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What is This?
A Process Model of Internal and External Legitimacy

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Abstract
We report the results of a longitudinal case study depicting the relationship between internal and external legitimacy at Orion, an emergent creative professional firm. We address the following questions: How do different types of legitimacy emerge, and how do they interact to shape organizational evolution? Introducing a staged process model, we demonstrate that organizational legitimacy is a product of action, which is continually reproduced and reconstructed by members of an organization in concert with external legitimation activities. Internal and external legitimacy evolve through a process of emergence, validation, diffusion and consensus, sometimes recursively repeating the cycle when imbalances result in conflict and friction.

Keywords
internal and external legitimacy, institutional work, organizational legitimation, process model

Introduction
Scholarship has essentially overlooked how legitimacy emerges and evolves within new organizations, particularly from an internal perspective; moreover, the relationship between internal and external legitimacy remains underexplored. In this research, we seek to understand how both internal and external legitimacy emerge and how they interact to shape organizational emergence and evolution.

The starting point for understanding this intriguing question is Suchman’s assertion (1995, p. 576) that legitimation has a crucial influence on ‘how the organization is built, how it is run, and simultaneously, how it is understood and evaluated’. Legitimacy may serve as either a source of additional external resources (Baum & Oliver, 1991; Bitektine, 2011; Zimmerman & Zeitz, 2002) or as a tool for consolidating organizational reputation, either externally (Suddaby & Greenwood, 2005) or internally (Bitektine, 2011).

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Previous scholarship has focused on legitimation within existing institutional settings (Greenwood, Suddaby & Hinings, 2002), on the emergence of new, widely accepted institutional practices (Greenwood & Suddaby, 2006; Golant & Sillince, 2007) or on boundaries and the evolution of movements and new institutions (Schneiberg & Lounsbury, 2008; Zietsma & Lawrence, 2010). We focus on the emergence of legitimacy and the process of legitimation, addressing a research gap regarding the role of individuals in either embracing or undermining new institutional practices (Lounsbury & Crumley, 2007). Specifically, we provide important insight into the legitimation process by examining how members of organizations align different types of legitimacy over time (see also Deephouse & Suchman, 2008; DiMaggio & Powell, 1983; Johnson, Dowd, & Ridgeway, 2006; Stryker, 1994). This longitudinal view allows us to examine their interactions at different stages of organizational evolution. We claim that while legitimacy is associated with external endorsement (Scott, 2001) without taking into account internal responses to external legitimacy we cannot understand the dynamic process of its creation within temporal and spatial contexts. We argue that this contextual aspect of legitimacy formation and maintenance is critical for the adoption of new ideas and reflects a perspective largely overlooked in the literature.

Our research entailed the long-term study of a single organization, the dotcom Orion (pseudonym), from its birth to its practical cessation of operation. We employed an inductive research design, utilizing multiple data collection methods that captured the evolution of and shifts in internal and external legitimacy and their characteristics. The case study methodology was useful for our endeavor because it allowed us to chart both the ‘boom’ and the ‘bust’ of the first internet period (roughly 1995–2003) in considerable depth. Studies on legitimacy shifts in internet firms are, to our knowledge, scant (see Zott & Huy, 2007), even though there is much to learn that would enhance scholarship on the evolution of organizational legitimation processes (Johnson et al., 2006; Lawrence, Suddaby & Leca, 2011). In particular, the internet’s early logic of ‘winner takes all’ suggests that entrepreneurs of dotcoms aggressively competed to institute their new technology and markets (Cassidy, 2003; Glynn & Marquis, 2004; Zook, 2005) and their business and financial models (Zider, 1998). The accelerated boom and bust cycle of dotcoms also makes them an especially attractive research topic, offering a ‘condensed’ version of the organizational life course that can be charted comprehensively through a case study design such as the one we employed.

The remainder of this paper is structured as follows. We begin by reviewing the literature on internal and external legitimacy, introducing the process model that served as a baseline for understanding our findings and eventually facilitated the development of our model. Next, we describe the setting and method. The empirical section is organized according to the evolution of our case, which corresponds to the firm’s history of different legitimation processes. We conclude with a discussion of the theoretical implications and limitations of our study.

Theoretical Framework

The formation of internal and external legitimacy

Legitimacy is defined by Suchman as ‘a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed system of norms, beliefs and definitions’ (1995, p. 574). Legitimacy may be bestowed on an organization by external stakeholders who endorse the worthiness of its vision or objectives and its competence to efficiently work towards achieving the designated objectives (Zimmerman & Zeitz, 2002). The practical result of this exogenously determined legitimacy—the acceptance and validation by external stakeholders—frequently results in the accumulation of resources and the attraction of
customers, clients and investors, who are perceived as bona fide members of the community of an organization (Aldrich & Ruef, 2006; Shane & Stuart, 2002; Zucker, 1987).

Literature that examines the organizational level has contrasted the meta-environment with the legitimacy of the organizational subunit (Kostova & Roth 2002; Kostova & Zaheer 1999), but it has not explicitly tackled the formation of internal legitimacy as an agglomeration of individual-level strategies, nor has it examined the processes through which internal legitimacy originates, develops and is maintained at the subunit level. Neither has prior research specifically examined the evolution of the dynamic interrelationship that exists between internal and external legitimacy at the organizational level, a gap we propose to bridge.

Although legitimacy may be conferred by external means, it also evolves endogenously as actors establish internal legitimacy in their own task environment (Kostova & Roth, 2002; Kostova & Zaheer, 1999). We define internal legitimacy as the acceptance or normative validation of an organizational strategy through the consensus of its participants, which acts as a tool that reinforces organizational practices and mobilizes organizational members around a common ethical, strategic or ideological vision. This view of legitimacy highlights the importance of authority and governance and has its origins in the Weberian notion of legitimacy as a conscious acceptance of certain behaviors and beliefs by social actors (Courpasson, 2000; Johnson et al., 2006; Weber, 1978 [1924]).1 As Courpasson (2000, p. 143) noted, ‘Judgments of validity engage the reflexive capacity of individuals.’

Internal legitimacy relies upon emergent ‘bottom up’ practices accorded through individual agency, as opposed to institutional logics promoted and endorsed by organizational leaders due to their expected efficiencies. It reflects the acceptance of emergent practices that result ‘from spatially dispersed, heterogeneous activity by actors with varying kinds and levels of resources’ (Lounsbury & Crumley, 2007, p. 994). This differs from the organizational culture perspective that takes a more ‘top down’ instrumental approach. For example, Schein (1983, p. 14) asserts that it is founders or managers who shape an organizational culture, emphasizing a ‘pattern of assumptions that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems’. The organizational culture perspective maintains that culture evolves once a firm has solved external problems and adapted internal rules that reflect solutions. Internal and external problems are thus intertwined. Internal legitimacy allows for the independent evolution of internal practices and logics, allowing it to operate through ideological or preference mechanisms.

Internal legitimacy also differs from organizational identity. While identity is conferred based on ideological reasons (‘I define myself as a member of this group, whether I agree with all of its activities or not, irrespective of its relative success’; Think: I am a Manchester United fan), internal legitimacy requires an instrumental or logical explanation and is likely to be more tentative and conditional. (‘Here, we do things this way because it is the best way to accomplish our stated goals’; Think: I am a volunteer at the local soup kitchen). Consequently, internal legitimacy may play alternatively a supportive or an obstructive role in framing organizational identity and in shaping strategic direction and decision-making. Soup kitchen volunteers may react unfavorably to any particular combination of new routines, resources, publicity or leadership that they interpret as impacting their goals and processes. Manchester United fans, on the other hand, are unlikely to change affiliations due to a change in management, logo design or organizational strategy.

Motivations are an important component of internal legitimacy, as they provide the organizational lubricant for individual action. This is not so with external legitimacy, which relies on organizational fields, regulatory agencies, professional associations and reputational norms (DiMaggio & Powell, 1983; Greenwood, Suddaby & Hinings, 2002). We address motivational factors in
further detail in our empirical section. While legitimacy can be broadly divided as stemming from either internal or external sources, Suchman (1995) addresses three main analytical categories of legitimacy: cognitive, pragmatic and moral. Cognitive is a taken-for-granted cultural account, lacking specific judgment, and is by definition related to external legitimacy (Tost, 2011). Pragmatic legitimacy depends on the self-interest of the legitimating body, as well as on the self-interests of the very individuals that compose the legitimating authority (Bitektine, 2011; Johnson & Holub, 2003; Suchman, 1995). Moral legitimacy focuses on how favorably (or unfavorably) the organization is viewed by its constituency or its macro-environment (Greenwood et al., 2002; Rindova, Pollock, & Haywood, 2006; Suchman, 1995). Because motivations are essential in determining the process of legitimacy at the individual level of analysis, only pragmatic and moral legitimacy are relevant to the process and formation of internal legitimacy (Tost, 2011). Thus, legitimation processes are contested, constructed or deconstructed in accordance with the search for social reality that needs to be legitimized or delegitimized (Greenwood et al., 2002).

The derivation and agency of legitimacy

To examine fully how organizations build legitimacy, studies must consider both its external and internal sources. Sources of legitimacy may well be embedded within the organization, including both its legacy at founding (Stinchcombe, 1965) and the practices and actions of its members (Lawrence et al., 2011). The central role of legitimacy in new ventures stems from such ventures’ major liabilities: newness, smallness or uniqueness (Aldrich & Fiol 1994; Delmar & Shane, 2006; Singh, Tucker & House, 1986; Stinchcombe, 1965; Zimmerman & Zeit, 2002). Neoinstitutional theorists also suggest that new ventures seek legitimacy through various institutional mechanisms that correspond to accepted cultural and constitutive belief systems (DiMaggio, 1997; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Zucker, 1987).

