethical and how this affects the sociopolitical legitimacy of an emerging industry. Seven relations between *moral legitimacy* and indicators of perceived investment risk have been identified. These relations will be discussed now.

From that focus of the analysis, the relation between *economic uncertainty* and the *moral legitimacy* is evaluated. If the emerging industry experiences a high degree of *moral legitimacy*, then internal and external stakeholders believe the actions of the industry to be ethically responsible. In other words, less external stakeholders, like investors, find the actions of the industry unethical. If stakeholders perceive the industry to be unethical, then the *moral legitimacy* is low. In practice, this means that investors will not allocate financial resources to that industry because they perceive the *moral legitimacy* as too different from their own moral standard. If there is too much distance between the *moral legitimacy* of the industry and the moral standard of the investors, this creates uncertainties in the willingness to invest in the industry. Because the perception of *moral legitimacy* variates between investors, it has impact on the *economic uncertainty* of the industry. To understand how this relation works in practice, an example out of several interviews with stakeholders in the eSport is described. Due to the truly innovative and disruptive nature of the eSport industry, there is large number of situations that are entirely new. During the Covid-19 pandemic, the eSport industry had the major advantage that the competitions could be completed online. This allowed players to play from home or out of the facility of their eSports team. A problem with this situation is that players were able to let other players compete on their accounts. This harmed the competitive integrity of the competitions. The ethical question in this situation was if it was ethical for the franchised league to control the players in their home environment. The stakeholders in the eSport believed that it was unethical for a franchised league to allow such practices because it could harm the competitive integrity. The franchised leagues acted on this and performed controlling measures to guarantee the competitive integrity. If they had not done so, it would have decreased the *moral legitimacy* of the industry. This means that internal and external stakeholders do not believe this is *"what should be done"*. This can lead to internal stakeholders stepping out of eSports and external stakeholders not stepping in. Therefore, the consequence of a decrease in *moral legitimacy* leads to more *economic uncertainty*.

The next relation that is analyzed is that between *moral legitimacy* and the *potential for a large loss*. The most important ethical discussion in the eSport industry is the competitive integrity. This is often represented in a discussion between competitive integrity and financial output. The interviewed stakeholders all agreed on the competitive integrity to be the moral standard of the industry. Unethical actions are therefore the actions that harm the competitive integrity. So, it is important to understand how that unethical behavior can lead to an increase in *potential for a large loss*. The example that was mentioned by several stakeholders in the eSport was that of the Overwatch League and shows how harming the competitive integrity can lead to a large loss. A key element in maintaining competitive integrity is to structure the competition from top to bottom and not only focus on the top. The implementation of the franchised league made it difficult for eSport teams to have a growth perspective because it was made impossible to obtain a spot in the franchised league if the team did not buy a spot in the beginning. This caused eSport teams that were not in the franchised leagues to stop their investment in that eSports title. Furthermore, there were multiple mentions of eSport teams and eSport professionals stepping out of the Overwatch League. Because the Overwatch League mainly aimed at the top with their franchised league, they are now in a position where accretion of new players and organizations is difficult. It is still speculation, but if this problem remains, then the investors of the Overwatch League cannot earn back their investments and the franchised league can collapse. So, a low degree of *moral legitimacy* increases the *potential for a large loss*. A high degree of *moral legitimacy* would lead to a lower *potential for a large loss* because less investors would have excluded themselves on their moral standards.

Advancing to the relation between *moral legitimacy* and the *business risk*. Unethical actions are perceived as unprofessional. Examples of unprofessional actions are players that act out and say unethical things or the misuse of a logo by the franchised league. Team Dynasty is setting an example by not contracting players that are unprofessional because they think this harms the *moral legitimacy* of the industry. This effect was also mentioned by an investor. If the business that is asking for investments has different moral standards than the investor, they will not invest because they see it as a *business risk*. This means that the degree of *moral legitimacy* affects the perceived *business risk* because unethical actions are perceived as *business risks*.

The effect of *moral legitimacy* on the *liquidity* of the perceived investment risk is limited. If industries perform actions that are unethical and the *moral legitimacy* decreases, there is no direct effect on the balance between loans and owned financial resources. The relation between *moral legitimacy* and *liquidity* is identified as a relation between ethically dividing the owned financial resources within the franchised league. The moral standard of the competition lies close to the goals of the industry, being to grow the entire industry and not just individual organizations. This suggests that it is perceived ethical to divide the revenue of the franchised league among the involved eSport teams appropriate. This means that a higher degree of *moral legitimacy* can result in a more appropriate distribution of the revenue of the franchised leagues, but it does not affect the balance between loans and owned financial resources.

The relation between *moral legitimacy* and *knowledge* is two-folded. On the first side there is the *knowledge* about the business and the industry that supports the investors to estimate their perceived investment risk. The quality and completeness of that knowledge determines how the quality of the estimation of the other indicators of perceived investment risk. *Moral legitimacy* is gained by *"putting everything in context"* as a stakeholder in the eSport with his own eSport consultancy bureau mentioned. What deviates the *moral legitimacy* from the *pragmatic legitimacy* in the relation with *knowledge,* is that it would be pragmatic legitimate to attract as many investors as possible. On the contrary, it would be morally legitimate to only attract the investors that could truly contribute to the value of eSports and vice versa. What this means is that *moral legitimacy* does not increase the quality of the knowledge. It sets the moral standard for the eSports and thereby only attract investors that are not in the eSports just for the financial gains. So, the *moral legitimacy* affects the interpretation of the *knowledge* and guarantees that the knowledge only attracts investors that will invest long-term in the eSports and not just generate financial gains quickly. But what is interesting about the relation between *moral legitimacy* and *knowledge* is that it also has a second side, where the effect is identified in the other direction. This was mentioned by one of the stakeholders that stated that they are transferring *knowledge* to the social relations of eSport professionals, like family and friends, to increase familiarity with the eSports. The goal is to let the social environment of the eSport professional accept the norms and values of the eSport industry. This shows that *knowledge* also affects the *moral legitimacy* of an industry, mostly for external stakeholders.

Next is the relation between *moral legitimacy* and *social impact*. Industries that have a high *moral legitimacy* means that more internal and external stakeholders perceive the actions of the industry as *"what should be done"* and ethically responsible. By that definition, it shows that a higher degree of *moral legitimacy* results in more appropriate actions for a larger group of stakeholders. Therefore, it has more *social impact*. The example of the Overwatch League that was mentioned earlier can provide insight in how this relation works. It was found that it is perceived ethically responsible to maintain the competitive integrity in the best possible manner. That means structuring the competition from top to bottom. If the full scope of the eSports is structured, more people and organizations are involved, can benefit from eSports, and a higher *social impact* will be achieved.

Lastly, the relation between *moral legitimacy* and *subjectivity* is analyzed. This relation is important because investors often cooperate with the organizations they invest in. An investor gave an example in which a Christian was introduced to an investor that had the urge to use swear words that involved god. Normally, using swear words with god does not guarantee a failed business opportunity, but in this example it did. To relate this to the eSport industry, the industry is often perceived as direct and verbally rough. Within the industry, stakeholders do not perceive this as unethical. Outside of the industry, people can exclude that industry for investments because of it. This indicates that there is not a direct effect from *moral legitimacy* on *subjectivity*, but it suggests that the two indicators are associated.

P3b: Moral sociopolitical legitimacy has a negative effect on the perceived investment risk

Supported: the more *moral legitimacy* an industry experiences, the lower the perceived investment risk. This effect shows the relations between *moral legitimacy* and all the indicators of perceived investment risk. The *moral legitimacy* determines the moral standard of the industry and how the industry conforms with that moral standard. An investor can use his own moral standard to compare to that of the emerging industry. If these are too far apart from each other, the investor uses this as a cutoff point and will not invest. In extension of this, if investment seeking businesses do not hold the same moral standard as the emerging industry or as the investor, this will also lead to diminishing investment opportunities.

