

Impact of Institutional Change on Organizational Legitimacy: The Case of the

Bulgarian Wine Sector

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ABSTRACT

Organizational legitimacy can be viewed as conformity to broadly-accepted standards, or institutions. The main question we are looking to answer with the present study is what happens when these institutions change? Which institutions will organizations adhere to? This paper analyzes how institutional change affects organizational legitimacy. A framework was designed to take into consideration the types of changes based on the different types of institutions (formal versus informal), which are also regarded as sources of legitimacy. A typology of legitimacy profiles based on the different sources sought by organizations was developed. We tested the theoretical framework with a qualitative on the Bulgarian wine sector in 2007. The latter represents the perfect setting for the present study since both the country and the industry encountered major institutional transformations over the last two decades. The results show that the type of legitimacy profile adopted depends on the type of institutional change as well as the specific organizational characteristics.

Key words: organizational legitimacy, institutional change, strategy, wine.

Impact of Institutional Change on Legitimacy Strategies: The Case of the Bulgarian Wine Sector

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INTRODUCTION

Gaining legitimacy is an important issue for new organizations (Stinchcombe 1965; Singh, Tucker and House 1986; Shepherd and Zacharakis 2003; Delmar and Shane 2004), organizations trying to penetrate new markets due to liability of foreignness (Zaheer 1995), and organizations that went under transformation due to complex institutional change (Dacin, Goodstein and Scott 2002). The process of institutional change can be both incremental and discontinuous (Scott 2001: 48), caused by exogenous or endogenous sources (Galvin 2002). In general, it affects both institutions on formal level (such as written rules and regulations) and informal level (such as unwritten behavioral constraints) (North 1990). But while formal institutions can be changed over night, the informal ones change in a gradual manner (North 1992: 477).

For the purpose of this study, we look at the complex process of change from planned to open-market economy that has occurred in economies in transition since 1989. Organizations operating in such economies face higher level of environmental uncertainty due to the lack of real and running institutional framework (de Larosiere 2001; Hoskisson *et al.* 2000). In addition to this, we look at the effect of globalization, which adds to the level of environmental uncertainty. Demonstrating legitimacy in such environments becomes very important for organizations in order to gain access to other resources (Pfeffer and Salancik 1978).

Organizational legitimacy is considered as evaluation of the organizational actions given by external constituencies (DiMaggio and Powell 1983). We look at it from integrative point of view and defined as: generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman 1995: 574).

Herein, institutions are considered as sources of legitimacy. Thus, institutions determine the types of legitimacy conferred. Scott (2001: 48) looked at institutions as being comprised of regulative, normative and cultural-cognitive elements, which provide stability to human interactions. Based on the three pillars of institutions, Scott (2001: 61) determined three types of legitimacy: regulatory, normative and cultural-cognitive. Later,

there was a forth type of legitimacy added to Scott's conceptual framework - legitimacy coming from the industry (Zimmerman and Zeitz 2002).

Thus, in this study we examine the effect of institutional change (characterized with high environmental uncertainty) on legitimacy profiles developed based on legitimacy types, especially in the context of organizations operating in economies in transition.

To explore this framework in the context of the Bulgarian wine industry, we used a qualitative research carried out on the Bulgarian wine sector in 2007. We found common elements in the legitimacy profiles of organizations on some dimensions (layers of the change). However, depending on the four pillars of legitimacy, legitimacy profiles vary across organizations.

1. THEORETICAL SETTING

1.1. Institutions and Institutional Change

The institutional economy approach regards institutions as constraints that shape interaction and provide a structure to everyday life (North 1990: 3). By setting limitations, institutions reduce the cost of exchange interactions (North 1990: 36). Institutions can be formal and informal. The formal ones are written rules and regulations, such as constitutions, statutes, laws, bylaws and individual contracts (North 1990: 47). The informal ones are unwritten behavioral constraints, such as routines, customs, traditions and conventions perceived to be part of the heritage that we call culture (North 1990: 36).

Even though institutions defining/structuring the institutional environment of organizations imply some level of stability and persistence, they are also subject to change (Scott 2001: 48; Dowling and Pfeffer 1975). The process of change can be both incremental and discontinuous (Scott 2001: 48) as well as caused by exogenous sources (i.e., change in political regime, economic and social processes) or endogenous sources (i.e., emergence and decline of powerful actors or activities) (Galvin 2002). This institutional change creates sources of pressure on organizations and ultimately

motivates organizations to change (Dacin, Goodstein and Scott 2002; Dowling and Pfeffer 1975).