However, organizational members who are knowledgeable in assessing their organization in relation to the environment may seek to pursue both internal and external practices and strategies that may enhance the legitimacy (and therefore survival) of their organization (see studies of institutional work, for example, Kaghan & Lounsbury, 2011; Lawrence et al., 2011). Thus, enactment of legitimacy is a joint endeavor utilizing both external and internal resources reflecting the organization’s aim to persuade ‘significant others’ (Scott, 2008) to confer legitimacy, as well as to motivate its members to engage in those practices and activities that might persuade ‘significant others’ that the organization is indeed legitimate.

Sources of legitimacy and its accompanying practices and actions may originate both inside and outside of the organization (Ruef & Scott, 1998). Some research suggests that internal and external legitimacy are independently developed and not necessarily mutually compatible (Kostova & Zaheer, 1999; Lu & Xu, 2006). Furthermore, personal legitimacy deriving from the leader’s charisma may not be equal to moral or pragmatic legitimacy emanating from organizational members, even if it is recognized by external actors (Bitektine, 2011; Suchman, 1995). Consequently, internal and external legitimacy are not necessarily mutually reinforcing (Lu & Xu, 2006). External legitimacy may at times undermine internal legitimacy when exogenous actors attempt to bias internal organizational activities toward their own advantage. For example, venture capitalists (VCs) may push an organization towards an IPO (initial public offering) at a time suitable to their own needs, ignoring internal organizational needs that might better be served by waiting. This can have severe implications on the structural integrity of a firm, altering the relationships between internal and external legitimacy. As Martens (2004) points out, the corporate restructuring necessary to complete an IPO may enhance external legitimacy at the cost of internal disruptions in the firm (with attendant consequences for internal legitimacy).
Finally, it is not only the perception and assessment of external or internal legitimacy, but also legitimacy’s salient contextual factors, such as changes in the business environment, technology use or collective cultural meanings, which enable social actors to construct (and/or destroy) it. For example, during the internet boom of the mid to late 1990s, developing legitimacy in a dotcom firm involved building a strong internal identity as well as an organizational structure aimed at integration and collaboration outside and inside the organization (Drori, Honig & Sheaffer, 2009). Moreover, the demand for speed, seamlessness and constant flows of information among key stakeholders such as VCs, industry analysts and potential technological and business partners was paramount (Kanter, 2001). The constitutive elements of legitimacy that evolve within an emergent industry and the norms and rules that will guide the life course of an individual firm are crucial (Stryker, 1994). But if rules are made to be broken, then the erosion of legitimacy is also possible. For example, despite attempts to develop external legitimation strategies aimed at integration during a merger, employees may delegitimize the process when they encounter contradictory strategies—resulting in internal de-legitimation (Vaara & Monin, 2010).

Examining the process of legitimacy formation

Zelditch (2001, p. 13) contends that ‘legitimacy formation is a fundamental social process because of its role in producing and reproducing structure in concrete situations of action’. Studying the process of legitimacy formation in new ventures suggests an interdependent relationship between internal and external legitimacy and their respective structures and contexts. New cultural schemas and configurations regarding ‘how things are done’ become entrenched in the organization, which relies on internal legitimacy for its maintenance. Once adopted and legitimized, these schemas tend to acquire their own inertial characteristics while leaving the stability of the organization’s authority structure intact (Zelditch & Walker, 1984). However, as Johnson et al. (2006) point out, legitimacy formation processes are susceptible to the dynamics of their environment, particularly for new organizations engaging in contested processes that attempt to shape regulatory, professional and normative requirements. Johnson et al. formulate a legitimation process model that involves four stages. First, there is the emergence of social innovations created by actors who encounter a need for addressing specific legitimating social contexts. Second, the validation of social innovations is conferred by local social actors who justify and accept the basic tenets of the proposed legitimation activities in line with the dominant cultural realm. Third, once local validation occurs, there is diffusion to new contexts through implied acceptance by various social actors who view the social innovation as ‘a valid social fact’ (p. 72). Fourth, a societal consensus emerges once the social innovation is validated and diffused and is accepted in multiple situations. The tenacity of this process is supported by authorization and endorsement. Thus, even if the members of an organization fail to share the same norms, values and beliefs, their behaviors actually endorse the valid social order (Zelditch, 2001). An open question in the Johnson et al. process model that we address in this paper refers to the nature of legitimacy, which may derive from either internal or external sources. Legitimacy involves notions of what is proper or appropriate and implies instrumental or intentional actions for mobilizing societal approval. The thrust of this paper is to examine how legitimacy develops both internal and external to the organization as part of an ideological attempt at reification of certain social norms and values (Meyer & Scott, 1983; Scott, 1995). Legitimacy creation is the intentional engagement of social actors in specific practices that may lead to achieving or undermining legitimacy (e.g. Lawrence et al., 2011), either with internal or external stakeholders (Edelman, Uggen & Erlanger, 1999). Similarly, legitimacy transformation reflects certain actions that lead to legitimacy and are exemplified by conscious activities.
Furthermore, following in the Weberian tradition, legitimacy provides the ‘right to govern’ (Courpasson, 2000). This is achieved through the acceptance of certain social arrangements associated with formal organizational tools enabling the execution of action for an intentional purpose. These social arrangements form the relationship between social structure and social process at the organizational level and are embedded in the wider external environment, thus providing a link between internal and external organizational practices (Kaghan & Lounsbury, 2011).

We anticipate that in a new organizational field, organizations may resort to a range of strategies in order to establish themselves. Most common is a strategy based on decoupling, in which the organization practically ignores internal and external conditions of legitimacy, relying instead on symbolic action to show compliance with external demands (Elsbach & Sutton, 1992; Karlsson & Honig, 2009). Note that a decoupling strategy may be the result of internal/external conflicts or conflict within the organization regarding the ‘correct’ interpretation of the legitimacy demands by the external environment. However, decoupling theory may not be well suited to explain situations in which different kinds of institutional logics prevail within the organization, reflecting different founding legacies (Pache & Santos, 2010).

Actors entering emergent organizational fields must define legitimacy by formulating new schemata, mental structures such as aspirations, dispositions or patterns of appreciation, as well as classifiable practices and strategies (Drori et al., 2009; Sewell, 2005). Calling upon new schemata implies seeking legitimacy ‘both by the knowledge of cultural schemas that enable them to mobilize resources and by the access to resources that enable them to enact schemas’ (Sewell 2005, p. 151). Thus, different types of legitimacy are outcomes of social action, which shapes and reshapes the interplay between resources and cultural definitions that ‘determine how the organization is built, how it is run, and simultaneously, how it is understood and evaluated’ (Suchman 1995, p. 576). Suchman (1995) also argues that legitimacy rests on ‘different behavioral dynamics’ that provide distinct relational frameworks or types of legitimacy as either derived from agency (active pursuit and strategy) or as the result of institutionalization through cultural reification. However, we wish to emphasize that these alternative mechanisms of legitimacy are not mutually exclusive. Accordingly, we have analyzed our data guided by the following research question: How do different types of legitimacy emerge, and how do they interact to shape organizational evolution?

Research Design and Methods

This paper utilizes findings from long-term, in-depth fieldwork (Stewart, 1998) and data collection covering a period of more than ten years during Orion’s evolution as an internet firm.

Our decade-long research activities reflected a range of different methods of qualitative data collection as well as variation in the degree of engagement with the organization over time. Table 1 outlines basic information about the evolution of Orion’s operations, organizational structure and culture. Table 2 provides a chronology of our data collection activities from 1995 to 2007.

The research period encompassed the formative years of the internet industry and allowed us to single out and carefully examine Orion as a case study of a dotcom firm. This type of longitudinal research design called for an ethnographic methodology and long-term access to the firm, to capture its entire history, from its nascent years in the dotcom industry through the height of the internet ‘boom’ and subsequent ‘bust’. This unique opportunity, we assert, outweighs the limitations typically associated with a single case study.
Data collection

We carried out the bulk of our data collection over three periods (1995–1998, 1998–2000 and 2001–2005). The ethnographic fieldwork was conducted during the first two periods. From 1995 through 1998, we employed participant observation (Neyland, 2008), visiting the organization three times a week. This facilitated the collection of empirical material indiscriminately in situ, which implies close proximity to people and events and the ability to gain an emic (insider’s) perspective (Bartunek & Louis, 1996). In the second period, from 1998 through 2000, we visited about once every two weeks, primarily for informal meetings with key informants. During the first period, we focused on observing Orion’s graphic artists and programmers at their workstations, in an attempt to achieve two research goals: (a) to understand Orion’s technology and products; and (b) to detect the employees’ work habits and coordinating activities, including mutual interactions and contacts within the company. During this time, we identified key informants among both the graphic artists and the programmers, who became the main sources for documenting and reconstructing Orion’s unique culture, as well as the intricacies of the dotcom world as a whole. We participated in daily staff meetings addressing technical and content details, documenting the process and implications of the organizational decisions made during these meetings. In addition to our notes, we collected the formal minutes of management meetings. Further, weekly meetings with the founder became an established fieldwork practice, providing a unique opportunity for close rapport with Orion’s leader and allowing us to learn about his worldview and the values underlying his managerial and decision-making styles. During the second period, we followed up on events and changes within the company. In particular, we engaged in a series of brief discussions with Orion’s Vice President (VP) of human resources (HR), which focused on
internal as well as external aspects of any events or changes, including ongoing operations, company structure and the strategies of both product and technology.