4.3.3 Cognitive legitimacy

The *cognitive legitimacy* is measured by the degree that internal and external stakeholders believe that the industry carries out their actions in the best possible manner. The *cognitive legitimacy* was found in the analysis by identifying points of improvement for the actions that the industry takes. The more points of improvement, the lower the *cognitive legitimacy*. It is not measured on a statistical scale but give an indication of the stakeholders' evaluation of the actions on the grounds of the room for improvement of those actions. In this case study, the implementation of the franchised league is evaluated as the action of the industry. To analyze the relation between the *cognitive legitimacy* and the indicators of perceived investment risk, the focus lies on evaluating how the amount of points of improvement affect the indicators of the perceived investment risk. There have been two identified relations between *cognitive legitimacy* and indicators of the perceived investment risk. These will be discussed hereafter.

The first relation that will be discussed is between *cognitive legitimacy* and *economic* uncertainty. One of the figures that determines the *economic uncertainty* is the prospect of the economy that is based upon how people perceive the future of the economy. Analyzing the case provided insight in how the stakeholders in the eSport believe that the action in implementing the franchised league can be improved. A consensus among the stakeholders was identified about the improvements in maintaining competitive integrity. They believe the franchised league in the current state harms the competitive integrity of the eSports. These experts in the eSports industry believe that this can be destructive for the industry over a longer period. This creates uncertainties among the internal stakeholders of the industry. As mentioned earlier in the analysis, the stakeholders in the eSport also play an important role in translating the market to the external stakeholders. If you evaluate this relation in a single point in time, the effect of *cognitive legitimacy* on the *economic uncertainty* is negligible because room for improvement does not mean that there is no trust in executing on the room for improvement. What is more important for this relation is the reaction on the state of *cognitive legitimacy*. In an interview with the manager of Team Dynasty, an example was given about the situation with the Overwatch League. A Dutch eSport professional played Overwatch on a high level for around two years. From his perspective, he was able to compete on the highest level. But because the franchised league only has a certain number of spots for players, he could never reach the highest level of competition. This made him question the competitive integrity of the franchised league and he eventually decided to stop playing the game. So, not executing on the room for improvement over a longer period results in *economic uncertainty* because the commitment to the industry or a particular game decreases over time. The prospect of the economy is not based on a single point in time but over a longer period.

Second, the relation between *cognitive legitimacy* and *knowledge* has been identified. As in the other relations with *knowledge* and *moral* and *pragmatic legitimacy*, this relation shows an opposite direction. If *cognitive legitimacy* decreases and internal and external stakeholders believe that the franchised league could improve, there is no direct relation with *knowledge*. But by reversing the direction, a relation was found. An increase in amount, quality and interpretation of the generated *knowledge* results in a better understanding of how the industry can adhere to the needs of internal and external stakeholders. So, an increase in *knowledge* can support or reject the *cognitive legitimacy* and thereby alter the stakeholders' perception of the *cognitive legitimacy*. To explain this with an example out of the case study, the differences between the pre-franchising league and franchising league in the game *League of Legends* provides insight. In the competition before franchising in the Benelux, all the matches were played offline instead of offline. That means out of the same building in a LAN environment. The *knowledge* that was generated out of this experience was that the costs of offline matches was to high for eSport teams in the Benelux and the league failed in achieving the targeted growth. This led to a decrease in the *cognitive legitimacy* because stakeholders believed it could have been executed better. Meta applied this *knowledge* by initially playing the matches online, eliminating the travel expenditures of the eSport teams. The participating eSport teams in the franchised league believe this was justified and now the *cognitive legitimacy* on this element has been restored.

P3c: Cognitive sociopolitical legitimacy has a negative effect on the perceived investment risk

Partly supported: the lower the degree of *cognitive legitimacy*, the lower the perceived investment risk. This has been indicated through the effect of *cognitive legitimacy* on the *economic uncertainty* and *knowledge*. A lower degree of *cognitive legitimacy* indicates a higher degree of stakeholders that believe that the actions of the industry can be improved. This increases the demand for an increase in *knowledge* but also translates to an increase in *economic uncertainty*. On one hand, a low degree of *cognitive legitimacy* increases the *knowledge* and thereby positively affects the perceived investment risk. On the other hand, a low degree of *cognitive legitimacy* increases the *economic uncertainty* and thereby negatively affects the perceived investment risk.

4.4 Increasing the legitimacy of emerging industries

In this paragraph, the aim is to analyze how emerging industries can increase their legitimacy. For this analysis, the case study of the eSport industry provides practical examples of how the structuring of the industry can increase the legitimacy. The point of departure is the operationalization of the governance structure of franchised leagues. This shows the process of strategic decision making on the governing structure and how this affects the legitimacy in emerging industries. The governing factors, as described in the operationalization, function as strategic decisions an emerging industry can make on the governing structure. The analysis starts by reviewing how the sociopolitical legitimacy can be increased through governing structures. It continues by analyzing how the regulatory legitimacy can be increased through the governing structure. The final part of the analysis reviews how sociopolitical legitimacy can increase the regulatory legitimacy.

4.4.1 Increasing the sociopolitical legitimacy

The sociopolitical legitimacy measures the acceptation of the actions the industry is taking by the internal and external stakeholders. It is indicated by *pragmatic*, *moral* and *cognitive legitimacy*. The first part in the process of increasing legitimacy is analyzed through the effect of the decisions on governing factors on the indicators of sociopolitical legitimacy. The first decision on governing factors is about the *ownership structure*. There have been two identified options. Firstly, to centralize the ownership with the game developer. There is no other possibility to centralize the ownership because the game developer owns all the rights of the game. The analysis shows that this negatively affects the *pragmatic legitimacy* because the game developer can focus on serving their own interests above all the other stakeholders in the industry. The earlier described dependency relationship amplifies the negative effect because this situation eliminates the necessity of serving the interests of other stakeholders. Whereas the goal of emerging industries is to grow the entire industry instead of the individual growth. The other option in the *ownership structure* is to disperse the ownership. It has been identified that this structure increases the *pragmatic legitimacy* because the more stakeholders have ownership in the franchised league or industry, the better the interests of multiple stakeholders are served. This provides financial stability for the stakeholders. Because a dispersed ownership serves interests of more stakeholders, it has a positive effect on the *pragmatic legitimacy*. The key insight for emerging industries is that the *ownership structure* must serve the needs of all stakeholders and not just the stakeholder that holds the power in the industry.

Advancing to the governing factor of *board monitoring focus*. The analysis identified that the current game developers with franchised leagues have two types of *board monitoring focus*. These are that eSport functions as core business and as a marketing tool. In this strategic decision, it is crucial to understand the moral standard and goal of the industry. In the eSport industry, competitive integrity is the most important moral standard. Therefore, it is crucial to have a *board monitoring focus* that can maintain the competitive integrity. If eSport serves as the core business, all actions can be aligned with the eSports and competitive integrity can be maintained. If eSport is just a marketing tool, the main purpose is to grow the core business and not the eSport. The consequence is that the moral standard of the industry can not be maintained or achieved. Therefore, emerging industries need to pursue their own goals and moral standards and not serve for another industry. This allows emerging industries to grow as a whole and increase the *pragmatic legitimacy*. Furthermore, it creates a moral standard that connects the stakeholders in the emerging industry and increase the *moral legitimacy*. In other words, to increase the sociopolitical legitimacy, emerging industries must enable themselves to pursue their own interests and not support another industry as a marketing tool.