In terms of their rate of change, institutions differ depending on their type - while formal rules and regulations can be changed over night, informal institutions, by being deeply embedded in the culture of society, show greater resistance to change (North 1992: 477). In addition, enforcing formal institutions without considering informal institutions brings risk to the success of the whole process of institutional change (Ovin 2001).

In this study, we look at the discontinuous process of institutional change that has taken place in economies in transition. This process is related to a profound transformation of the socio-economic system from planned to open-market economy and it affected all levels of the environment – from local and regional to industry and national level (Zimmerman and Zeitz 2002).

1.2. Institutional Change in Economies in Transition

The phenomenon of transition from planned to open-market economy has no precedent in history and/or in social sciences research. Firms in transition economies operate in environment, which is immensely different from that of a typical Western firm (Peng and Heath 1996). The change from planned to market-based economy is lengthy and very costly and it affects all aspects of the socio-political and economic life within a country (Blejer and Skreb 2001: 11-12). The transition led to structural and macroeconomic change (including price and foreign trade liberalization, opening to capital markets and freedom to enterprise (de Larosiere: 478-479) as well as a profound institutional change on all environmental levels. The institutional change in economies in transition is associated with building of coherent legal and market-based institutions (de Larosiere 2001: 482). Building adequate market-based institutions is a very gradual process based on new laws, new organizations and new behaviors of the economic actors (Kolodko 2001: 45). The lack of them has allowed a large increase in opportunism, rent seeking, insider privileges, bribery and corruption in countries (de Larosiere 2001; Hoskisson *et al.* 2000). This created higher level of uncertainty and risks for the domestic firms as well as foreign investors (Hoskisson *et al.* 2000).

On another hand, progressively many transition economies opened to foreign markets and joined the regional and international trade and industry associations (Hoskisson *et al.* 2000). New relationships between foreign and domestic enterprises (such as strategic alliances) started replacing import-export and subcontracting relationships (Hoskisson *et al.* 2000).

As a result, an organization that functions in economy in transition faces a lot of uncertainty related to lack of relevant institutional framework. This is due to the fact that even though the formal rules can be changed overnight, the informal rules of behavior “embodied in customs, traditions, and codes of conduct are more persistent and can change only progressively” (North 1990: 6). In addition, during the process of transition, the informal rules that guide firm (and individual) behavior become more important because the previous institutional framework is not valid anymore; at the same time, the new framework has not been developed yet (Peng and Heath 1996).

Since legitimacy results from the process of institutionalization (Mazza 1999: 45), one can wonder what is the effect of institutional change (characterized with high environmental uncertainty) on organizational legitimacy, especially in the case of economies in transition. In general, organizations functioning in environments characterized with high uncertainty will attempt to demonstrate legitimacy (conferred by various resource-holders). In such environments, legitimacy becomes crucial for organizational survival (Suchman 1995) since legitimacy is a resource, which organizations need in order to gain an access to other environmental resources (Pfeffer and Salancik 1978).

1.3. Organizational Legitimacy

Legitimacy is a concept created and existing on the border line between the organization and the socio-cultural environment, in which it exists and operates¹ (Baum and Rowey 2003: 6). Organizational legitimacy represents the evaluation of an organization by a social system (Deephouse and Carter 2005). It is conferred by stakeholders who assess an organization’s conformity to specific standards or models

¹ Legitimacy implies that the organization is an open system (Katz and Khan 1966). The organization influences by the environment, in which it exists and functions (DiMaggio and Powell 1983; Scott 2003: 125) and it influences the environment (Pfeffer and Salancik 1978).

(Ruef and Scott 1998: 880). “Legitimacy is possessed objectively, yet created subjectively” (Suchman 1995: 574). Legitimacy is usually defined as an “anchor-point of vastly expanded theoretical apparatus addressing the normative and cultural-cognitive forces that constraint, construct and empower organizational actors” (Suchman, 1995).