During the third period, between 2000 and 2005, Orion’s primary base of activity shifted from Israel to New York, substantially reducing our face-to-face access. We continued to collect empirical material until 2005, however, primarily via Orion’s VP of HR, who had been transferred to the New York office. Ongoing communication via email and telephone enabled us to track key organizational events and, subsequently, the process of Orion’s eventual demise, which began in mid-2003. We also conducted three interviews with the founder during this period, including one in the aftermath of the company’s closure. Our familiarity with the organization and its founder allowed for our reliance on indirect data collection during the third period.

An important part of the data collection between 1995 and 2000 was a series of semi-structured interviews (for details, see Table 2). We conducted a total of 146 interviews with 57 interviewees. These sessions, ranging from 30 to 90 minutes, involved speaking with 48 different members of the organization. All interviews were tape-recorded and transcribed verbatim. We conducted repeat interviews with the six-member founding team and three company VPs (HR, Research & Development (R&D) and Operation & Finance). Our six major structured interviews (1995, 1996, 1997 and 2000) with the founder ranged from practical and purposeful to more conceptual in nature, to help ‘ground’ our findings (Locke, 2001). In addition, between 2000 and 2005, we conducted nine interviews with external stakeholders: two with VC managers who led Orion’s first and second rounds of financing and seven with former Orion employees. In these interviews, we asked two types of question. The first related to issues from the company’s formative period, such as founding processes; the evolution of Orion’s special artistic and technological trademarks; organizational strategies, practices and routines; organizational culture; perceptions of the founder’s vision and leadership; and prospects for the future of the internet more broadly. As the field research progressed, other themes emerged, including internal conflicts and frictions and the viability of Orion’s business models. We framed the interviews by focusing on basic issues. For example, our line of questioning covered the experiences of the respondents in creative artwork before and at Orion, as well as their work practices and roles regarding the move to the internet, including the adoption of different business models and how they imagined and negotiated their roles, statuses or conflicts with others in the company.

In addition to field observations and interviews, we analyzed textual material, including internal company documents such as the founder’s memos and minutes of the weekly meetings, as well as items produced for public distribution—e.g. pamphlets, public relations memos and company profiles. These publications expressed the organization’s self-image as generated to appeal to its customers, stakeholders and the internet market. In addition, we were fortunate enough to gain access to internal reports written by the VP for HR, which contained detailed analyses of the company’s daily operations and strategic dilemmas. We also had background reports that described the company, its vision and its business strategy, which had been submitted to prospective investors in late 2000, and a comprehensive document on the company and its life course, written retrospectively by the founder.

In assessing our findings, we differentiated carefully between ‘factual’ and interpretive information and triangulated our ethnographic observations, the interview data and the extensive textual documentation we collected. However, we did not dismiss retrospective interpretations about the company’s demise. An important aspect of this study involves the historical memory or post facto recollection and interpretation (and to a large extent, justification) of various organizational moments, particularly by those with direct responsibility for Orion’s founding, survival and eventual demise. We carefully weighed empirical data and observations against informant
interpretation, partially through assessing their narrative and temporal compatibility. We also took into account subjectivity, speculation and ‘after the fact’ sensemaking by comparing accounts of similar events as experienced by different participants.

**Data analysis**

Although we entered the field with certain theoretical formulations in mind, following the principles of grounded theory, we approached the process of data collection with a broad definition of legitimacy and eschewed fixed notions about which concepts and frameworks might be best suited to address our particular inquiry (Strauss & Corbin, 1990). We began our analysis by coding all of our empirical material according to a chronological order that mirrored the history of Orion. Our analysis encompassed field notes, interview transcripts and documentary data. We kept careful and extensive field notes during our respective periods in the field (see section on data collection). These notes covered events (such as team or company meetings), semi-structured interviews and informal discussions with various people during their work-time. We then divided the material according to six distinct periods that emerged from coding the data. The divisions were based on actual historical events during the evolution of the company. The *nascent period* begins at

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Period in firm’s history</th>
<th>Methods of collecting empirical material</th>
<th>Involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Founding</td>
<td>Company documents</td>
<td>None</td>
</tr>
<tr>
<td>1995–1996</td>
<td>Multimedia</td>
<td>Participant observation Interviews with 6 members of the founding team and 12 graphic artists and 3 logistics personnel Internal documents, emails, memos, press releases. Total interviewees = 21</td>
<td>Researcher also provides consulting services on cultural and structural change</td>
</tr>
<tr>
<td>1996–2000</td>
<td>Internet boom</td>
<td>Participant observation (part-time) Interviews with 9 programmers, 5 graphic artists, 3 system managers, 3 VPs (HR, Finance, Operation) and 7 external stakeholders Company documents and reports Total interviewees = 27</td>
<td>Researcher and Art HR manager work in cooperation</td>
</tr>
<tr>
<td>2000–2003</td>
<td>Internet bust (decline and death)</td>
<td>Occasional interviews with the founder, VPs and external stakeholders Company documents and reports, press releases Total interviewees = 9</td>
<td>HR manager provides continuing information, including written reports Periodic update meetings with the founder</td>
</tr>
<tr>
<td>2003–2005</td>
<td>Website</td>
<td>Update interviews with the founder Monitoring the founder’s activities via website and personal communication Total interviewees = 2</td>
<td>Essentially non-obtrusive</td>
</tr>
</tbody>
</table>
founding and ends with the decision to drop the graphic design business for multimedia projects. The multimedia period is characterized by Orion’s participation in a major exhibition and ends with the decision to scrap the multimedia business in favor of the internet. We divide the internet period into two periods. The first is the boom period, which begins with a special meeting in which a strategic decision constituted the Orion’s opening ‘shot’ at becoming a dotcom. The bust period starts with the founder’s decision to move most of the company’s operations to New York and ends with Orion’s official closure. The last period of this analysis, designated as the website period, covers the time that Orion maintained its website but was not a functional organization. We do not address the firm’s current ‘resurrection’ as a social network company (from 2005 forward).

Dividing the data into different temporal periods provided a convenient framework for categorizing our data in terms of structures, events, relations and patterns, all of which inform our broader interest in legitimacy within organizations. We draw upon methods elaborated by Miles and Huberman (1994) for generating preliminary categories, by reviewing our field notes, interview transcripts, printed texts and other data collected in each period. We generated relevant descriptive accounts in the form of selected quotes, excerpts and memos for each category (Miles & Huberman, 1994). To verify our coding reliability, we asked a colleague who was not familiar with our work to independently re-code a sample of 20 different narratives and other accounts (five for each of the first four historical periods). The independent coding yielded similar results, which verified that our analytical description of each category matched its empirical content.

We then turned to cross-sectional analysis of the data, moving back and forth within the categories of each period, looking for the major patterns and themes that characterized our case study (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). Next, we refined our categories, identifying constructs and patterns associated with legitimacy as either process or product, and the interrelations among such occurrences. At this point, we employed an iterative mechanism, weighing our categories in relation to the data and to existing theories of legitimacy in organizations.

Our final period of analysis involved identifying how the various processes of legitimation actually worked. By locating concrete mechanisms within our analytical categories, we were able to develop a framework that explained the shifting of legitimation processes in accordance with the evolution of Orion. To further crystallize our conceptual framework, we went back to our original field notes, interview transcripts and organizational texts. The last verification of our conceptual process involved refining our model and presenting it to colleagues and to Orion’s VP of HR, who had followed our process from inception.

A caveat regarding fieldwork

Our roles as researchers, which were enacted through various types of fieldwork (e.g. participant observation, ethnography and scheduled interviews), inevitably entailed the development of researcher-informant relationships. These relationships were based on ongoing reciprocity and mutual learning, as we tapped into people’s knowledge about and interpretations of their organization, which offered remarkable academic insights into the processes of legitimation in new ventures.

In addition, during the first period of fieldwork (1995–1997), one of the researchers also served as a consultant to the firm. Orion’s founder welcomed the collection of systematic data for research purposes, and the dual endeavor was presented to the employees before the actual fieldwork started. Serving as both consultant and researcher involved engaging in two basic activities: formal learning within the firm and a long period of immersion and building trust between the organizational members and the researchers. The latter task proved the most difficult, as the researcher-consultant had initially worked for the founder. Indeed, such positioning within the company required a
constant awareness of the researcher’s dual identity and the responsibility involved in taking on such an endeavor, which meant a different frame of reference (Adler & Adler, 2008; Pratt, 2000). Performing consulting as well as research implied a process of stringent self-criticism and constant reexamination of the interrelationships with informants, especially since our informants would want to know in which capacity—researcher or consultant—a question was being asked. We utilized a method by which the second researcher took a more detached and critical view of the data, looking for biases stemming from the first researcher’s dual roles and deep involvement with Orion (e.g. Gioa & Chittipeddi, 1991).

Findings: Legitimacy at Orion

Our data illustrate that internal legitimacy reflected different values and logic among the various members of Orion. Despite internal conflict and tension over shared meanings, basic values and practices, certain values—in particular, those associated with creativity and pioneering which were formed during the founding period—remained dominant. When facing internal contradictions, members of Orion tended to retain the values of creativity and pioneering by adapting different practices and strategies of action (Swidler, 1986, 2001). These new strategies allowed for the accommodation of their artistic values while pursuing other more market-oriented activities. For some, the values created at founding guided their organizational practices, while others saw those values as merely symbolic justification for external stakeholders. Table 3 summarizes the preliminary categories and key issues of legitimacy through representative data excerpts, as well as the final coding categories, for each of the periods in Orion’s lifecycle. Table 4 presents the core thematic categories of legitimacy and provides representative passages from the interviews.