In extension of this decision lies the *accountability and reporting*. The decision that is at hand is between that the game developer internalizes all eSport activities or that that the franchised league is run by a league operator. If the game developer internalizes all eSport activities, all *accountability and reporting* lie within the same organization. It has been stated by stakeholders that overarching organizations increase the legitimacy of the industry. This was also assumed in theory and suggested that collective action taking can increase the sociopolitical legitimacy (Aldrich & Fiol, 1994). According to the stakeholders, this is what the implementation of the franchised league realized in practice. Within the situation prior to franchising, there were many league operators that worked individually and had separate *accountability and reporting* to the game developer. The franchised league decreased the amount of *accountability and reporting* connections between stakeholders. The positive effect of this comes from the synergies that can be created. For example, the league operator Meta has multiple businesses in recruiting, marketing and merchandise. By uniting the stakeholders under the same overarching franchised league, the eSport teams can create a synergy with the league by providing their brand. In turn, the league can amplify that brand with their marketing and merchandise businesses. The franchising enabled these synergies and therefore support a broader range of stakeholders. The result of an overarching league with internalized *accountability and reporting* is an increase in *pragmatic legitimacy*. Opposites of internalized *accountability and reporting* can argue that it decreases the amount of competition and thereby the quality of the industry. The example of Valve, the game developer of *Counter-Strike*, was brought up in this discussion. Valve has not internalized their competition and created a situation in which there is a high volume of competition that is operated by different league operators. From a consumer perspective, this creates a situation in which there is so much competition that it is unclear what the absolute top is. From a stakeholder perspective, the internalized *accountability and reporting* is more beneficial to the stability of the industry. So, the consideration for emerging industries is to create a balance between competition and stability. This case study identified that an internalized *accountability and reporting* can increase the *pragmatic legitimacy* but decreases the amount of competition. It is more appropriate for emerging industries that are truly innovative to internalize *accountability and reporting* because the competition of such industries is not among themselves, but with the established industry that is being disrupted. To cite an investor, *"disruptive innovations are an essential innovation that turn the whole market upside down. It is calling into question the entire distribution of the market"*. Competition among the emerging industry itself weakens the competitive position compared to the established market that must be disrupted.

The next governing factor that affects the sociopolitical legitimacy is that of the *risk management and control*. It has been identified that the franchised league increased the financial stability of the eSport industry. This was shown by the example of the broadcasting rights. If the risk is managed among the eSport teams, league operators and controlled by the game developer, then the revenue of the broadcasting rights can be shared among these stakeholders as well. This leads to a spread of risk and thereby also the *potential for a large loss* and *potential for a return below target* for investors. This increases the chances of smaller eSport teams to also benefit from the growth of eSports and supports the goal of growing the entire eSport industry. Furthermore, stakeholders in the eSport industry stated that the franchised league sets an example of professionality. This clarifies the moral standard of the eSport industry and increases the *moral legitimacy*.

Advancing with the governing factor of *managerial incentives*. Here the choice lies between a focus on financial or social incentives. It has been identified that one of the goals of the eSport industry is to reach the full-time status. The obstacle that must be overcome to reach that full-time status is that of financial resources to provide salary for players and coaching staff of eSport teams. This indicates that there are not enough financial resources to achieve that full-time status. Social incentives can contribute to the *social impact* of the eSport industry but do not provide the financial stability for the stakeholders in the eSport industry. Furthermore, an investor stated that financial output is an indicator of the *social impact* because it shows market demand. For an established industry that has already reached the full-time status, the social incentives can complement the financial incentives by guaranteeing the *social impact*. For emerging industries, the focus should lie on financial incentives because this creates a required financial stability that contributes to attaining the full-time status. Therefore, the decision for financial incentives in *managerial incentives* increases the *pragmatic legitimacy* for emerging industries.

Moving on to the *governing bodies*, it has been established that there is a lack of *governing bodies* in the eSport industry. Franchised leagues have internalized all governance, from regulation to enforcement. Whereas non-franchised leagues often cooperate with governing bodies like the cooperation between ESL and ESIC. The analysis identified that external governing bodies that provide regulation and enforcement and function as an independent stakeholder increases the competitive integrity and has a positive effect on the *moral legitimacy*. It would not be logical if the same stakeholder would enforce the regulations but also control itself on the decision-making process of these enforcements. This harms the competitive integrity of the eSport industry. Although this reasoning seems logical, the current franchised leagues have internalized all the regulations and enforcements. The stakeholders in the eSport industry criticize this because there is now controlling authority that controls the decisions of the game developer. This emphasized the dependency on the game developer of stakeholders in the eSport industry. Therefore, the lack of *governing bodies* results in a decrease of sociopolitical legitimacy. It is beneficial for a franchised league to implement cooperation with *governing bodies* because it increases the *moral legitimacy*. So, it is important for emerging industries to cooperate or implement independent governing bodies that can control and guard the moral standard of the industry to increase the *moral legitimacy*.

The final governing factor that affects the sociopolitical legitimacy is *relationships with external stakeholders*. The decision that must be made is whether to focus on stakeholders or shareholders. As the main goal of the eSport industry, and for emerging industries in general, is to grow the entire industry, a sole focus on shareholders is too limited. The operational manager of Meta mentioned that the franchised league has attracted new stakeholders that were not involved in eSports before. In addition to new shareholders like traditional sport clubs PSV and PEC Zwolle, the franchised league also attracted new sponsors and media platforms like Audi and Algemeen Dagblad. This was possible because the focus was not only on selling parts of the league to teams but also attract new stakeholders to increase the reach of the eSport and realize the targeted growth. Therefore, a focus on stakeholders in the *relationships with external stakeholders* increases the *pragmatic legitimacy*. This is an important insight for emerging industries that want to increase legitimacy. Focusing on shareholders is important to prove the right to exist of the emerging industry, but it does not contribute to all dimensions and indicators of legitimacy. Whereas the focus on stakeholders also increases the *social impact* and has a broader effect on the sociopolitical legitimacy

4.4.2 Increasing the regulatory legitimacy

The regulatory legitimacy measures the acceptation of the regulations and the enforcement of regulations. It is indicated by *compliance*, *cooperation* and *empowerment.* The second part of the process of increasing legitimacy is also analyzed through the effect of the strategic decision-making on governing factors that determine the governing structure. There have been no identified effects of *risk management and control* on the regulatory legitimacy. This part of the analysis starts with the governing factor of *ownership structure*. The dispersed ownership was identified as the most positive effect on the regulatory legitimacy. The explanation is two-folded. First, if the eSport teams own a part of the league, the degree of *compliance* increases. This is shown by the absence of obeying to the regulations in the franchised league of Meta. On the contrary, has had multiple situations in which eSport teams used the independent governing body of ESIC. It is arguable that the existence of a connection with such governing body enables eSport teams to consult with them. If such connection with a governing body is not existing, it is impossible to consult them. But the reason for an increase in *compliance* comes forth out of the increased *cooperation* that is realized by the franchised leagues. Because the eSport teams now own a part of the franchised league, there is more *cooperation* between all involved stakeholders. An intensive *cooperation* and communication between the managers of the eSport teams and the managers of the franchised league was identified during the analysis. The increased *cooperation* allows for a better match between the regulations and practice. So, a dispersed *ownership structure* results in more *cooperation* and that increase positively affects the degree of *compliance*. This section also indicated that it is arguable that the existence of *governing bodies* results in a higher degree of *compliance*. But it did show that internalizing the governance leads to more *cooperation* between the eSport teams and league operators. So, for emerging industries it is important to increase *compliance* by having an independent governing body that controls the enforcement of the regulations. In addition, there needs to be a match between regulations and practice. This can be realized by involving eSport team managers in the regulation to increase *cooperation* between stakeholders and the regulative authority.