In the management literature, two main approaches to legitimacy exist – strategic and institutional (Suchman 1995; Elsbach 1994). The strategic approach views legitimacy as operational resource that organizations acquire from the social environment and thereafter use to gain other resources (Suchman 1995; Ashforth and Gibbs 1990; Dowling and Pfeffer 1975). On the other hand, the institutional perspective (DiMaggio and Powell 1983; Meyer and Rowan 1991; Powell and DiMaggio 1991) adopts a more passive view on organizations – they are regarded as being dependent on the social environment and that the managerial decisions are being constructed by widely accepted belief system (Suchman 1995). In fact, the above-mentioned approaches to legitimacy are not mutually exclusive. Scott (1991) mentioned organizations are not passive and they can make strategic choices, including in terms of legitimacy.

Thus, for the purpose of this study we adopted an integrative approach to legitimacy combining the two perspectives – institutional and strategic - introduced by Suchman (1995: 574): *Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.*

Different stakeholders belonging to each level of the environment confer different types of legitimacy when assessing the organization’s adherence to requirements of the regulatory, normative, cultural-cognitive and industry standards. In general, the focal organization faces challenges of how to prioritize the institutions functioning on different environmental levels. Moreover, layers of the environment change over time and across place (Scott 2001; 59 and 60). Indeed, the challenge consists in identifying the relevant layers of the environment to take into consideration when the organizations draw their legitimacy strategies.

In terms of legitimacy processes, the literature on legitimacy mentions three of them: gaining, maintaining, and repairing legitimacy (Suchman 1995: 586). In the present study, we look at how organizations operating in emerging economies gain legitimacy. It

is appropriate because as Suchman (1995:586) says, it concerns poorly institutionalized environment, in the case of sector building, or for new entrants in an old sector. Hence, we think it is the most appropriate legitimacy dynamic to take into consideration. Furthermore, we try to specify what types of legitimacy a company operating in emerging economy can gain in order to assure the acquisition of other resources.

1.4. Types of Legitimacy

In the management literature, there is a diverse typology of legitimacy depending on the context examined and the particular research problem addressed (Suchman 1995; Higgins and Gulati 2006; Dacin, Oliver and Roy 2007, among others). In fact, institutions as sources of legitimacy determine the types of legitimacy conferred. Scott (2001: 48) extends the view on institutions and regards them as composed of regulative, normative and cultural-cognitive elements, which provide stability to human interactions. Based on these three pillars of institutions, Scott (2001: 61) discusses three main types of legitimacy: regulatory, normative and cultural-cognitive. Zimmerman and Zeitz (2002) added a forth type – legitimacy coming from the industry, which has not been empirically tested before.

1.4.1 Regulatory Legitimacy

Regulatory legitimacy is conformity to regulatory standards, rules and laws (Scott 2003: 136; Zimmerman and Zeitz 2002), which by definition have formal character. In general, regulatory bodies (governments, trade associations, professional organizations) set “explicit regulative processes” (Scott 1995: 35), which include rules, monitoring and sanctions in case of non conformity (Scott 1995: 35; Zimmerman and Zeitz 2002).

Thus, the legal rules and regulations are formal institutions that represent source of regulatory legitimacy and the government bodies that grant it are state agencies on different levels – regional, local, national and international (Ruef and Scott 1998; Baum and Oliver 1991).

Previous studies show that regulatory legitimacy is the first type that organizations try to acquire in order to gain legitimacy. For instance, Delmar and Shane

(2004) found out that new ventures establishing a legal entity have a higher likelihood of survival.

1.4.2 Normative Legitimacy

Normative legitimacy is compliance to broadly-accepted informal norms and values (Scott 2003: 136). In this case, we consider normative legitimacy as an informal social construct that has been developed and institutionalized over time. Scott (2001: 54-55) defines values as “conceptions of the desirable” associated with “standards to which existing structures or behaviors can be compared with.” Norms contain the notions of “how things should be done” (Scott 2001: 54-55). Moreover, the normative component places emphasis on “normative rules that introduce a prescriptive, evaluative, and obligatory dimension into social life” (Scott 1995: 37). Organizations have to apply not only generalized societal norms but also a variety of standards that have originated in different professional fields (DiMaggio and Powell 1983).

Often, the sources of normative legitimacy are the public opinion (expert and non-expert) (Deephouse and Carter 2005), and professional associations (Ruef and Scott 1998).

1.4.3 Cultural-Cognitive Legitimacy

Cultural-cognitive legitimacy is conformity to widely-held cultural beliefs and taken-for-granted practices (Scott 2001; Westphal, Gulati and Shortell 1997). According to Ruef and Scott (1998), “cognitive elements are: rules that specify what types of actors allow to exist, what structural features they exhibit, what procedures they can follow, and what meanings are associated with these actions.”