Table 3. Key issues and categories at Orion.

<table>
<thead>
<tr>
<th>Period</th>
<th>Preliminary categories</th>
<th>Example</th>
<th>Final coding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nascent</td>
<td>Founding process—initial group formation</td>
<td>‘Garage’ model of founding (Alon’s living room); first recruitment efforts; founders met at a computer club; many were graduates of the same art academy</td>
<td>Founding process</td>
</tr>
<tr>
<td></td>
<td>Developing and inventing a unique artistic style</td>
<td>Described as young, ‘MTV style’ and expressive</td>
<td>Group identity</td>
</tr>
<tr>
<td></td>
<td>Art as self-fulfillment; Intrinsic rewards</td>
<td>Artists proclaim that they are given full freedom to experiment and to ‘experience’ art</td>
<td>Creativity development</td>
</tr>
<tr>
<td></td>
<td>Creation of art movement; art as ideology</td>
<td>Alon’s drafting an artistic manifesto; members following Alon’s ‘dream’ and seeing him as an internet guru</td>
<td>Internal legitimacy (nascent)</td>
</tr>
<tr>
<td></td>
<td>Art as a vision to market</td>
<td>Alon’s idea that what he is inventing is new art, which is the ‘trademark’ of the firm’s uniqueness</td>
<td>Recognition of need for external legitimacy</td>
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(Continued)
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<thead>
<tr>
<th>Period</th>
<th>Preliminary categories</th>
<th>Example</th>
<th>Final coding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multimedia</td>
<td>Exposure/diffusion to others</td>
<td>Searching for clients who are interested in innovative art products</td>
<td>Search for external legitimacy</td>
</tr>
<tr>
<td></td>
<td>Consolidating/marketing the creative process and style</td>
<td>Members recognize that their art is ripe and ready for public exposition</td>
<td>Initial external legitimacy</td>
</tr>
<tr>
<td></td>
<td>External recognition of artistic creativity</td>
<td>Reaction of visitors at Melia, Cannes</td>
<td>Further endorsement of external legitimacy (nascent)</td>
</tr>
<tr>
<td></td>
<td>Cracks in the ethos of artistic creativity</td>
<td>Artistic creativity is pushed aside by technology and demands of the market</td>
<td>Erosion of internal legitimacy</td>
</tr>
<tr>
<td></td>
<td>Restructuring and organizational design</td>
<td>Organizational change towards bureaucratization and introduction of standardized work practices with clients</td>
<td>Mature artistic creativity</td>
</tr>
<tr>
<td>Internet</td>
<td>Migration to the internet</td>
<td>Meeting in which Alon declares that Orion is exiting multimedia and entering the internet epoch</td>
<td>The early days—uncommitted internal legitimacy</td>
</tr>
<tr>
<td>boom</td>
<td>Emphasis on artistic creativity as leverage for the internet</td>
<td>Official documents always open with a statement claiming that Orion’s vision and objective is to use the internet as a ‘creative medium’</td>
<td>The early days—uncommitted internal and growing (newly established) external legitimacy</td>
</tr>
<tr>
<td></td>
<td>Early external relations</td>
<td>Appointment of a high-profile American corporate executive as Chairman of the Board</td>
<td>Strong external legitimacy</td>
</tr>
<tr>
<td></td>
<td>Conflict between graphic artists and programmers</td>
<td>Organizational structure according to functional teams that compete. Founder showing growing preference for technology</td>
<td>Erosion of internal legitimacy Increasing external legitimacy</td>
</tr>
<tr>
<td></td>
<td>Division between core and periphery</td>
<td>Creation of cliques according to their ‘proximity’ to the founder</td>
<td>Changes in organization practices and structure Erosion of internal legitimacy Strong external legitimacy</td>
</tr>
<tr>
<td>Internet</td>
<td>Reorganization processes</td>
<td>Appointment of high-profile American corporate executive as Chair of the Board</td>
<td>Erosion of internal legitimacy</td>
</tr>
<tr>
<td>bust</td>
<td>Artistic creativity as functional aspect</td>
<td>Graphic artists complain that their artwork is stagnating and appreciated only as secondary to technology</td>
<td>Continued erosion of internal legitimacy</td>
</tr>
</tbody>
</table>

Table 3. (Continued)
Table 4. Themes of legitimacy during the life cycle of Orion.

<table>
<thead>
<tr>
<th>Period</th>
<th>Core category</th>
<th>Selected excerpts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nascent</strong></td>
<td>Building internal legitimacy through creativity</td>
<td>The group of founders shared a common dream, to pioneer a new graphic art form. We had full creative freedom and at the same time could be part of a collective that fit you into its dream (interview with graphic artist, 1995)</td>
</tr>
<tr>
<td></td>
<td>Founder as generator of creativity-based vision</td>
<td>When I founded Orion, I set the rules—everything I did had to follow those rules: creativity and innovation. Every project had to be something new. We never compromised creativity for business considerations (interview with the founder, 1995)</td>
</tr>
<tr>
<td><strong>Multimedia</strong></td>
<td>Constitution of external legitimacy—event</td>
<td>Orion was mobbed at Melia; you couldn’t get anywhere near them. In contrast, other VRML [virtual reality modeling language] worlds are sterile and feel like a bad party (Red Herring interview, May 1995)</td>
</tr>
<tr>
<td></td>
<td>Introduction of structured rules and practices</td>
<td>With the contracts we got with News, Brotherband and others, we have to have a structure and chain of command and organized accounting system. We have to work with forms and provide progress reports and meet our multinational clients’ demands for orderly process (interview with VP for Operations, 1996)</td>
</tr>
<tr>
<td><strong>Internet</strong> (boom and</td>
<td>Achieving external legitimacy by being an internet pioneer</td>
<td>We scrapped the multimedia and turned to the internet because I thought that the future was with the internet. Since then, people [VCs] are coming and going, everyone wants to be part of it and invest in us (interview with VP for R&amp;D, 1998)</td>
</tr>
<tr>
<td>bust)</td>
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(Continued)
Recent research has claimed that legitimacy construction in the nascent period of a new venture is essentially an internal, normative process. Founders and the founding team strive for legitimacy by presenting the ideas, values and beliefs that guide their logic of founding and, consequently, their activities (Lounsbury & Glynn, 2001; Zott & Huy, 2007). Orion’s founder stressed that creativity and innovation would characterize the company, commenting, ‘It does not matter what we are doing, and who we are doing it for; we always do it creatively and artistically’ (interview, February, 1996). From the very outset, and during the initial period of formation, these values infused Orion’s staff with the desire to achieve creativity in all endeavors. The ideal of creativity was preserved through various organizational practices by instituting strict procedures that established benchmarks for artistic evaluation. During the nascent period, the artistic team initially divided the work between themselves. Next, Alon, the founder, worked with each member individually until both agreed on the result. The final integration was conducted by the entire team, Alon being ‘the first among equals’. All decisions regarding artistic matters were accepted through team consensus. Decisions that related to execution were dealt with by the entire team; however, Alon always had the ‘last word’.

During the nascent period, Orion’s artistic values emphasized originality of style and form and creative use of images as metaphors for meaning. Customers’ assessments of the quality of work or its aesthetic style were not salient factors in the firm’s construction of legitimacy, however. In fact, during this period, Orion’s customers expressed indifference to the artistic style of the

### The nascent period: the emergence of internal legitimacy, practices and moral standing

During the nascent period, Orion’s artistic values emphasized originality of style and form and creative use of images as metaphors for meaning. Customers’ assessments of the quality of work or its aesthetic style were not salient factors in the firm’s construction of legitimacy, however. In fact, during this period, Orion’s customers expressed indifference to the artistic style of the
products (primarily graphic presentations). Legitimacy was driven by an internal assessment of innovation as interpreted by organizational members themselves. It was the founder’s conviction and belief that Orion’s ‘style’ and its ability to be ‘one of a kind’ would secure and sustain success, and this belief motivated and enthused Orion’s staff. The founder set standards that he described as follows:

When I started working, I set the rules and everything I did had to follow those rules: creativity and innovation. Every project had to be something new; the final touch on everything I did had to be of the highest standard. (interview, October 1995)

Internal legitimacy at Orion emerged based not only on ‘style’, but also on the managerial decision to promote a culture of creativity. This was seen as more than fixed and predetermined values, but rather as action guided by the drive to generate new forms of expression in graphic art. Internal legitimacy during this period implied continuously searching and adjusting Orion’s ethos to the specific situated context of the day (Sewell, 2005). This model of searching and adapting through creative activities was the key driver behind the construction of Orion’s internal legitimacy in the nascent period. Based on creative work, its logic was dynamic and fluid, and never taken for granted (Aldrich & Fiol, 1994). The process of enacting Orion’s creative culture was viewed as a quest, in the founder’s words, to ‘create a unique style by experimenting with images and forms while giving them unique meaning’ (interview, January 1994).