Continuing with the governing factor of *accountability and reporting* and how the decision on this factor affects the regulatory legitimacy. To illustrate how this effect works in practice, looking at the difference in structure of the competition in a game between a franchised and non-franchised league. In a non-franchised league, everyone can compete. In a franchised league, only professional eSport teams can compete. This difference is important because the difference between professional eSport teams and non-professional eSport teams is that the professional eSport teams can be held accountable for their actions and can be sanctioned. If there is no professional eSport organization behind an eSport team, there is less *accountability and reporting*. This is explained through the application process of Meta's franchised league. Because they filled in an application, they can be held accountable if they do not translate that application into practice. The operational manager of Meta mentioned that the non-franchising leagues allow for teams of five friends to participate in the competition. The experience with those teams is that they do not stick together and therefore cannot be held accountable for their actions. Additionally, these teams do not have a reporting structure with the league operator because once the players decide not to play together anymore, the teams disband. This makes it difficult for the league operator and game developer to structure the *accountability and reporting* of eSport teams to the league operator. This results in a lower degree of *compliance* because the teams cannot be held accountable and do not require to structurally report to the league operator. It also results in a lower degree of *cooperation* because stakeholders cannot cooperate with the league operator and therefore, do not empower the league operator. Moreover, it has a negative effect on the degree of *empowerment* because stakeholders are unheard. What this means for emerging industries is that it is important to have a durable and clear *accountability and reporting* structure that incorporates all participating stakeholders. If this is not the case, the stakeholders are not accountable and do not have the necessity to report to overarching organizations. Furthermore, only the top percentage of stakeholders will be heard.

The next governing factor is that of the *board monitoring focus*. The decision is that between eSport as core business or eSports as a marketing tool. The interviewed stakeholders mentioned that they want to be taken seriously. If eSport functions as a marketing tool, their interests and goals will always be secondary. This undercuts the professionality of the eSports and leads to a lower degree of *compliance* and *empowerment*. To cite a stakeholder, *"A Dutch bond should have the respect of all stakeholders"*. What this indicates is that a certain level of respect of stakeholders is necessary to accept regulations and enforcements. If the regulations and enforcements are accepted, more stakeholders will comply to it and empower the regulative authority. To relate this to the emerging industries, the *board monitoring focus* must incorporate the emerging industry in the core business to increase *compliance* and *empowerment*.

Advancing with the next governing factor of the *managerial incentives*. There can be a focus on financial or social incentives. The analysis indicated that complying with the guidelines of Meta's franchised league is rewarded with maintaining the spot in the franchised league and comes with the financial stability. This financial stability can be perceived as a financial incentive. As mentioned by the stakeholders, this was the most important factor that attracted new stakeholders and investors. This illustrates that financial incentives lead to an increase in *compliance*. Because emerging industries focus on growth that is indicated by *"proof of concept"* through the attraction of new stakeholders and investors, financial incentives can be used to increase *compliance*.

Moving on to the governing factor of *relationship with external stakeholders*. The decision lies between a focus on shareholders or stakeholders. Since a stakeholder perspective is a broader perspective, a broader spectrum of stakeholder interests affects the eSport industry. If this focus in *relationships with external stakeholders* also translates to regulation and enforcement, then it aligns better with that broader spectrum of stakeholder interests. It has been identified that a better match between regulations and stakeholder interests leads to a higher degree of *compliance*. So, for an emerging industry, it is important to have a stakeholder perspective in the *board monitoring focus* to get a better match between regulations and practice.

4.4.3 The interrelation between sociopolitical legitimacy and regulatory legitimacy

The final paragraph of the analysis aims to understand the interrelation between sociopolitical and regulatory legitimacy. The propositions in chapter three show that there is an assumed effect of the sociopolitical legitimacy on regulatory legitimacy. Therefore, the effect of the indicators of sociopolitical legitimacy on the regulatory legitimacy will be discussed hereafter. Starting with the indicator of *pragmatic legitimacy*. If the degree of *pragmatic legitimacy* is higher, more stakeholders think the actions of the industry contribute to the goal of the industry. This creates a situation in which the stakeholders think it is beneficial to comply to the actions of the industry. Therefore, it would be unbeneficial to disobey to the regulations and enforcements. This means that the *pragmatic legitimacy* has a positive effect on the *compliance* of the regulatory legitimacy in emerging industries.

The second indicator of sociopolitical legitimacy is the *moral legitimacy*. The higher the degree of *moral legitimacy*, the more stakeholders think the actions of the industry are ethically responsible and conform to the perceived moral standard of the industry. The result is that more stakeholders accept regulations that correct the market for social failures, like described before. If stakeholders perceive that the market corrections contribute to maintaining or reaching the moral standard of the industry, the more they will empower the regulative authorities. This means that emerging industries can increase the *empowerment* by increasing the *moral legitimacy,* indicating a positive relation.

The final indicator of sociopolitical legitimacy is the *cognitive legitimacy*. If the *cognitive legitimacy* is perceived as high, more stakeholders think the actions are acted out in the best possible manner. This creates a paradox with the effect on the *cooperation.* Because, if the *cognitive legitimacy* reaches the highest possible degree, meaning that every stakeholder thinks the industry acts in the best possible manner, then there is no incentive to improve the actions. The consequence is that there are less incentives to cooperate. But if the *cognitive legitimacy* is perceived to be lower, there is an increase in incentives to cooperate. Furthermore, if the *cognitive legitimacy* is at its lowest, it can be more beneficial to not get involved at all. This suggests that the effect of *cognitive legitimacy* on *cooperation* is a S-shaped curve. Due to the qualitative characteristic of this research, this effect cannot be concluded out of this data.

P4: Sociopolitical legitimacy has positive effect on the regulatory legitimacy

Supported: the analysis illustrated that the higher the degree of sociopolitical legitimacy, the higher the degree of regulatory legitimacy. To explain how this effect occurs in practice, a backwards deduction is useful. Regulations are generated to correct for market and social failures that the market cannot correct itself. But how do regulative authorities know when there are market failures that need to be corrected? The market failures are appointed by the sociopolitical environment that does not accept the course of action the industry is taking. What this means that emerging industries first must determine what course of action is appropriate for the industry through analysis. Then the emerging industry can align the stakeholders through the process of sociopolitical legitimation. If that is clear, the regulation can be created to correct for market and social failures that are not accepted in industry. The regulatory legitimacy is the evaluation of how well the regulations fit the sociopolitical environment with the practices in the market.

5. Conclusion

In this chapter, the results of the analysis are summarized in the form of formulating an answer to the sub-questions. The interpretation of the propositions from the analysis are the starting points for the answers. This provides the necessary information to construct an answer to main research question. Next, the answer to the main research question is formulated and contributes to the existing knowledge gap that was introduced in the first chapter. In conclusion, the managerial implications are formulated to support managers in translating the knowledge to practice.

5.1 Interpretation of results and the contribution to the knowledge

The first sub-question is formulated to understand the meaning of perceived investment risks in emerging industries and how this is measured. The first sub-question is: *"how do expert investors measure the perceived investment risk of emerging industries?"*. The supported P1 indicates that legitimacy affects the perceived investment risk. The analysis identified that investors measure the investment risk from two perspectives. First, there are objective figures that indicate market demand and show if the emerging industry has a right to exist. Second, there are objective figures that are still unknown or can be interpreted differently by investors. In established industries, the objective figures have been generated over the years, but emerging industries often lack objective figures. So, the subjective side of the perceived investment risk is more important in emerging industries than in established industries. Additionally, there are types of investors that only want to invest in industries with a *social impact*. But *social impact* cannot only be attributed to emerging industries, but also to established industries. The analysis shows that indicators of perceived investment risk in emerging industries are like those of the established industry, but the indicators are more influenced by the interpretation of the indicators and how the missing data on indicators is estimated. Therefore, the measurement of perceived investment risk in emerging industries is the same as in established industries but the data that is available in emerging industries is incomplete which increases room for interpretation and estimation.