The sources of cultural-cognitive legitimacy are the taken-for-granted assumptions underling the social system (Scott 2001: 52; Ruef and Scott 1998), which have informal character.

According to Suchman (1995), the cultural-cognitive dimension of legitimacy is “the most subtle and the most powerful” as well as the most difficult to obtain and manipulate.

1.4.4 Legitimacy Derived from the Industry

The institutional environment of organizations consisted of the local community for Selznick (1966) where as the new institutionalism in sociology considers the societal environment as the basis of their analysis (Scott and Meyer, 1991). Hence, adding the industry bridges the gap between these two levels of analysis.

Industry legitimacy is conformity to practices derived from the industry (Zimmerman and Zeitz 2002). In general, industry practices have prescriptive character and perceived as informal institutions. In most of the cases an overlap exists between the broader societal and the industry dimensions of legitimacy. However, legitimacy derived from the industry is theoretically justified when different sources of legitimacy are in conflict when assessing the congruence of an organization with its environment. For example, for organizations evolving in globalized industries, there might be a misalignment between local standards and standards set by the industry on an international level.

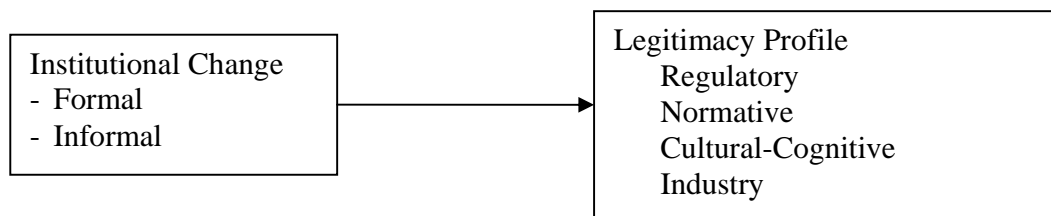
Furthermore, industries vary on their legitimacy level – for example, a new industry provides its member companies with little legitimacy due to lack of history, no established standards, and novel practices (Zimmerman and Zeitz 2002).

Thus, as Kostova and Zaheer (1999: 67) mentioned the “different types of legitimacy reflect the different types of institutions operating in the environment,” which implies that different types of legitimacy have different sources – regulatory legitimacy is based in written rules and regulations, normative legitimacy – on unwritten norms, cultural-cognitive on taken-for-granted assumptions and industry legitimacy – on industry norms. Hence, the challenge for organizations to select which environment will confer the best mix of legitimacy.

To summarize, the adherence to formal institutions is the sources of regulative legitimacy while the compliance to informal institutions (such as norms, taken-for-granted beliefs, and industry standards) are the sources for normative, cultural-cognitive and industry legitimacy, respectively. In economies in transition, the administrative apparatus that can sanction organizations in case of deviation from the law, even if created, is not completely functioning. Same applies to the new informal norms and rules

guiding firms' and individual behavior. The process of establishing the norms within an organizational field is gradual and it takes some time.

As a result, for the purpose of this study we would like to examine the legitimacy profiles (based on the legitimacy types) organizations functioning in contexts characterized with a profound institutional change adopt. We want to explore the multi-dimensionality of legitimacy based on the above-mentioned four pillars. Hence, we want to create the basis for organizational legitimacy profiles (Suchman, 1995:602), specifically in the context of institutional change, such as economies in transition.



2. EMPIRICAL SETTING

The Bulgarian wine sector is an appropriate setting to test the impact of institutional change on legitimacy profiles organizations adopt. In Bulgaria, change occurs on several layers of the institutional environment in which the wine organizations operate. Firstly, the socio-political transition from centrally planned to open market economy represents a profound institutional change affecting all levels of the Bulgarian environment. Therefore, in some industries that have existed for centuries the institutional change created new standards and rules, hence creating new types and sources of legitimacy. Secondly, major changes occur on the level of the global wine industry (new players, globalization, new demand), which also represent a source of institutional change, consequently impacting organizational legitimacy.

Thus, organizations - from state-owned companies to young entrepreneurial start-ups – struggle to gain legitimacy on local, national and international level.