In Orion’s early days, the founder maintained a clear and highly respected form of authority and was pivotal in fostering and shaping the firm’s internal legitimacy. Orion’s first five members saw him as their guru, as one of them candidly admitted: ‘We, the founders, we became Alon’s blindfolded followers’ (interview, June 1997). At its founding, Orion was composed of a small, tightly knit group, primarily graphic designers, whose common values and aspirations accentuated the notion of full self-expression in an ideal environment. Furthermore, the group knew each other, as all had studied together at Bezalel, the leading art academy in Israel. Alon virtually recruited them as one unit, and they joined Orion together. During this period, Orion functioned as a near-cult, fully attuned to a guru-like CEO, whose artistic aspirations and values imbued the nascent firm. Consequently, internal legitimacy was crafted through organizational features closely associated with developing the medium of computer art graphics as art for its own sake. ‘In the early days,’ testified the founder, ‘we thought of Orion as a group of artists that set themselves up to develop a new art form. Clients and projects were not part of our consideration regarding what to do and what not to do’ (interview, June 1996).

The multimedia period: seeking external legitimacy

For new organizations, achieving external legitimacy is considered a lengthy process. External legitimacy reflects the scrutiny and testing of external actors that look for positive signals regarding the organization’s potential or capabilities (Hannan & Freeman, 1984). The distinctive characteristics of Orion as a pioneer in establishing a new threshold for artistic style enabled its acquisition of external legitimacy through a single constitutive event—an international multimedia exhibition (Melia) held in Cannes, France, in February 1995. Orion’s huge success at Melia quickly elevated the company’s profile from a parochial status to the forefront of the multimedia and computer gaming world. At the exhibition, Orion presented samples of its multimedia product titles as well as material featuring its futuristic ideas and its business philosophy, as described by its senior graphic artist:
At Melia, we were the first to blend technology and design to create multimedia, multi-user social technologies. We struggled with the tension between what makes great multimedia—such as amazing 3D—and what enables social interaction and a sense of community. We worked with graphic designers and user-interface experts to introduce the latest technologies, and collaborated with 3D artists, illustrators and character animators. (interview, June 1996)

For Orion, gaining external legitimacy involved support not only for its artistic style, but also for its challenge in consolidating a new medium of communication. Its formal ‘manifesto’ stated:

We are witnessing the dawn of a new era in which multimedia will become the sole channel of communications. Orion will meet the challenge of leading the field and will apply its knowledge and creativity in R&D to the production of innovative graphic art products for television and for the entertainment market.

Thus, external legitimacy was perceived as instrumental for promoting certain media that had been ‘invented’ by Orion and perfectly fit its capabilities, skills and practices. Subsequently, Orion gained contracts for multimedia titles and computer games with leading international media corporations. These contracts provided the ‘idiosyncratic resources’ needed for the company’s growth (Zimmerman & Zeitz, 2002).

**Consolidation of internal legitimacy and the role of the founder**

Following the first signs of external legitimacy, internal legitimacy at Orion intensified. As an internal HR memo indicates:

Alon attributes Orion’s creativity to hiring free spirits. Instead of working with freelance multimedia pros, Orion has cultivated its own team of designers, illustrators, animators, photographers and musicians. We recruit them mainly from Bezalel, where the graduates know about us and ask to come to us. We didn’t have to look for people. The resulting new products and ensuing deals allowed the company to grow by hiring and training even more talented people, all while serving leading international customers. During this time, Alon was able to further develop the vision of visual communication and “smart objects” and he had his team start developing a proprietary technology. (HR manager’s memo to the board, June 1996)

The period after Melia was marked by a rapid recruitment of graphic artists with computer graphic skills. Most of them joined following their graduation and were already acquainted either with Alon or with another member of the company. The expansion of Orion called for a new organizational structure according to project/product teams, with a few support staff in areas such as logistics and technical support. The four project teams, each with four or five graphic artists, worked on different products, either computer games or multimedia educational titles. Each team was managed by a member of Orion’s original team. Team members were recruited either directly by team leaders or assigned by Alon after consulting with the team leader. In addition to Bezalel graduates, there were a few new members who had studied computer graphics abroad (mainly in London or New York). Our observations indicated a slight change in practices related to the organization of work and artistic evaluation. An excerpt from our field notes reveals a few aspects of these changes.

Today [as always] Alon met with each team leader separately. In today’s meeting with Alon [one of the team leaders] discussed the story line for a computer game and suggested an artistic concept to the
sequence of events leading towards solving a certain “mystery”...[after lunch] Alon started his daily discussions with the team. Rami and the team [working on an educational title] just got to the text regarding the invention of electricity from the content consultant. Alon asked the team to draw sketches on how they visualized electric current and delivery systems, both old and new, and also to envision the future. He provided guidelines: “Make it dramatic but not too realistic”. The team started to deliberate on how to present electric current. Alon approved Moshe’s suggestion of linking electric current to a thunderstorm as a strong representation and then gave further instruction. [The meeting with the team lasted 20 minutes.]

(Field note, May 1995)

Artistic evaluation continued to be viewed by the founder as the most important asset of Orion, and he maintained his control over the process and the outcome. However, the teams were confined to their own work, and there was no mechanism for team interaction or for sharing information or ideas. Each team was engaged only in its own tasks. The only avenue for interaction was through the founder or during the very few meetings between the founder and the team leaders. Thus, the founder played a crucial role in cementing Orion’s beliefs and values of creativity. The founder’s artistic leadership, which remained undisputed and much admired, appeared immune to criticism. In practice, the founder marginalized the other members’ artistic creativity and instead made them executers of his own ideas, which he considered ‘state of the art’ and highly innovative. His charismatic leadership left no room other than to acknowledge that Orion was an embodiment of the artistic vision of its founder. The message of ‘new graphic art’ drove a set of values and practices that judged Orion’s products during that period (1995–1996) by a single yardstick—‘artistic quality’.

The clash of legitimacy with internal artistic practices

Working with multinationals compelled Orion to rapidly transform its nascent ideas into marketable products with clear technological and content specifications. For example, a conspicuous difficulty arose in acknowledging the necessity of subjugating artistic ideas to the limits of technological advances. The company’s entry into the international market forced Orion to expand its accountability beyond its own internal sphere and to adjust its operations to the customers’ artistic demands. In contrast with its familiar status as a subcontractor, Orion now faced the task of assuming full vertical responsibility for all aspects of producing a multimedia project, from design and budgeting to execution. Working with international corporations presented a formidable challenge, requiring Orion to rapidly convert embedded (organizational) informalities to meet new and higher standards. For example, formal guidelines for work procedures were introduced to ensure quality standards and compliance with the customers’ procedures. This necessitated compromise, primarily a devaluing of Orion’s previously prioritized commitment to high artistic standards. The consolidation of bureaucratic procedures militated against doing art ‘for the sake of art’, and forced the company’s graphic artists to meet customers’ specifications for style and content. As one of the graphic artists testified:

We changed our priorities, working with new guidelines abruptly handed to us [by our contractor] that stated, in fact, that art and creativity were not enough. We suddenly realized that there were many things we didn’t know; our weaknesses were exposed. Eventually the visual results were not what we expected, not up to our standards, and it happened to an experienced and qualified team. (interview, October 1996)

Thus, maintaining external legitimacy implied internal changes. Some of these were grounded in the institution of organizational practices and routines and increasing managerial control over
tasks and timetables, while others involved ‘bending’ the standards of artistic quality. Despite operating in a relatively new and weak institutional environment (Hargadon & Douglas, 2001), having relatively few well-established customers forced Orion to surrender to their demands—in terms of working procedures, content and technical requirements—at the expense of its artistic values. Those firms soon became Orion’s source of legitimacy, thus eroding their internal legitimacy. Members began expressing skepticism or dismay, as one of the graphic artists lamented:

I always wondered when the time would come that we would cry over the good old days of doing art for fun, or for discovering a new way to express and experience. It came to Orion too early—pragmatism became the word of the day. (interview, October 1996)

**The internet period: external legitimacy from stakeholders endorsing radical change**

Orion’s founder ‘discovered’ the internet in 1996. He realized that dotcom firms would require a unique vision, strategy and structure (Kanter, 2001; Porter, 2001). His decision was abrupt, and he described his logic as follows:

I always look forward. When I realized that the future was online, I didn’t wait one second. For me, the multimedia content is dead and we need to reorganize ourselves onto the internet. The internet is new to me, and I don’t yet know all the rules, but I know that we need to rely on our creativity. We also need lots of capital and a new kind of people—software programmers. Those who don’t fit and don’t have Orion’s spirit and its demand for creativity will leave. (interview, November 1996)

Orion’s adaptation to the internet environment involved a complete termination of its multimedia and computer game activities. It also required experimentation with technology and product content, as well as strategizing and organizing with an inherent set of uncertainties. As an internet pioneer, Orion aggressively engaged in developing the basic tenets of the internet, its concept, philosophy and ideology, in addition to mobilizing and indoctrinating its employees. As the founder described:

I work constantly in high gear, running from team to team, making them crazy. The internet is the universe next door, but all the same, it is a universe and I need to find what will work [in that universe]. I know I drive people crazy in my quest for what will work; I want them to remain creative. I explain that we resemble James Bond’s laboratory—creativeness, innovativeness and extraordinary art. The technology and the internet shouldn’t blur our strength in creativity. (interview, January 1997)

In the early days of the internet boom, Orion enjoyed a very favorable environment. The Israeli venture capital industry that had evolved during the 1990s was keen to invest in new state-of-the-art companies. During this period, Orion sought out VC funds by presenting itself as an internet pioneer. Soon, external recognition of Orion as an early internet entrant became salient, as two critical types of stakeholder endorsed its vision. First, a VC invested handsomely in the company; next, Orion was able to attract a globally renowned ex-CEO of a leading computer company as its Chair of the Board. He explained his willingness to get involved as follows:

What Orion is doing makes me feel like I’m witnessing again one of those extraordinary, special moments where there is the beginning of a platform that fundamentally changes the way the internet can be commercialized—from a publishing model, which I spent 10 years at P helping to promote, to a broadcasting model. (interview, May 1997)
Thus, Orion had built considerable external legitimacy, which fostered the company’s image as an internet pioneer as solidified by the words of the new Chair: ‘Of all the Internet companies we’re involved with, this one is by far the most technologically ambitious’ (interview with the magazine *Red Herring*, May 1997).