Furthermore, there is a difference in emerging industries that are truly innovative and those that improve on existing innovations. The first consists of disruptive innovations, the latter consists of incremental innovations. The key insight on this difference is that investors perceive the risk of disruptive innovations as higher, but also have the potential for higher returns than incremental innovations. Investors take this into account when measuring the perceived investment risk. Also, the analysis provided data on the addition of *subjectivity* and *social impact* to complete the indicators that were identified in the literature on perceived investment risk. This broadens the perspective on how the perceived investment risk is measured in emerging industries but also strengthens the measurement of perceived investment risk in established industries. To conclude, the measurement of the perceived investment risk in emerging industries is the same as established industries. The difference between these types of industries resides on the available data and the interpretation of the data. Therefore, the measurement model of the perceived investment risk is complemented with *subjectivity* and *social impact*. Moreover, disruptive innovations experience a higher perceived investment risk but can result in a higher output.

Moving on to the sub-question of *"what is the effect of regulatory legitimacy on the perceived investment risk?"*. The analysis shows that P2a, P2b and P2c are all supported and indicate that regulatory legitimacy has a positive effect on the perceived investment risk. This effect can be summarized in the match between regulations and practice that is indicated by the regulatory legitimacy. The regulatory legitimacy influences the perceived investment risk because it evaluates the corrections for market and social failures of the regulations. If the regulatory legitimacy is perceived as high by the internal and external stakeholders, the degree of *compliance* is high and leads to less disobedience of internal and external stakeholders. *Compliance* is identified as a condition for investments. Furthermore, a high degree of regulatory legitimacy comes with a high degree of *cooperation* between regulative authorities and stakeholders. This results in regulations and enforcement that are perceived to be appropriate to correct for the market and social failures. This directly leads to a decrease in the perceived investment risk but also increases the degree of *compliance*. Moreover, a higher degree of regulatory legitimacy comes with a high degree of *empowerment*. This means that the enforcement of the regulations is perceived appropriate and indicates that regulative authorities are trusted in the creation of regulations and respect the enforcement of the regulations. This decreases the perceived investment risk because it indicates that the regulations and enforcement match the practice in the market. To conclude, increasing the regulatory legitimacy leads to a decrease in perceived investment risk because it eliminates inappropriate market developments and social behavior that form a risk to the investment climate of the emerging industry. So, the effect of regulatory legitimacy on the perceived investment risk is negative.

The next sub-question that requires an answer is *"what is the effect of sociopolitical legitimacy on the perceived investment risk?"*. The analysis showed that P3a, P3b and P3c are supported by the data. To start summarizing these insights, *pragmatic legitimacy* negatively affects the perceived investment risk because a higher degree of *pragmatic legitimacy* means that the stakeholders perceive that the actions of the industry contribute to the goals of the industry. A collective course of action of the industry results in leverage over investors that are interested in investing. Individual organizations come with more risks than a collection of organizations. A high degree of *pragmatic legitimacy* means that there are less discrepancies in the actions of the industry so creates a collection of organizations. This results in a decrease of the perceived investment risk because there is less individual *business risk* and overall *economic uncertainty*. Furthermore, it results in a lower *potential for a large loss* and *return below target* because a collective industry spreads the risks and revenue. The *knowledge* that indicates these effects is crucial in the evaluation of the contribution to the goals of the industry that is executed by an investors in a market analysis. Because emerging industries often lack data, the *subjectivity* plays an important role in the market analysis of emerging industries. Moreover, the more stakeholders accept the course of action, the higher the *social impact* because it affects a larger volume of stakeholders. In conclusion, *pragmatic legitimacy* negatively affects the perceived investment risk through all indicators.

Secondly, *moral legitimacy* negatively affects the perceived investment risk because it indicates to what degree the moral standard of the stakeholders in the industry conform to the moral standard of the overall industry. The most important relation between the indicators is that between *moral legitimacy* and *subjectivity*. This is important because the investment process is an interpersonal process in which the moral standard of the investment seeking organization deviates too much from the moral standard of the investor, it is unlikely that no investment will take place. Therefore, the *moral legitimacy* of the emerging industry must be appealing enough to attract investors. Another important effect of *moral legitimacy* on the perceived investment risk is that on the *potential for a large loss*. In the current society, unethical behavior can result in a large loss because it can damage the public reputation of the industry. Investors weigh this in the perceived investment risk because they do not want to be associated with unethical industries that have a negative *social impact*. To wrap up, *moral legitimacy* negatively affects the perceived investment risk because the moral standard of the industry is important for the reputation that attracts potential investors.

Lastly, *cognitive legitimacy* negatively and positively affects the perceived investment risk. This has been indicated through the effect of *cognitive legitimacy* on the *economic uncertainty* and *knowledge*. A lower degree of *cognitive legitimacy* indicates a higher degree of stakeholders that believe that the actions of the industry can be improved. This increases the demand for an increase in *knowledge* but also translates to an increase in *economic uncertainty*. On one hand, a low degree of *cognitive* *legitimacy* increases the *knowledge* and thereby positively affects the perceived investment risk. On the other hand, a low degree of *cognitive legitimacy* increases the *economic uncertainty* and thereby negatively affects the perceived investment risk. In conclusion, if the *cognitive legitimacy* decreases, it increases the perceived investment risk through *economic uncertainties*. Additionally, it leads to an increase in *knowledge* that can decrease or increase the perceived investment risk, depending on how the increase in *knowledge* supports or denies the perception of the *cognitive legitimacy*.

The remaining sub-question that needs to be answered is *"how do emerging industries increase their legitimacy?"*. The answer starts with increasing the sociopolitical legitimacy of the emerging industry. The internal stakeholders must be aligned in the actions that are contributing to the goal of the industry to increase the *pragmatic legitimacy*. The goal of emerging industries is often to grow as an entire industry. Furthermore, increasing the *moral legitimacy* requires that the actions conform to a moral standard that unifies the internal stakeholders and that is appealing to the external stakeholders. Additionally, the stakeholders must act on the points of improvement. By collective actions that conform to these conditions, the sociopolitical legitimacy will be increased. When it is clear for the industry how the sociopolitical legitimacy can be increased, the regulations and enforcements must be put in place to guard deviations from the desired sociopolitical environment. The regulations must be aligned with the sociopolitical environment to increase the *compliance* to these regulations. Moreover, regulations that are not aligned with the sociopolitical environment can be avoided through structural *cooperation* between regulative authorities and stakeholders. If this is done appropriately, the regulative authorities will be empowered by the stakeholders, leading to more *compliance* and *cooperation*.

Bringing it all together, an answer can be formulated to the main research question of *"how do emerging industries increase the legitimacy to reduce the perceived investment risk?"*. In emerging industries, it is crucial to generate *knowledge* that can support the estimation of the other indicators of the perceived investment risk. Next, the emerging industries must increase legitimacy through two dimensions of legitimacy. The sociopolitical legitimacy can be increased by reaching a consensus among the internal stakeholders over the actions that contribute to the goal of the industry and that are ethically responsible. Forming a collective industry can be realized through working together in overarching organizations, like the franchised league. Furthermore, it is important to identify the actions that do not contribute to the goal industry and that deviate from the moral standard of the industry. Therefore, the stakeholders must stand in constant communication with each other to understand what the moral standard of the industry is. Identifying the moral standard also contributes to the regulatory legitimacy. The regulatory legitimacy can be increased by formulating and enforcing regulations that eliminate the actions that do not contribute to the goal or deviate from the moral standard of the industry. Trail and error with continuous feedback applicable to identify the deviating actions. What this research shows is that increasing the sociopolitical legitimacy must be the focus point for emerging industries. Strategies that increase the sociopolitical legitimacy must then be guarded by regulations and enforcements. The regulatory legitimacy is the indication of how well the regulations and enforcements guard the desired sociopolitical environment. The regulatory legitimacy can be increased continuously adjusting the regulations and enforcements to match the desired sociopolitical environment.