2.1 The Wine Industry

The legitimation process consists of actors evaluating a particular dimension of the organization (Parsons 1960). Hence, with varying degrees of expertise and influence on the overall level of legitimacy (Ruef and Scott 1998), constituencies confer different types of legitimacy by assessing one of the different dimensions of the organization: (1) Wine types; (2) Research and Development; (3) Wine growing; (4) Wine making, and; (5) Wine marketing.

Furthermore, the global wine sector went through major changes that affected organizational decisions. Table 1 shows the changes affecting the wine sector on a worldwide basis. Economies in transition are characterized with the coexistence of both traditional and new institutions yet to be established and eventually adopted on a local level. Hence, organizations evolving in such markets are facing a challenge when considering their legitimacy due to the complexity and diversity of legitimacy sources evolving on different layers of the environment.

TABLE 1: Tradition and Innovation Dimensions in the Wine Industry (adopted from McCarthy, Ewing-Mulligan, and Cassetari 2001).

Dimensions	Tradition	Innovation
Wine Types	Wine region (blended wine: mix of several wine types) E.g., Saint Emilion	Varietal (single ‘cépage’) E.g., Chardonnay
	Wine expresses a ‘terroir’ (combination of human, geographical, historical factors)	Wine expresses a taste E.g., Fruit
	Alcohol content controlled	Wine free of alcohol content Extra-low alcohol content
Research and Development	Traditional methods prevail for controlled productivity	New technologies prevails for increased productivity
	Wine making is an art	Wine making is a science
	Applications limited	Immediate applications
Wine Growing	Wine regions rather small and borders limited	Wine regions spread and shifting
	Density of plantation (#vines/ha) & Distance between the vines (‘ceps’) & output (hl/ha) controlled	Free
	Cut of the vines controlled (eg. ;	Cut of the vines free

	Guyot)	
	Harvest by Hands	Harvest with Machines
Wine making (Changing grapes into wine)	“Vinification” according to local usage (Rushing & pressing)	“Vinification” Free
	Wine aging (Oak barrels)	Wine Aging (Oak shaving)
	Chaptalization (adding sugar) Ration ‘Gr/L.’ of natural <u>sugar</u> Controlled	Chaptalization Free
Wine marketing	Wine closures: Natural cork Screw caps Crown caps (Champagne)	Wine closures: Synthetic corks Vino-Seal Zork
	Packaging: Glass bottle	Packaging: Bag-in-Box
	Tag (Etiquette):Content controlled	Tag (Etiquette): Free/simplified content
	‘Route des vins’	Oenotourism (Wine Tourism)

2.2 The Wine Sector in Bulgaria

According to the Annual Report of the NVWC (National Vine and Wine Chamber) for 2005, the Bulgarian wine sector represented 23 600 registered 23379 grape growers and 221 wine producers (changing grapes into wine). Since 2004, the vineyards decreased by 25% (Register of Vineyards in Bulgaria), whereas the volume of wine produced increased by 50% between 2002 and 2005 (NVWN), hence showing a trend for lower quality wine: table wines represented 83% of the volume in 2005, whereas Regional wines and Quality wines dropped tremendously (-40% and -50% respectively).

The export of Bulgarian wines between 2001 and 2005 increased by nearly 40%. At the same time, exports were characterized by a high volatility between countries, with an increased share for Russia and some new developed countries – Vietnam, for instance – and a drop for countries, such as the U.S. and Great Britain (NVWC).

2.3 The Wine History in Bulgaria

Previous research emphasized the importance of historical analysis when and institutional change (Galvin 2002, Leblebici *et al.* 1991). To understand an institution adequately, one has to understand the historical process in which it was produced (Berger and Luckmann, 1967:55-56).

The Thracians, 3000 years ago, followed by the Greeks and the Romans influenced the wines of modern Bulgaria, from the wine varieties to defining wine regions. The history of wine is linked to the one of Christianity. Monks participated in the creation of standards in making wine, and lead to the trade of Bulgarian wine in the 14th and 15th centuries. The wine industry was prosperous during the 19th century all over Europe. However, Phylloxera² destroyed most of the old traditional vineyards in Europe. It took around 30 years to recover. During the 1920s and 1930s, the Bulgarian wine industry developed, through the system of cooperatives (NVWC). The wine sector turned into a state industry during the socialist era. From all Eastern European countries, Bulgaria was the most successful in exporting its wines to the Western world. However, after the fall of the communism, and the wave of privatizations, many vineyards were abandoned, new wine types and wine styles were developed, which made it more difficult for Bulgarian wines to find their legitimacy abroad (Larousse des Vins). Hence, the globalization of the wine sector affected all dimensions of legitimacy.