**The erosion of the moral stance of internal legitimacy**

In 1996, the endorsement of external stakeholders had led Orion to scrap its multimedia and computer game activities and reorganize as an internet company. New goals were established and the company diversified its workforce to include not only graphic artists, but also programmers and system managers. Orion grew fast, beyond 100 employees, in just a few months in late 1997. Recruiting in haste required compromises that sidestepped norms and processes that had initially nurtured creative and committed employees. The HR manager confided:

> We had to recruit in a short time. Those new employees didn’t know much about the company and its founder. There was not enough time to socialize each one of them and teach them the company’s history and work culture. They were given only professional training. Moreover, since there was a demand to hire many employees, there was no way the company could choose only exceptional employees, so mediocre employees started to fill in the positions available. (interview, May 2003)

Furthermore, the company reorganized and replaced the previous nonhierarchical and primarily flat structure with a hybrid structure composed of a hierarchically organized headquarters with functional products and technology teams.

One unanticipated result of the firm’s entry into the world of the internet was the erosion of internal legitimacy, in particular the consensus over the values and practices of artistic creativity. This erosion of internal legitimacy is best illustrated by reviewing the organizational dynamics between and within various groups of key professionals. We documented many instances of friction and conflict between the core internet team (programmers and graphic artists) and the peripheral multimedia team. Furthermore, a subdivision occurred within the core, between graphic artists and programmers. Demarcations between the core and the periphery set off power struggles between rival cliques vying for the founder’s favor. Many resentfully complained of cronyism and clique rule, as well as an overly centralized and top-heavy managerial style. As one of the programmers stated: ‘If you want to know who is important, just see who is invited to the meeting’ (interview, June 1997).

The differentiation between graphic artists and programmers effectively created two subcultures, each with its own patterns of organizational learning. The ‘creative’ group remained strongly attached to Orion’s core ideology, emphasizing closely knit teamwork, artistic creativity and product image. The more ‘pragmatic’ programmers perfectly fit Kanter’s (2001) description of the internet’s knowledge workers as ‘hungry nomads’ searching for opportunity and renewing their commitment to each successive organization. They were more concerned with professional advancement and followed an exploitative strategy (Barley and Kunda, 2004). Many of the graphic artists and multimedia staff also believed that the spirit of artistic creativity had to be reinvigorated if Orion was to succeed, as stated by this veteran graphic artist:

> We used to have the Spirit of Orion—the feeling of innovating and creating new artistic forms. This built our spirit, the spirit of family and friendship. Now we’re still creative—Alon still talks about creativity and innovation, which he sees as our relative advantage—but we’ve lost the spirit. We’re into the programmers’ culture, which is nothing but intellectual program code lines. (interview, January 1998)
Subsequently, internal conflicts among the organization’s members eroded internal legitimacy. This was manifested by the fact that the creative and multimedia teams publicly disputed the rationale for and the merit of Orion’s internet strategy. One of the multimedia team members explained: ‘Somehow we forgot our past; it did not count anymore. We are making the mistake of building a new brave world by cutting off our foundations or forgetting about them’ (interview, January 1998). Orion’s core values, which had provided a source of comparative advantage, were no longer being invoked. By moving away from its core excellence, Orion was losing the skills and capabilities for maintaining an innovative spirit.

**Endorsement of external legitimacy**

The pressure to become a player in the internet field required external endorsement that was superimposed on Orion with every single decision. For example, recognition of Orion’s 3D technology was provided by Microsoft, which bundled Orion’s several 3D features to be distributed with its Windows 98 operating system. Orion’s founder took the opportunity to proclaim that Microsoft’s recognition was a tribute to his long-standing vision of creativity, which was being signaled by the market in a timely fashion:

I founded Orion with a vision of bringing life and creativity to the Internet. We have been waiting for the day when processor power and Web browsers were capable of bringing Web users the kind of dynamic media they could only dream about. Microsoft is the platform leading this revolution, and we are absolutely thrilled and privileged to be included with this technology. Now, with this recognition, we are in the market and remain a player in the internet market. (company meeting, February 2000)

For the founder, such recognition represented more than symbolic legitimacy; it precipitated a rational business decision that called for an internal effort to identify and develop unique products and services. Between 1999 and 2000, Orion launched a 3D technological project aimed at developing an internet-marketing tool for content providers, advertisers and retailers. This tool, a form of interactive media ‘object’ with built-in viral marketing capabilities, was designed to provide private content distribution networks and reach unprecedented numbers of target audiences, while developing one-to-one relationships with end users’ (company memo, March 2000). In June 2000, following a few road shows and media attention, Orion was able to close a substantial financial round led by four leading VCs. An internal memo from a financial analyst to one of the companies interested in acquisition outlined the attractiveness of Orion:

They could have developed their company à la Napster … but have refrained from doing so… [T]hey haven’t got an independently sustainable business model but could create a lot of value for a media/internet company. We could use Orion’s product and service in all our web properties: It can be seen as a customer acquisition mechanism, a retention mechanism, a repeat business mechanism … We could use it to transform Napster into a legal/profitable model. (confidential memo, May 2001)

When encouraging reports came in, such as press comments on Orion’s pioneering technology and creativity, the founder usually spread the news by addressing the company. Early in our field work, we observed that in his speeches he always returned to the recurring theme of stressing a ‘credo’ of creativity that stemmed from the insistence on developing artistic creativity above and beyond business considerations. For example, in his address to the company after Orion secured an additional round of investment in 2000, he claimed:
We at Orion are incredibly fortunate to develop a vision of creativity. This is what gives boost to the company. Our innovative ideas and technology will become a pervasive platform that will deeply affect the way companies and customers can relate to each other. Our innovative and creative thinking and execution brought this group of distinguished VCs and potential partners to invest $XX million in us.

(company meeting, March 2000)

**Internal legitimacy contested**

Following the injection of capital in 2000, Orion’s founder decided to move closer to the company’s main market and to split the company geographically, locating the new headquarters in New York City. We observed that the move heightened the earlier schism between artist and programmer subcultures and highlighted conflicts resulting from disparate learning strategies. The move signaled a perceptible division of tasks between Tel Aviv and New York, with the former engaging mainly in product development, maintenance and support, while the latter focused primarily on marketing. The groups engaged in incessant conflicts, competing for control over Orion’s priorities and resources. Israeli members felt they were the senior office people. Since they had developed the technology, they felt they knew it best, and it was difficult for them to be demoted to a status they perceived as mere ‘executors’. The New York office complained about the Israeli office’s slow response times, red tape and exaggerated sensitivity to issues of authority and hegemony. Many employees in both New York and Tel Aviv felt that the two offices were separate organizational entities. Furthermore, employees in both countries lacked knowledge regarding the other’s organizational roles, and coordination and cooperation became difficult and cumbersome, as testified by one of the team leaders:

There is complaining that there is a different set of priorities for the Israel and New York offices. It seems that different teams are working very hard on not 100-percent matching tasks. This came out as very frustrating to all sides involved since each side feels the “other side” is not working to give answers on current topics. (interview, February 2000)

The most apparent change was the lack of a motivating leader in the Israeli office. The founder’s departure to New York created a void. Newer employees in Israel did not personally know the founder, who traditionally had assumed the role of selecting and socializing new recruits in accordance with Orion’s unique creative culture and history. As the HR manager testified:

The CEO was constantly complaining about the lack of startup spirit coming from the Israeli office. He said there were too many people there, that work was very slow and they were not working enough hours a day. Also, the HR and finance people were complaining that many employees worked 60–70 percent instead of at least 100. (interview, May 2000)

As in the rapid expansion in late 1997, owing to work demands, recruitment stopped short of opting for exceptionally talented employees; therefore, mediocre staff members began filling the available positions. The conflict between the two offices raged throughout 2001. A support manager in New York provides an example of how this was perceived:

On a few occasions, especially in Israel, there were expressions like “We vs. them, Israel vs. New York”. These kinds of expressions show that some people feel that the offices in New York and Tel Aviv are two separate organizations, two separate groups, or even, in some cases, rivals that compete with each other. This could be very dangerous if it escalates. (interview, February 2000)
Furthermore, with the first signs of the internet bust, the founder claimed that the Israeli office had engaged in lavish and ill-conceived spending that hazardously depleted resources and forced drastic downsizing in Tel Aviv. The New York employees were told that the layoffs were necessary in order to recruit more employees and to funnel additional funds to New York. The lack of candor displayed by the founder at each of the organization’s locations highlights how far he had moved from the original goals, values and norms of Orion’s early days. The different routines of the New York and Tel Aviv offices eventually created an internal rift and reinforced an insecure environment that coincided with two major events in 2001, the bust of the internet bubble and the 9/11 terrorist attacks.