By increasing the sociopolitical and regulatory legitimacy, the industry will be structured in a way that allows the stakeholders in the industry to conform to the desired sociopolitical environment and that is appealing to external stakeholders like investors. To attract investors, the sociopolitical environment must provide growth and financial returns for external stakeholders without compromising the moral standard. By analyzing the legitimacy of emerging industries, investors can measure the degree of perceived investment risk that is negligible. Furthermore, it provides an insight in how much risk must be covered by investors. In other words, it shows how much shares in the organization the investor must ask for their investment to cover the amount of risk that remains. An increase in legitimacy can improve the risk profile that is constructed by the perceived investment risk. An accurate assessment of the legitimacy and the arguments that support that assessment are therefore crucial in the process of legitimation for emerging industries. To translate this answer to concrete implications for managers, the managerial implications will be discussed hereafter.

5.2 Managerial implications

During the analysis, it was identified that the distinction between two different franchised leagues is not sufficient to provide the desired guidelines for managerial implications. This indicates the necessity of an iteration in this research. Prior to this analysis, the distinction was made between two franchised leagues. The analysis showed that it is more sufficient to use a typology that makes a distinction between franchised leagues, semi-franchised leagues, and non-franchised leagues. This incorporates more variation between the choices for governing structures than the distinction between *Riot Games'* and *Activision Blizzard's* franchised leagues. Also, it considers that there are options that lie outside of the governing structure of the franchised leagues to increase the legitimacy and attract investors. The new and old typology with corresponding governing structures are depicted in *Appendix 1*

To translate the interpretation of the results and contributions to knowledge to concrete managerial implications, the operationalization of the governing structure is used. The governing structure provides the basis for the advice on the strategical decisions that are driven by governing factors. Starting with the *ownership structure*. A dispersed ownership is the most appropriate structure to increase the legitimacy because it increases the sociopolitical and regulatory legitimacy. The sociopolitical legitimacy is increased by a dispersed ownership structure because this structure incorporates a broader spread of stakeholder interests and increases the *pragmatic legitimacy*. It also has a positive effect on the regulatory legitimacy because a dispersed ownership structure allows for more structural communication between regulative authority and stakeholders and increases the degree of *cooperation*.

The second governing factor is the *accountability and reporting*. The key insight in this governing factor is that it must allow for the competition to be with other industries and not among internal stakeholders. Therefore, the highest level of *accountability and reporting* must lie with the organization that is positioned the highest and still has the emerging industry as their core business. This increases the *pragmatic legitimacy*. Moreover, due to the young age and amateur level of organizations in emerging industries, it is important to not internalize all *accountability and reporting* in the highest placed organization. There must be room for bottom-up development because the industry is still emerging and would benefit from an increase in support base. This increases regulatory legitimacy through *cooperation*.

The third governing factor is that of *board monitoring focus*. The implication for this governing factor is the same as for the *accountability and reporting*. The *board monitoring focus* in emerging industries must allow for all stakeholders to primarily contribute to the goals of the industry and not serve those of other industries. This leads to an increase of sociopolitical legitimacy through an increase of *pragmatic* legitimacy. Additionally, this leads to an increase in regulatory legitimacy through *compliance* and *empowerment*.

The fourth governing factor is that of *managerial incentives*. The advice on this governing factor is simple. The goal of emerging industries is to grow, and investors want to transform their investments into profits. It can be beneficial for an emerging industry to increase their legitimacy though social incentives. But it is more destructive if these social incentives are at the expense of the financial incentives. Emerging industries must generate the purpose to exist by disrupting a market and capture market share. Financial incentives contribute more to that goal than social incentives.

The fifth governing factor is *risk management and control* and these implications only correspond to the sociopolitical legitimacy and perceived investment risk. A *risk management and control* structure that spreads the risks and revenue among the internal stakeholders leads to a decrease in *potential for a large loss* and *potential for a large loss*. Therefore, this structure is the most applicable for emerging industries to increase the sociopolitical legitimacy and reduce the perceived investment risk.

The sixth governing factor is the *governing bodies* and is important to increase the sociopolitical and regulatory legitimacy. External and independent *governing bodies* are important to avoid conflict of interests and maintain integrity. It leads to an increase of the sociopolitical legitimacy through an increase in *moral legitimacy*. It also has a positive effect on the regulatory legitimacy though an increase in *compliance* and *empowerment*.

The final governing factor is the *relationship with external stakeholders*. It has been clear throughout this research that investors are not the only important external stakeholders. Furthermore, a broader stakeholder perspective incorporates more stakeholder interests and generates a more appealing sociopolitical environment for investors. A stakeholder focus serves the sociopolitical legitimacy through an increase in *pragmatic legitimacy*. Also, a broader perspective of the regulative authority results in regulations and enforcements that not only correct for market failures, but also corrects for social failures. This leads to an increase in regulatory legitimacy through an increase in *compliance*.

6. Discussion

In this chapter, the limitations of this research are identified and formulated. Their effect on the interpretation of the results is crucial to understand the contribution to the knowledge. In other words, it illustrates what conclusions cannot be drawn from this research. This results in new scientific gaps that are worth exploring to extend the knowledge on legitimacy in emerging industries. First, the limitations are formulated. Afterwards, appropriate possibilities for future research are suggested.

6.1 Limitations

The first two limitations come from the qualitative research method that is used in this research. The advantage that comes from qualitative research is that a new phenomenon can be explored. New phenomena are difficult to analyze in a quantitative research because the understanding of that phenomenon is too limited (Baxter & Jack, 2008). Therefore, the qualitative research was the most appropriate research method. Qualitative research can provide the grounds for quantitative research but also allows researchers to analyze new phenomena in depth. But this also illustrates the disadvantages of qualitative research methods. Due to the depth of qualitative research methods, the generalizability is limited. Furthermore, a disadvantage of qualitative research lies in the inability to use a random sample because the number of respondents is too limited because of the required depth of the interviews. This can result in a bias in the selection of respondents that affects the results (Young et al., 2018). These disadvantages must also be discussed in relation to this research.

The first limitation comes forth out of the disadvantage that of the selection bias of the researcher. This qualitative case study was conducted in an emerging industry with a global character. Although, all respondents operate within the Benelux. The Benelux eSport industry is identified as being behind in the business cycle as compared to all the other eSport markets around the world. Therefore, the insights are applicable to this specific industry but might not correspond to emerging industries that are further in the business cycle. Also, cultural differences can influence the process of legitimation and this research did not account for those differences. The goal was to involve more stakeholders from different eSport markets around the world, but the regional boundedness of the connections of the researcher with stakeholders made this too difficult to accomplish.

The second limitation that must be discussed comes from the disadvantage of generalizability. It was desirable to interview more than ten stakeholders in the emerging industry, but also more than five investors to achieve the desired generalizability of the findings and these desirable numbers were unrealistic. As mentioned in the research methodology, the research was conducted during a pandemic. The consequences of the measures to contain the Covid-19 virus affected every industry and everyone’s personal life. This resulted in different priorities and affected the number of respondents that had time or the ability to participate in this research.

Another limitation arose through the characteristic of a qualitative case study. By analyzing a specific emerging industry, the complex process of legitimation could be explained. Although the eSport industry shows generalizable traits of emerging industries, like the lack of legitimacy, targeted growth, lack of regulations and the demand for the attraction of investors, not all findings are relatable to all emerging industries. By focusing on a specific industry, the findings are more appropriate with similar characteristics.

In conclusion, the limitations of this research can be found in the selection bias of the researcher, generalizability and characteristics that are limited to the specific case. These limitations do not mean the results can not be translated to different emerging industries, but it shows that the findings must be interpreted with caution. This caution can be decreased through future research. The possibilities for future research are discussed hereafter.

6.2 Future research possibilities

It has been identified that this research is limited in the interpretation of the results through the selection bias of the researcher that occurs in qualitative research. The case study was limited to the eSport market in the Benelux because the regional boundedness of the researcher. Future research in legitimacy in emerging industries must be conducted in cases that operate in different regions. It is preferable to conduct a similar research in the eSport markets of North America or Asia. These markets have different cultures and are the frontrunners in the eSport. Conducting this research results in a better understanding of how legitimacy can be increased in different cultures and industries that are further in the business cycle.