Hence, the major challenge has consisted in creating the framework to regulate the wine industry in Bulgaria.

2.4 Institutional Change and the Four Pillars of Legitimacy in the Bulgarian Wine Industry

We will present the changes that occurred on each the four pillars of legitimacy for the Bulgarian wine producers.

2.4.1 Regulatory environment – Basis for regulatory legitimacy

Since 1st of January 2007, the Republic of Bulgaria officially became part of the European Union. It required the alignment between the Bulgarian and the European regulations and involved all aspects of the industry: Wine and Spirits Act (Bulgarian State Gazette (SG) 86/1999), common organization of market in wine (1999), establishing enological practices and processes (2000), rules on controls in the wine sector (2000) among others (NVWC).

² Phylloxera is the name of an insect, as well as the name of the epidemic introduced inadvertently from North America that destroyed most of European vineyards between 1860 and 1890.

Furthermore, the vine and wine sector in Bulgaria is characterized by a high level of self-regulation through a non-governmental organization, the National Vineyard and Wine Commerce (NVWC). Established in 2000, it represents the 67 major wine producers and wine trading companies in Bulgaria (Geogriev 2007). The NVWC and its 6 regional units play a strategic role in implementing the regulations established in the wine sector in Bulgaria.

2.4.2 New and evolving demand – Basis for normative legitimacy

Organizations have to take into consideration local and international consumers who confer normative legitimacy – non-expert public opinion (Deephouse and Carter 2005). Consumers' taste and preferences evolve over time and across countries; making it more difficult for organizations to satisfy all constituencies. For instance, in the year 2000, Great Britain, a traditional consumer market, represented 20% of the Bulgarian exports of bottled wine; and Russia represented 3.3%. In 2005, Great Britain represented only 3% whereas Russia represented 60%. Furthermore, a new demand, considered as potential key consumers, has emerged in the market place. For example, the export of Bulgarian bottled wine between 2004 and 2005 increased by 701 % in China (NVWC).

2.4.3 Traditions – Basis for cultural-cognitive legitimacy

Due to the rich history of the Bulgarian wine sector, traditions were developed, transmitted or transferred over time. They are related to practices and techniques, customs and values preserved and transmitted from generation to generation. With the development of local norms, practices, and traditions, some of these elements were institutionalized while others even reached the dimension of taken-for-grantedness. Therefore, they constitute the basis for cultural-cognitive legitimacy.

2.4.4 Worldwide competition – Basis for industry legitimacy

Historically, wine making is a tradition in many countries (Italy, Spain, Portugal, France, Hungary, Germany, Bulgaria, etc.). Traditions and institutions were created, shaped, transformed over centuries. In the recent years, producers from countries where wine making was not a tradition entered the worldwide market. On an industry level,

these ‘Wines from the new world’ (U.S., Australia, Chile, New Zealand, South Africa, Argentina, etc.) established new standards and institutions, representing the legitimacy derived from the industry. They may, or may not, be aligned with local standards and institutions. Hence, from an industry perspective, organizations have to determine which standards to follow.

Hence, there is not one but several institutional environments (Scott, 1991:167). Each layer represents a source and type of legitimacy (Table 2). In Bulgaria, institutional change occurred on all levels of the environment: the political change from planned to open economy, the entrance in the European Union, the globalisation of the wine industry affected both the supply (new entrants) and the demand (change in consumer’s taste). Furthermore, legitimacy sources belonging to different layers of the environment can be in conflict. Since organizations are not passive, they are expected to make strategic choices (Scott 1991:170). Hence, it is important for organizations to choose the appropriate source of legitimacy according to the chosen means and desired ends (Scott, 1991: 170).

3. METHODOLOGY

3.1 Research Design

As Deephouse and Carter (2005: 337) stated, legitimacy is a “complex, multidimensional concept linked to a variety of stakeholders. An ideal study would have sufficient resources to measure all dimensions”. In order to examine this complexity, we used a qualitative analysis to explore the nature of gaining legitimacy under the circumstances of institutional change.