The erosion of external legitimacy

Following the conflicts and loss of internal legitimacy through 2000 and 2001, Orion’s external legitimacy began to erode as well. Painfully, Orion’s founder realized that marketing and sales could easily supersede art and hype in the business world. Following market research, Orion focused its strategy on the entertainment industry (record labels, advertising agencies and toy manufacturers). Acquisition of customers was slow and expensive, owing to difficulties in accessing the leading players in the entertainment and advertising industries, as well as the fact that Orion’s products were tagged by customers as ‘nice to have’ but not essential to their core business. Like many companies in the internet industry, Orion became cash strapped. The company had spent lavishly and recklessly on things that were part of the ‘internet show’, the attempt to enhance legitimacy in this emergent industry on the part of numerous actors, including investors, business owners and the media (Cassidy, 2003). Meanwhile, deals were sluggish. Contrary to the envisioned strategy, Orion’s customers declined to adopt its services on a large scale. By mid-2000, it was already apparent that Orion was not moving towards economic viability, but rather speeding toward dissolution. At the same time, the market witnessed the burst of the internet bubble, and soon after, the events of 9/11 would cast a shadow on the United States as a whole.

Around this time, one of Orion’s board members suggested and initiated an acquisition attempt. Consequently, Orion began acquisition negotiations with three media moguls. In this negotiation phase, the ability to maintain external legitimacy depended on the fit between Orion’s offerings—its technology, products and mission—and the potential acquisition companies. Thus, both Orion and those who intended to acquire it were not passive players, but actively sought legitimacy by employing actions and strategies aimed at validating the perceived value proposition. Furthermore, Orion actively engaged in promoting its legitimacy by aligning its internal activities, including tight control over the company’s handling of its resources.

During the acquisition negotiations, Orion attempted to foster legitimation processes by tapping into two major sources. First, the company made an effort to focus on its experience and understanding of the internet’s environment. Second, it attempted to enhance external legitimacy by engaging Orion’s VCs in a last effort while facing an existential threat. An example is found in the following internal memo from the founder to Orion’s top management team:

In order for the company to be able to show it has cash till year end in the due diligence process, our VCs will consider to guarantee the company a credit line of $2M. The company will not use the credit (unless credit authors will agree to it). The VCs will give their final answer by weekend and finalize the terms for this credit line guarantee. (August 2000)

However, despite these efforts to survive, Orion’s founder was unable to rally the necessary resources to reestablish external legitimacy. In a retrospective interview, the founder explained:
As a founder, I always had the vision. I was doing an excellent job in opening doors and getting to the right people and impressing them, selling them. But then many times things vaporized for different reasons over and over again. We were told someone would get back to us in a few days and nothing—someone will send us the contract but nothing—there were a few follow-up meetings and then nothing happened. It was very frustrating to see this happen over and over again. Thinking in retrospect, the big team we had in the sales department was lacking someone strong that knew what to do in those very tricky situations. Another reason might be the lack of a strong business personality in the company. My feeling is that we never had an extraordinary businessperson, a killer deal closer. (interview, May 2003)

In 2002, Orion’s board decided to suspend all operations and to liquidate the company’s remaining assets.

Discussion

Studies on institutional work (e.g. Lawrence et al., 2011) that investigate the ways in which social actors carry out actions, practices and processes that alternately and interchangeable create, maintain, transform or disrupt organizations encourage us to explore the relationship between external and internal legitimacy. However, because institutional theory traditionally claims that legitimacy is a phenomenon external to the organization (e.g. DiMaggio & Powell, 1983; Scott, 2001; Suchman, 1995), understanding legitimation processes fully requires a theoretical reformulation. Without taking into account the internal response to external legitimation, we cannot understand the social formation of legitimacy as a dynamic process or the complexity of interaction between its external and internal manifestations. We contribute to the theory of organizational legitimation by ‘bundling’ internal and external legitimacy and examining their interrelation through putting organizational practices, such as recruiting, evaluation of work processes and the pursuit of a strategy and vision, at the center of our analysis.

Internal legitimacy

Understanding internal legitimacy calls for bringing the concept and ideas of institutional work to the fore. Central to institutional work scholarship is the idea that institutional agency is an integral component of legitimacy formation. In addition, the notion of intentionality evolves out of practices aimed at concrete outcomes for ‘creating, maintaining and disrupting institutions’ (Lawrence, Suddaby & Leca, 2009, p. 1). Accordingly, internal legitimacy refers to the ways people in organizations direct actions, practices and values they understand as beneficial for their organization. Members depict internal legitimacy from a pragmatic and moral position. This understanding implies that, at Orion, the graphic designers’ work routines were embedded in a strong ethos, with concrete ideas about style and aesthetics. Their execution practices were guided by a context-dependent gamut of interactions, creating strong internal legitimacy for creativity and innovation. Likewise, recruitment processes for graphic designers were based on formal art education as well as on personal acquaintances, which cemented internal legitimacy. In turn, graphic designers called upon this internal legitimacy to express their views on issues they felt breached their ethos of creativity. As such, internal legitimacy is constantly assessed and changed and may not lead to taken-for-granted practices or values (Powell & DiMaggio, 1991). Rather, it is dynamic and sometimes fragmented, leading to volatility. In the case of Orion, we demonstrate how internal legitimacy collapsed as a result of different interpretations by competing subgroups as well as conflicts among groups. Furthermore, the case of Orion shows that the legacy of the firm (for example, its vision, mission, values, technology and market) is shaped during its formative years, subsequently serving
as a boundary condition for the development of legitimation processes (Greenwood et al., 2002). For this reason, legitimacy itself may become a source of contestation within the organization. Thus, the legacy of founding shapes the norms and practices that are seen as legitimate, and both constrains and facilitates the organization’s strategic action throughout its life.

**External legitimacy**

Institutional work called our attention to the dynamics between institutions and social actors. Members are subjected to processes and outcomes from different stakeholders and must respond to various events, sometimes contradicting their practices or values. This perspective departs from traditional institutional theory that views social actors as bystanders to a larger social dynamic (Powell & DiMaggio, 1991) or the ‘heroic’ depiction of institutional entrepreneurs who engage in an insurmountable uphill battle for change (Garud, Hardy & Maguire, 2007; Maguire, Hardy & Lawrence, 2004). Accordingly, the notion of institutional work offers an effective solution to the problem of social actors trying to influence organizations by providing an understanding of the interaction between internal and external legitimacy. At Orion, members’ actual practices were not always in line with the organization’s strategy. As we demonstrated in our findings, even the founder, notorious in guarding Orion’s ethos, was unable to maintain consistency regarding the ethos of creativity. For example, he was unable to successfully confront ‘deviation’ from the established ethos of creativity, first by the programmers, and later by the Tel Aviv office. The dynamic interaction between the organization and its stakeholders represents a larger pattern of organizational meaning for internal and external legitimacy.

The notion of external legitimacy as a stakeholder’s recognition of the appropriate practices and values of the organization implies a certain congruence with internal legitimacy. However, in classical institutional theory, this dynamic, which concludes neatly with the institution of organizational ‘myths’, excludes active interactions between members and stakeholders (Meyer & Rowan, 1997). At Orion, members experienced multiple forms of interaction between internal and external legitimacy, which marked their various paths of action and reaction. This included their responses to requested mobilization in supporting certain business activities, like the split in Orion’s geographical location. When faced with the acute need to rally behind the founder, the Tel Aviv office remained indifferent. It should be noted that Orion’s founder had played a dominant role in creating the company’s external legitimacy (e.g. Zott & Huy, 2007) and consequently could be seen as a key figure in the ‘rise and fall’ of Orion. One could argue that his charismatic leadership was externally oriented, making him a poor manager, which consequently eroded his internal legitimacy and the ability to rally support from within the organization.

In terms of institutional legitimacy, it was Orion’s founder who linked the external environment and the organization through ‘ideological canvassing’, portraying Orion as a pioneer in its respective fields (graphic art, multimedia and the internet). This external legitimacy was ‘radiated’ internally so long as the founder maintained and defended a coherent meaning. The meaning of creativity and innovation evolved through an interaction between internal and external legitimacy. Internally, the meaning of creativity and innovation provided guidelines to routines, established work practices or providing meaning to Orion’s vision. Externally, stakeholders attached either positive or negative meaning to the way the company was designed to execute its ideas and technologies. Occasionally, external legitimacy lost its usefulness internally, along with the inability of the founder to maintain a strong coupling between practice and meaning (e.g. Hallet, 2010). This made internal legitimacy a contested arena over practices, social positions and conflict regarding the raison d’être of Orion.
Another major finding of our research concerned the development and eventual crisis and conflict that resulted from the stresses of attempting to balance internal and external legitimacy. Our case began with a robust organizational culture supported by strong internal legitimacy. As the firm evolved, the founding entrepreneur had to develop strong external legitimacy in order to obtain necessary resources. We observed that in order to obtain sufficient external legitimacy to support the infusion of new resources (external capital), it was necessary to make cultural changes that clashed with the established norms on which the firm’s internal legitimacy was based. Thus, the entrepreneur (unwittingly) sowed the seeds of conflict, disharmony and dissolution, in attempting to manage the evolution of the emergent organization.

The external environment

The impact of the dotcom bust that began on 10 March 2000 had reverberations that echoed throughout each and every internet firm—Orion was no exception. One reading of the economic outcome for Orion is that its subsequent decline was entirely due to the overall economic climate, rather than to organizational attributes. While it is impossible to entirely disentangle these relationships and view them through an isolated unidimensional lens, we provide evidence that the loss of internal legitimacy was accountable for exacerbating environmental turbulence. For comparison, consider the case of another contemporary startup, Amazon.com.

