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LEGITIMATE TO WHOM? LEGITIMACY JUDGMENT ASYMMETRIES AS INSTITUTIONAL ENTREPRENEURSHIP OPPORTUNITIES (INTERACTIVE PAPER)

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Principal Topic

Legitimacy is crucial to firm survival and growth. By complying with taken-for-granted rules and norms, firms earn legitimacy and, as a result, elicit critical resources from key stakeholders (Aldrich & Fiol, 1994). While legitimacy is ultimately a collective-level phenomenon, individuals’ judgments and perceptions coalesce to guide those assessments. As a result, legitimacy judgments vary across actors. Because firms often encounter conflicting institutional demands when entering a market for the first time (Pache & Santos, 2010), those judged to be legitimate by one group may be judged illegitimate by others.

Method

We advance understanding of institutional entrepreneurship with theory to explain how firms take advantage of differences in legitimacy judgment modes to resolve legitimacy conflicts. These judgments may be active or passive (Tost, 2011). The two modes differ with respect to the sources of information used, extent of cognitive effort employed, and effects on the legitimacy judgment reached. In the passive mode, individuals use cognitive shortcuts based on readily available information. In the active mode, individuals’ judgments are based on effortful evaluations. Such differences produce legitimacy judgments that differ based not on the institutional appropriateness of firm actions, but on judgments triggered by different legitimacy cues. As a result, legitimacy conflicts can emerge. We define a symmetrical legitimacy conflict as two people forming different legitimacy judgments based on the same information. For example one person views bribery as legitimate while another does not. We define asymmetrical legitimacy conflict as one in which people form conflicting legitimacy judgments based on different sources of legitimacy cues.

Results and Implications

We argue that young firms, which do not have the resources to engage in a lengthy conflict with incumbents, may simply attempt to diffuse the conflict by appealing to more broadly accepted institutions, thereby contributing to the plurality of institutions in a field (Kraatz & Block, 2008). The key to success is the way in which new firms connect their practices with broader institutional logics, crafting their identities to fit the socially constructed and legitimated norms of the market itself. We explain how some firms diffuse the conflict by taking advantage of the information-use patterns inherent to active and passive legitimacy judges.

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