3.2 Sampling Design

A combination or mixed sample is very well suited to test ideas at early stages of exploratory research (Miles and Huberman 1994). Eight informants involved in at least one of the activities characterizing the wine sector participated in the study. The sample was comprised of the following participants:

Three informants were wine producers: The first one is a small family ran business for almost 100 years, relying on traditions and local wine varieties. The second one is a 12-year old company created by a former employee of a state-owned winery during the socialist era. Using his industry experience, the owner is looking for innovations based on the technical expertise of both technicians working within the firm and scientists working for state agencies and institutions. Producing 670 000 bottles per year, its market is mainly regional, and national. The third winery was a former stated-owned organization. Privatized in 1997, it was acquired by a business man who brought a new management style within the company, based on the expertise of the TMT. The company, producing 2 millions bottles, ranks among the top 10 largest in the country, and exports 40% of the production.

One informant is a wine grower. Specialized in Business-to-Business activities, he has a deep understanding of the distribution channels and intermediaries in Bulgaria. One informant is an oenologue: working for a winery for the past 3 years, she belongs to the new wave of ‘wine technicians’. This change in the name of the diploma reflects the change from a purely technical (wine is a science) to a complex (wine is an art) dimension of wine making. Another informant was a wine technical expert specialized in R&D. She analyzes organizational behavior regarding chemicals ingredients used by wine growers over time and across regions. One informant was a wine retailer running a family owned business. Owning several retail stores specialized in high-end wines, she has a broad knowledge of wine consumption and consumer behavior. The last informant was a wine consultant. In charge of the communication strategy of a winery for 7 years, the consultant’s knowledge encompasses all dimensions of the wine sector.

For consistency purpose, and in order to control for regional differences, all respondents belong to the same wine region in Bulgaria: Southwest Bulgaria (Struma River Valley region), which features specific climatic conditions (micro-climate).

3.3 Data Collection

Secondary data – industry and government reports from the National Vine and Wine Chamber and the Ministry of Agriculture and Forestry, as well as wine guides (Larousse du Vin: 2004) – was used to better understand the Bulgarian wine industry. For

example, a significant part of the production of wine is not bottled. Moreover, the concept of “Controliran” is the Bulgarian equivalent of the “French Appellations d’Origine Contrôlée” but it does not share the same cultural meaning.

We chose semi-structured face-to-face interviews with subject matter experts. They are well-informed of the evolution of the wine industry – both locally and globally. Moreover, this two-way communication technique enriches the depth and details of information provided (Cooper and Schindler 2001). Finally, reaching local respondents evolving in their own environment helped getting a better understanding.

Following Eisenhardt (1989: 547), two investigators conducted each interview. Facts and impressions were cross-checked after each interview; and all three rules were followed: (1) interview notes were completed within one day of the interview; (2) all data was included, and; (3) each interview note was ended with impressions.

The interviews, conducted in October 2007, consisted in asking each participant to comment on the relative proportion (which element plays a major role, and/or is of strategic importance), and the evolution over time (over the last 10 years) on each of the following elements concerning the wine industry in Bulgaria: (1) Overall organizational strategy (when applicable); (2) wine making; (3) wine growing; (4) Innovations (R&D, development of new wines to fit consumers’ taste), and; (5) marketing activities.

3.4. Results

In the context of institutional change characterizing economies in transition, where regulations, norms, and international rules of the games are changing, we first looked for common patterns in the responses and then differences among informants (Frisch, 1999; Weber, 1990).

Firstly, we found that Bulgarian wine producers want to secure their position in the Bulgarian market before conquering the international market place. Hence, gaining normative legitimacy (non-expert public opinion) is as an inside-out strategy: wine producers look to get local legitimacy first in order to gain normative legitimacy internationally. However, the means to achieve this objective of positive image vary: while big organizations rely on “producing high quality wines” and “differentiated packaging” (bottles and tags), smaller organizations rely on “positive word-of-mouth”.

Secondly, as Suchman (1995) mentioned, cognitive legitimacy is the hardest to achieve and the most difficult to manipulate. Hence, we found that wine growers adopt an isomorphic behavior by mimicking local practices (DiMaggio and Powell 1983; Scott 2001: 52). For example, when looking at which pesticides neighboring wine growers were using every year; analysis found that all were systematically going to the same local pharmacist, in order to reduce their ‘perceived’ uncertainty. Furthermore, when making wine, all organizations are using the Shiroka Melnishka Loza – a 3000 year-old typical varietal cultivated in the south west of Bulgaria only. Therefore, we better understand the taken-for-granted dimension of some local practices.