Another possibility for future research lies in the limitation of the generalizability of the findings of this research. Although different emerging industries can draw lessons from this research, more generalizability is required to interpret the findings in different emerging industries. Therefore, it is important to conduct a qualitative research on legitimacy in emerging industries to identify overarching actions that contribute to the legitimacy of emerging industries. Furthermore, this research must draw statistical conclusions to the effect of legitimacy on the perceived investment risk.

The third possibility for future research must overcome the limitation of the characteristics of a qualitative case study. A comparative case study between the process of legitimation in emerging industries could provide insight in what findings are limited to the case and what findings hold in multiple cases. This research could be conducted with both a qualitative and quantitative research methodology.

The fourth and final possibility for future research is not directly linked to a limitation of the research but could be insightful for emerging sport industries like the eSport. This comes forth out of the ongoing debate whether eSports is perceived as a sport or not. By conducting a similar research on legitimacy in different emerging sports that do not experience the challenge to be perceived as a sport, the findings can be related to the overarching characteristics of emerging sports. An example is the Ultimate Fighting Championship (UFC) that has the physical trait of traditional sports but is relatively new.

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Appendices

Appendix 1: Typology of franchised leagues

Old typology of the governing structure of franchised leagues

Governance factors	Financially controlled league (Activition Blizzard)	Strategically controlled league (Riot Games)
Ownership structure	Dispersed ownership	Complete ownership
	Game is intellectual property	Game is intellectual property
Accountability and reporting	Separate accountability of league and game developer	Full control and accountability of game developer
	League reporting to game developer	
Board monitoring focus	eSport as a marketing tool	eSport as the core business
Managerial incentives	Financial incentives for eSport organization in term of a share of sold the broadcasting rights	Social (and environmental) incentives alongside the financial incentives
Risk management and control	City-based teams	Not regional bounded teams
Governance bodies	External GSO, like the ESIC	Internally
Relationships with external stakeholders	Focus on shareholders	Focus on stakeholders

New typology of the governing structure of franchised leagues

Governance factors	Franchised league	Semi-franchised league	Non-franchised league
Ownership structure	Dispersed ownership	Semi-dispersed ownership with league operator and game developer	Complete ownership with league operator, a large amount of league operators
	Game is intellectual property of the game developer	Game is intellectual property of the game developer	Game is intellectual property of the game developer
Accountability and reporting	Full accountability with the league	Accountability of teams with league, and the league with the game developer	Full accountability and reporting of game developer
	League reporting to game developer	Teams reporting to league, and league reporting to game developer	
Board monitoring focus	eSport as a marketing tool	eSport as core business	eSport as a marketing tool
Managerial incentives	Financial incentives for eSport organization in term of a share of sold the broadcasting rights	Social incentives in the terms of supportive activities	No financial incentives
Risk management and control	City-based teams	Regional bounded teams	Unbounded teams
Governance bodies	Internally	Internally	External GSO, like the ESIC
Relationships with external stakeholders	Focus on shareholders	Focus on stakeholders	Focus on stakeholders

Appendix 2: Interview guidelines for investors

Objective: how does the degree of legitimacy affect the perceived investment risk

Purpose:

"what is the effect of regulatory legitimacy on the perceived investment risk

"what is the effect of sociopolitical legitimacy on the perceived investment risk?"

P2a: Compliance in regulatory legitimacy has a negative effect on perceived investment risk

P2b: Cooperation in regulatory legitimacy has a negative effect on perceived investment risk

P2c: Empowerment in regulatory legitimacy has a negative effect on perceived investment risk

P3a: Moral sociopolitical legitimacy has a negative effect on the perceived investment risk

P3b: Pragmatic sociopolitical legitimacy has a negative effect on the perceived investment risk

P3c: Cognitive sociopolitical legitimacy has a negative effect on the perceived investment risk

Introduction:
- What is your role in the organization?
- Do you have any experience in estimating the investment risk for emerging industries?
- Do you have any knowledge about eSport?

Investment risk
- What do investment risks mean to you?
- How do you determine whether to invest in an (emerging) industry?

Objective figures vs. subjectivity
- What are the objective indicators of investment risk?
    - Why do these indicators measure the investment risk?
    - *Compare to theory and ask about the differences*

Indicator	***Example***
A large loss	Loss of principal, large drop in price, large negative return, etc.
Return below target	Downward price fluctuation, cut in dividend, nonpayment of interest, etc.
Business risk	Beta, debt level, cost control, competitive position, industry type, etc.
Liquidity	Ability to sell quickly, degree of investor interest, volume, etc.
Knowledge	Amount, quality, and timeliness of information about the firm

Economic uncertainty	Prospect for economy, the market, interest rates, etc.

- In emerging industries, not all indicators can be analyzed due to the absence of hard data, how do you handle the absence of data?
    - How can the industry contribute to the absence of hard data?
    - Do you view this as the role of the industry or not?
- On the other side, what are the subjective indicators of investment risk?
    - How do these indicators contribute to the perceived investment risk?

Emerging vs. established industries
- Does the estimation of the investment risk for emerging industries differ from the estimation of the investment risk for more established industries?
    - How does this difference show?
    - Why is there no difference?

Legitimacy
- What do you think that legitimacy means?
- How do you think it can be measured?
- Do you measure legitimacy?
    - How?
- What role does legitimacy play in the estimation of the perceived investment risk in emerging industries?

Regulatory legitimacy
- What role does regulations in the industry play in the estimation of the perceived investment risk?
    - Does the compliance (or disobedience) weigh-in in this estimation?
        - Why (not)?
    - Does cooperation between regulative authority and the organizations in the industry weigh-in in the estimation?
        - Why (not)?
    - Does the enforcement of the regulations weigh-in in this estimation?
        - Or does the appropriateness of the enforcement?
        - Why (not)?

Sociopolitical legitimacy
- What is the most important goal for emerging industries?
- How do you evaluate whether the actions of the industry contribute to reaching that goal?
    - Why?
- How would you evaluate whether these actions are ethically responsible?
    - What do you think is ethically irresponsible to do in emerging industries?
    - Why so?
    - How can you maintain ethical responsible behavior in emerging industries?
- What could emerging industries do to improve this?

Appendix 3: Interview guidelines for league operators

Goal

The goal of this interview is to analyze the implementation of franchised leagues and how this influenced the legitimacy of the eSport industry. The question that needs to be answered is as follows:

"how do emerging industries increase their legitimacy?"

1. Introduction questions

- How did you get involved in the eSport industry?
- Why did you choose to work at Meta?
- What is your role in your organization?
- What responsibilities come along with that role?
- What do you think is the main challenges for the eSport industry?
- Do you think the eSport is a legitimate sport?
    - Why (not)?
- Do you think eSports should be an Olympic sport or should it create it's own global eSports wide tournament?

2. The development of franchised leagues

Meta did implement a semi- franchised leagues as their structure but did it differently (no buy-ins but earning your place in the league via applications). ESL Choose a non-franchising league as their structure

1: Their format, and why this is chosen

2: The franchised league, how this differs from the structure ESL choose and why this seemed more appropriate than the franchised leagues

Before (non-franchised league structure):

- Can you describe how the competition was structured before franchising? (format)
    - Why?
    - What are the pro's and con's of such a structure?
    - Why do you award pro licenses to organizations instead of player rosters?
- The structure:
    - How was the competition organized in your eSport?
    - Who organized the competition?
    - What was the role of the game developer in this stage?
    - What did eSport mean to the game developer (marketing tool or core business)?
    - How was the eSport financed?
    - How was the eSport governed (external GSO or internally by game developer)?