In contrast to Orion, Amazon embraced remarkably consistent hiring practices throughout its formative start-up period. Jeff Bezos, the CEO, recognized his limitations when looking for high-quality talent outside his field of expertise (Anders, 2000). All employees were interviewed by several Amazon employees, with the goal of raising standards with each entry (Hymowitz, 1999). Applicants were given on-the-spot puzzle-type questions and carefully examined according to a range of metrics in an attempt to focus on hiring only the most intelligent staff. This rather enlightened CEO policy served to enhance the prospects that many employees engaging in very different job tasks would develop internal legitimacy when faced with the vast array of requisite environmental changes. Despite facing similar environmental turbulence during the dotcom bust, Amazon was able to maintain legitimacy and carry on towards the establishment of cognitive legitimacy.

A process model of internal and external legitimacy

We now introduce a process model examining the development and interaction of internal and external legitimacy at Orion. While this model is not meant to be generalizable, we believe it offers insight for scholars examining the micro-processes of legitimation as well as the relationship between internal and external legitimacy in other organizations. Recent work has sought to outline process models that depict the relationship between structural conditions and legitimation; Figure 1 depicts a four-stage model of internal and external legitimacy derived from Johnson et al. (2006).

In our model, we add nuance to the four-stage process, whereby the ‘interplay of actors, agency and institutions’ (Lawrence et al., 2009, p. 3) fosters legitimacy through emergence, endorsement, compliance and consolidation. We modify this process by explicating the relationship between internal endorsement and the external structure, as well as by adding processes that examine the implications for internal legitimacy, including a feedback loop depicting the recursive consequences of internal and external misalignment.

We begin with the emergence stage, typified by a strong founding ethos. In the case of Orion, this was the focal attention to art ‘for art’s sake’ and the desire to create a new movement anchored...
in the relatively homogeneous artistic backgrounds of the founding members. Characteristic of this ethos was the development and distribution of the Orion ‘manifesto’, which anchored their orientation in a codified document. The agreed-upon ethos provided a positive lubricant for the second stage, endorsement, characterized by the development and evolution of both pragmatic and moral internal legitimacy. Pragmatic legitimacy developed in response to both the individual and the organizational preferences toward achieving the collective goal of creating a new movement. Moral legitimacy developed as a response to supporting the value system attached to ‘art for art’s sake’. Both pragmatic and moral legitimacy served to reinforce motivations for the Orion members.

A second outcome of the development of the ethos was a set of practices that evolved in support of the founding members’ individual and collective goals. For example, in the nascent period, virtually all hiring was done on a personal basis, primarily through recruiting other graduates of the same art school. Another such practice manifested in the processes through which group decisions were solicited and evaluated. During the formative years, project teams were set up and coordinated by the founder, loosely competing with each other regarding content and quality. Once the teams had completed their tasks, the entire group was brought together in order to ascertain whether the new contributions were in keeping with their greater aesthetic goals. These processes led to the further enhancement of both moral and pragmatic legitimacy.

During the endorsement stage, Orion became more interdependent with the external environment, through interaction with external stakeholders, the appreciation and validation of external bodies (e.g. Cannes) and the endowment of resources. All three types of legitimation—cognitive, pragmatic and moral—served to enhance the company’s external legitimacy. However, external legitimacy required a continual stream of maintenance of its internal legitimacy. As Pfeffer points out, ‘a critical administration activity involves the construction and maintenance of belief systems which assure continued compliance, commitment, and positive effect on the part of the participants regardless of how they fare in the contest for resources’ (Pfeffer, 1981, p. 1). To maintain cognitive legitimacy, for example, Orion had to appear like other dotcom firms, providing a rational business model, a recognized bureaucratic form of leadership and an appropriate media presence, all at great
expense. Both pragmatic and moral legitimacy had to appeal to a wider environmental norm, such that a new Chairman of the Board was recruited from a major Fortune 100 company, and the organization was increasingly subjected to normative accounting and reporting processes emblematic of a large multinational corporation.

Both the founder and the Chairman of the Board were now tasked with maintaining a relational balance between internal and external environments—a critical mediating factor leading to the third, or *compliance*, stage of the legitimation process, involving both internal and external legitimacy. Their efforts encountered resistance, as the need to support and maintain external legitimacy conflicted with the processes previously developed for the creation of internal legitimacy. For example, the founder was no longer able to hire individuals through previously normative group processes, creating tension and conflict between those imbued with the founding ethos and those not. Other processes, such as strategic and operational decision-making, became gradually autocratic rather than consensual and, as ‘chief change agent’ interacting with the internal and external environments, Alon was increasingly demanding deliverables that failed as accepted outcomes regarding the shared internal ethos. Thus, he faced considerable resistance to change, witnessed the undermining of internal legitimacy (with negative consequences for performance and a loss of external resources) and upset the relational balance between internal and external legitimacy such that the organization eventually became unproductive and unsuccessful. As a result, Orion moved into factionalism and experienced an erosion of legitimacy, requiring a re-establishment and revision of the founding ethos, recursively leading back to the emergence stage. Only if they had been successful at aligning internal and external legitimacy would Orion have obtained the necessary resources to proceed through the final *consolidation* stage, where legitimacy becomes widely validated as a general consensus in society.

Our model depicting the dynamics of internal and external legitimacy at Orion represents an important step towards the development of a staged process perspective on institutional work. We show that this process occurs through emergence, validation, diffusion and consensus, during which logic, values and practices lead to the establishment of either internal or external legitimacy (Suddaby & Greenwood, 2005). Institutionalized practices are accomplished by social actors actively engaging in new practices that may be modified, eroded or eliminated, and occasionally becoming widely accepted components of institutional change (Lounsbury & Crumley, 2007).

**Conclusion**

This paper extends research on organizational legitimation processes by addressing the fundamental questions that stem from work on the relationship between internal and external legitimacy (e.g. Greenwood et al., 2002; Kostova & Zaheer, 1999): How do different types of legitimacy emerge, and how do they interact to shape organizational evolution? In answering these questions, we provide a staged model depicting how processes emerged and evolved at Orion, whose ethos and practices of creative style and aesthetics clashed with the practical demands of technology and the organizational structure associated with growth. We found that internal legitimacy that had been institutionalized during the emergent stage provided a foundation for later practices, routines and visions that resulted in challenges and pressures from both inside and outside the organization. This scenario led to a contested relationship over internal legitimacy, reflecting in turn on subsequent practices and encouraging unstable dynamics of either cohesion or conflict. However, to view internal legitimacy only as an alternate recursive pattern of change and stability at Orion (e.g. Zietsma & Lawrence, 2010) implies ignoring external influences. We show the interaction between internal and external legitimacy that emerged and unfolded as the ‘brave new world’ of the internet.
took off and subsequently crashed. Internal and external legitimacy reinforced as well as undermined each other in an ongoing process that allowed Orion’s founder and members to actively seek meaning according to the organization’s credo of creativity. Further, internal legitimacy grew contested at Orion when the founder no longer embodied the moral foundation of the firm, which was based on artistic values. Practices and values started to decouple from the initial organizational practices associated with creativity and ended in an institutionalized myth of creativity (Meyer & Rowan, 1977). Such decoupling enhanced internal conflicts, disrupted daily routines and, in particular, allowed for fragmentation and division in an already spatially separated organization (Tel Aviv–New York). As Lawrence et al. (2011, p. 55) note, ‘actors work to interpret, translate, transpose, edit and recombine institutions’ which, in the case of Orion, led to a fatal imbalance in the interaction between internal and external legitimacy. Thus, this study also contributes to the literature that sees legitimacy as stemming from an active involvement of the organizational actor(s), who manipulate or enact strategies (Zott & Huy, 2007). We show that social actors are not passive; for example, an organization’s members are capable of activities that range from support to objection, as when the graphic artists expressed dissatisfaction with a new focus on technology. They used legitimacy to promote their interests and to negotiate their position in the changing context of the firm’s founding and evolution (Johnson et al., 2006; Tost, 2011).

By focusing on a single case study, from a firm’s emergence through its dissolution, we provide a staged model demonstrating how legitimacy’s diverse repertoire is constructed and dissolved. Our analysis also suggests that legitimacy based on a charismatic and dominant individual founder of a new venture can fluctuate according to subsequent actions that influence the values and functions he or she initially embraced and validated. Furthermore, a founder’s characteristics and actions may also contradict the logic of the firm’s business environment, which may erode legitimacy needed in the early days of the venture (see Suchman, 1995). Our staged process model of how legitimacy is constructed and institutionalized demonstrates that variations in its internal and external forms in the evolution of a dotcom firm shaped members’ capacity for action in particular situations. We highlight that social actors do not create legitimacy in a vacuum, but within a particular organizational field, economic market, socio-historical space and geographical place. Finally, our analysis implies that successful acquirers of both internal and external legitimacy in an emerging industry such as the internet must not only manage the introduction of new technologies and business models, but also pay strict attention to cohesive practices and values regardless of market or environmental turmoil.

Limitations

While a case study is uniquely positioned for the type of inductive theoretical work undertaken here, we must also note the inherent limitations due to methodological constraints that may restrict the generalizability of our study. Our population represents a specific example: an Israeli, and later transnational, dotcom firm born during the internet boom. There may be aspects of the Israeli and/or North American cultures that foster different organizational routines and values in each location. Further, our study of a dotcom firm during a boom-to-bust period may have biased our findings in ways that we were unable to detect. Additional studies in both other cultural and national environments, and with different types of emergent industries, would improve the generalizability of these findings. While we cannot be certain that other companies would act in similar ways, we are optimistic regarding the replication of these findings elsewhere. Legitimacy as a social institution is widely spread among organizations in the industrialized world, and understanding the complexity and contrast of a repertoire of internal versus external legitimacy enhances our understanding of these organizational processes.
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Note
Both authors contributed equally and are listed alphabetically.

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