Regarding the other two dimensions – industry and regulatory – legitimacy profiles differ.

By selecting alternative types of varietals, organizations also select among multiple environments (Suchman, 1995: 587). For instance, organizations using international varietals (Cabernet Sauvignon, Chardonnay, and Merlot) are following the standards established by the wine global industry, hence using the industry pillar for gaining legitimacy (Zimmerman and Zeitz, 2002).

Organizations can also decide to manipulate the environment in order to gain legitimacy (Suchman, 1995: 587). We found that large organizations only are using this strategy. For example, one organization is creating new types of wines using rare varietals coming from the country of Macedonia. The goal consists in creating a new audience by changing consumers’ taste – even though it takes 15 to 20 years to do so.

Another way is to manipulate the environment is to create new legitimacy beliefs (Suchman, 1995: 587). One organization created its own standards by going beyond expectations due to the “perceived” lack of local institutional pressure. Make premium wines means, quality control at all levels - wine making, primary vinification, aging process, bottling, etc. It requires the necessary investments in order to implement the strategy – hiring highly skilled employees, collaboration with well-known wine consultants, financing new equipments and acquiring the latest technology. By creating their own standards, which are above the regulatory standards, organizations are looking for consistency.

Furthermore, we found that the owner, as the initiator of the management style within the organization, plays a key role in the legitimacy profile. For instance, a family-operated business for 150 years is consistently looking for cultural-cognitive basis of legitimacy whereas the new owner of a former state-owned organization is willing to adopt new sources of legitimacy, explore new layers of the environment. Finally,

We found that factors such as organizational size, the background and field of expertise, and the management style influences the legitimacy profile adopted in case of institutional change.

4. DISCUSSION AND CONCLUSION

Legitimacy results from the process of institutionalization (Mazza, 1999: 45), hence institutional change is expected to have an impact on organizational legitimacy. We investigated how organizations adopt certain legitimacy profiles in order to reduce the uncertainty inherent to any institutional change.

We contributed to the literature on organizational legitimacy by linking gaining organizational legitimacy and institutional change, especially in the context of economies in transition. Moreover, we identified four institutional environments based on the three pillars of institutions and the industry. Adding a fourth layer helped us to bridge the gap between micro and macro-levels of analysis (Scott and Meyer 1991) and identify potential conflicting sources of legitimacy based on the different layers of the environment, which might create a misalignment of the norms, values, and beliefs. In addition, we linked the constituencies belonging to each layer empowered to confer legitimacy. We also characterized the changes that occurred on each level of the institutional environment: changes due to transition from centrally-planned to open market economy, entrance in the European Union and globalization of the wine sector. Finally, we looked at the legitimacy profile adopted on an organizational level. Future research could adopt a longitudinal analysis in order to show the changes of legitimacy profiles over time.

Theoretically, impression management and signaling theories could help us to better understand the legitimacy processes in economies in transition. From an empirical perspective, future research could further explore the impact of institutional change on legitimacy strategies either in stable economies and/or in more recent industries, such as the IT industry.

We found that, in Bulgaria, institutional change occurred on all levels of the environment, and lead to a higher number, diversity, and inconsistency of authorities empowered to confer legitimacy (Scott 2001). Consequently to this change, organizations evolve in a context of high uncertainty. This uncertainty lead all organizations to adopt a profile based on the cultural-cognitive pillar of legitimacy (institutionalized before the change). Since it is the most difficult to obtain and to manipulate (Suchman 1995), the more profound, and more self-sustaining, once established (Suchman 1995), we found that, in the case of institutional change on all layers of the environment, organizations use it as a ‘solid’ anchor-point. However, some organizations also perceive the uncertainty as an opportunity. They adopt legitimacy profiles by exploring new layers of the environment (industry pillar) or by manipulating a poorly locally institutionalized environment (create new norms and regulations).

Furthermore, by separating the environment into three layers linked to informal institutions (North 1992: 477) we saw that the resistance to change differs on the layer considered. We found that this was the case for cultural-cognitive legitimacy, not always for normative legitimacy. Organizations are looking for local normative legitimacy first before expanding abroad, hence using what we called an ‘inside-out’ legitimacy strategy. The industry pillar of legitimacy consists in exploring new and alternative layers of the environment, and was mainly used by large organizations trying to set global standards locally. Finally,

Finally, the present study based on existing models of organizational legitimacy aims at extending current research in the context of institutional change.

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