After ((semi-)franchised league structure):

- Why did or did your organization choose a franchised league as format?
- How did/can the franchised league change this?
    - How did the organization of the competition change?
    - Did other actors get involved in organizing the eSport industry?

    - Did the role of the game developer change, and how?
    - How did the role of eSport change for the game developers?
    - How did the financing of the eSport change?
    - How did the governing/regulation change?

4. Sociopolitical legitimacy

Before (non-franchised league structure):

    - What important (strategical) actions have ESL conducted in the recent years?
    - How do these contribute to the legitimacy of the eSport industry?
    - What is the main objective for the eSports industry?
    - Do you believe that all ESL's actions help it to achieve that goal?
        - Why?
    - Do you believe that ESL's actions are "what should be done" regardless of whether they contribute to meeting goals?
        - Why?
    - Do you believe that ESL carries out its activities in the best possible manner?
        - Why?

After (franchised leagues structure):

- Do you believe franchised leagues help the industry achieve it's main goal more quickly?
    - Why?
- Do you believe that the implication of franchised leagues is what should have been done?
    - Or do you believe another direction should've been taken (like ESL)?
- Do you believe the franchised leagues can be improved?
    - How?
    - Why not?

5. Regulatory legitimacy

Before (francised-league structure):

- What regulations have been imposed by ESL?
- What does ESL do about competitive integrity?
- What does ESL do about player protection?
- Regulatory legitimacy:
    - Who provides the regulation in the ESL competition?
    - Per institution:
        - Have you or other organizations in the eSport ever disobeyed to the regulations?
            - Why do you think that is?
        - How do you see the cooperation with this regulative authority?
            - Do you think there is room for more cooperation between regulative authority and eSport organizations?
        - Do you feel the enforcement of the regulations is appropriate?
            - Why (not)?

After (franchised leagues structure):

- Did the implication of franchised leagues change the regulations in the eSport industry?
    - Difference in regulative authority?
    - Difference in rules?
    - Difference in enforcement of the regulations?
- How do you think the implication of franchised leagues change the compliance with regulations?
    - Did the disobedience increase or decrease?
        - And why do you think that is?
- How do you think the implication of the franchised leagues change the cooperation between regulative authorities and eSport organizations?
    - More or less cooperation?
- How do you think that the implication of franchised leagues change the enforcement of the regulations?
    - Do you think this is more appropriate than before?

3. Overall

- What can the eSport do to become more legitimate?
- Sociopolitical legitimacy:
    - How do you think that the franchised leagues are accepted by the eSport industry as being the right course of action?
        - How does this show?
    - How can the eSport industry increase the acceptance of the course of action?
- Regulatory legitimacy:
    - How do you think that the franchised leagues contributed to the regulation of the eSport industry?
        - How does this show?
    - How can the eSport industry increase the acceptance/obedience of the regulations?

6. Interrelation sociopolitical legitimacy and regulatory legitimacy

- Do you personally accept the course of action of the eSport industry with the implication of franchised leagues?
    - Do you rather use different structures for the eSport or would you conform to the structure of the franchised leagues?
    - How does this influence your feeling of obligation to obey to regulations?
    - How does this influence the cooperation with regulative authorities?
    - How does this influence your attitude towards enforcement of regulations?

Appendix 4: Interview guidelines for eSport teams

Goal

The goal of this interview is to analyze the implementation of franchised leagues and how this influenced the legitimacy of the eSport industry. The question that needs to be answered is as follows:

"how do emerging industries increase their legitimacy?"

1. Introduction questions

- How did you get involved in the eSport industry?
- Why did you choose to work at your organization?
- What is your role in your organization?
- What responsibilities come along with that role?
- What do you think are the main challenges for the eSport industry?
- Do you think the eSport is a legitimate sport?
  - Why (not)?
- Do you think eSports should be an Olympic sport or should it create it's own global eSports wide tournament?
- What do you think that a legitimate industry is?

BEFORE

2. The development of franchised leagues

Meta did implement franchised leagues as their structure but did it differently (no buy-ins but earning your place in the league via applications). The aim of this interview is why they opted for a franchised league and not another structure.

1: Their format, and why this is chosen

2: The franchised league, how this differs from the structure ESL choose and why this seemed more appropriate than the franchised leagues

- Can you describe how your organization structures the competition? (format)
  - Why?
  - What are the pro's and con's of such a structure?
- The structure before franchising:
  - How was the competition organized in your eSport?
  - Who organized the competition?
  - What was the role of the game developer in this stage?
  - What did eSport mean to the game developer (marketing tool or core business)?
  - How was the eSport financed?
  - How was the eSport governed (external GSO or internally by game developer)?

3. Sociopolitical legitimacy

- How do you feel that the structure before franchising contributed to reaching the goals of the eSport?
  - Do you believe that this structure helps it to achieve that goal?
    - Why?
  - Do you believe that this structure is "what should be done" regardless of whether they contribute to meeting goals?

        - Why?
    - Do you believe that this structure carries out its activities in the best possible manner?
        - Why?
- What important (strategical) actions has your organization conducted in the recent years?
    - How do these contribute to the legitimacy of the eSport industry?

4. Regulatory legitimacy

- What regulations have been imposed in that structure?
- How did that structure handle competitive integrity?
- How did that structure handle player protection?
- Regulatory legitimacy:
    - Who provided the regulation in that competition?
    - Per institution:
        - Have you or other organizations in the eSport ever disobeyed to the regulations?
            - Why do you think that is?
        - How do you see the cooperation with this regulative authority?
            - Do you think there is room for more cooperation between regulative authority and eSport organizations?
        - Do you feel the enforcement of the regulations is appropriate?
            - Why (not)?

AFTER

5. The development of franchised leagues

After (the franchised league structure):

- Why did or didn't your organization choose a franchised league as format?
- How did/can the franchised league change this?
    - How did the organization of the competition change?
    - Did other actors get involved in organizing the eSport industry?
    - Did the role of the game developer change, and how?
    - How did the role of eSport change for the game developers?
    - How did the financing of the eSport change?
    - How did the governing/regulation change?

6. Sociopolitical legitimacy

After (franchised leagues structure):

- Do you believe franchised leagues help the industry achieve it's main goal more quickly?
    - Why?
- Do you believe that the implication of franchised leagues is what should have been done?
    - Or do you believe another direction should've been taken (like ESL)?
- Do you believe the franchised leagues can be improved?
    - How?
    - Why not?

7. Regulatory Legitimacy

After (franchised leagues structure):

- Did the implication of franchised leagues change the regulations in the eSport industry?
  - Difference in regulative authority?
  - Difference in rules?
  - Difference in enforcement of the regulations?
- How do you think the implication of franchised leagues change the compliance with regulations?
  - Did the disobedience increase or decrease?
    - And why do you think that is?
- How do you think the implication of the franchised leagues change the cooperation between regulative authorities and eSport organizations?
  - More or less cooperation?
- How do you think that the implication of franchised leagues change the enforcement of the regulations?

Do you think this is more appropriate than before?

8. Overall

- What can the eSport do to become more legitimate?
- Sociopolitical legitimacy:
  - How do you think that the franchised leagues are accepted by the eSport industry as being the right course of action?
    - How does this show?
  - How can the eSport industry increase the acceptance of the course of action?
- Regulatory legitimacy:
  - How do you think that the franchised leagues contributed to the regulation of the eSport industry?
    - How does this show?
  - How can the eSport industry increase the acceptance/obedience of the regulations?

9. Interrelation sociopolitical legitimacy and regulatory legitimacy

- Do you personally accept the course of action of the eSport industry with the implication of franchised leagues?
  - Do you rather use different structures for the eSport or would you conform to the structure of the franchised leagues?
  - How does this influence your feeling of obligation to obey to regulations?
  - How does this influence the cooperation with regulative authorities?
  - How does this influence your attitude towards enforcement of regulations?