



Managing institutional complexity in a transitional economy: The Legitimacy work of senior managers

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3 **Managing institutional complexity in a transitional economy: The legitimacy work of senior**
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10 **Abstract**
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12 **Purpose:** The purpose of this paper is to examine how senior managers in a transitional
13 economy context deal with the challenge of handling competing institutional logics through
14 legitimacy work.
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18 **Design/Methodology:** The paper draws on the qualitative analysis of semi-structured
19 interviews with 34 senior managers in Ethiopia in matched pairs of four commercial
20 organisations in private and state sectors and secondary sources.
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24 **Findings:** The research reveals how the erstwhile protected state-owned organizations
25 responded to institutional complexity, by seeking to *extend* their legitimacy claims whereas
26 the emergent private sector organisations sought to *construct* a new legitimacy, in part by
27 adopting some of the logics used by state-firms.
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31 **Research limitations:** Extending this study with longitudinal comparative case studies across
32 other emerging market economies could cast light on the varied ways in which organisations
33 manage institutional complexities.
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37 **Practical implications:** It is imperative that the government and policy makers have clarity in
38 issuing directives and other signals about valued objectives to be pursued by enterprises.
39 Otherwise, the organizational level actors may remain uncertain about the acceptable
40 behaviours and responses and are likely to waste time and resources in trying to anticipate
41 an unclear sense of direction.
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45 **Originality/value:** This is a novel study which examines how organisational actors manage
46 institutional complexity in a transitional economy context by undertaking legitimacy building
47 work and appearing to meet state-public expectations.
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3 Key words: Institutional logics, legitimacy, legitimacy work, senior managers, social-
4 orientation, transitional economy
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10 **Introduction**

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12 The institutional theory literature abounds with papers that describe institutional
13 complexity: settings where two or more institutional logics co-exist and sometimes compete
14 with each other (Battilana and Dorado, 2010; Greenwood, Raynard, Kodeih, Micelotta, and
15 Lounsbury, 2011; Lounsbury, 2002; Suddaby and Greenwood, 2005; Thornton, 2002;
16 Thornton and Ocasio, 1999; Voronov, De Clercq, and Hinings, 2013). But little is known about
17 how organisations respond to institutional logics in underdeveloped and transitional
18 economies. In a transitional economy context, stakeholders in both the state and market
19 social orders impose incompatible rules and expectations on business organisations. Thus,
20 firms are required to satisfy the institutional demands coming from competing institutional
21 logics of the state and the emergent market. In our empirical setting of Ethiopia, the
22 institutions of state are subtly interpenetrated with evolving market conditions compelling
23 managers to look for ways to manage demands of these institutional orders without clear
24 templates (Li, Peng and Macaulay, 2013). The research context is thus characterised by
25 tensions and contradictions coming from an evolving market with deficient market
26 infrastructure and an authoritarian state involvement in the economy (Li et al 2013;
27 Woldesenbet, 2007; Woldesenbet et al, 2007; Woldesenbet and Storey, 2010; Wright et al,
28 2005). Empirically, the research draws on qualitative interviews with senior managers from
29 four commercial enterprises organised in matched pairs from banking and manufacturing
30 sectors.
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46 In the context of institutional plurality, organisations are compelled to manage the
47 prescriptions/expectations of multiple, competing, logics, for legitimacy (Martin et al, 2017).
48 There now exist many studies that show how actors blend logics and appropriate logics from
49 institutional backgrounds different from the ones they themselves are embedded in, so that
50 they are able to 'get things done' or negotiate with professionals from other fields (Pache
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3 and Santos, 2013; McPherson and Sauder, 2013). Overall, these studies show that
4 organizations may actively use practices and actions from competing logics in attempts to
5 gain legitimacy and social acceptance from a wide range of field-level actors (Greenwood et
6 al., 2011). Studies also show organisational responses to multiple logics are not
7 straightforward and follow many different paths. Pache and Santos (2013) in their study of
8 four work integration social enterprises embedded in competing social welfare and
9 commercial logics found that these organizations selectively coupled intact elements
10 prescribed by both logics. They further identify a specific hybridization pattern whereby
11 organizations that entered the work integration field with low legitimacy because of their
12 embeddedness in the commercial logic, strategically incorporated elements from the social
13 welfare logic to gain legitimacy and acceptance. Battilana and Dorado (2010) showed the use
14 of the hybridization of hiring and socialization policies to achieve balance between the
15 commercial and the development logics in the microfinance field.
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26 One of the crucial implications to draw from the above studies is the fact that organisations
27 who lack legitimacy in each field may manipulate the templates provided by the other logics
28 to gain social acceptance. The study addresses the key research question: *How do business*
29 *organisations manage institutional complexity in a transitional economy context?* In doing
30 so, this study seeks to advance our understanding of how firms engage both in substantive
31 (changes in strategy, structure and institutionalised practices) and symbolic management
32 (managing meaning and expectations) in the context where multiple logics are at play but
33 without clear templates. This paper thus focuses on exploring the ways in which business
34 organisations manage institutional complexity through legitimacy work (substantive and
35 symbolic) aimed at gaining, maintaining and extending legitimacy.
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44 The paper contributes to the literature on the institutional theory in three ways. First,
45 it shows how senior managers, as organisational actors, manage institutional plurality in
46 transitional economy context where the 'rules of the games' are less known and lack clear
47 templates. Legitimacy work is used as an important construct in enriching and strengthening
48 institutional accounts of how organisations cope with and manage competing institutional
49 logics (Greenwood et al. 2011; McPherson and Sauder, 2013). As a result we can hypothesise
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3 that enterprises may be more motivated by their aspired legitimacy than by their current
4 one. This analysis extends the work of Kodeih and Greenwood (2014) by showing not only
5 the nature of legitimacy aspiration (i.e., projecting and extending) but also identifying the
6 kinds of legitimacy works required.
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10 Second, with different level of emphasis, top level managers in both sets of firms
11 constructed 'legitimate accounts' (Creed, Scully, and Austin, 2002) connecting their firms'
12 existence with the desirable public good in their contexts. They used *exemplifying social*
13 *orientation* to deal with and embrace the developmentalist state logics. Exemplifying social
14 orientation is both symbolic (being seen as consistent with social values through managing
15 meanings) and substantive response (tangible changes in goals, structure and
16 institutionalised practices) to meeting public expectations. This is one of the peculiar findings
17 as it contributes a new insight into the importance for firms to embrace social orientation in
18 the context of transition from the state-controlled economy to free market, which differs
19 from existing studies in Western countries.
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29 Third, this study clarifies how ostensibly conflicting logics can be managed by
30 organisational actors in varied ways, depending on the centrality and periphery of location in
31 a given institutional context. It showed how and to what extent these enterprises engaged in
32 legitimacy work to manage the demands of both logics (Besharov and Smith, 2014). In our
33 empirical setting, we suggest that the appointment of executive managers in state-owned
34 enterprises by government officials required these organisations to adhere strongly to the
35 logics signalled by the key referents (stakeholders) at field level and this, in consequence,
36 reinforced the interdependence between managers to develop compatible ways to enact
37 the two logics (cf, Greenwood et al 2011; Smets et al 2012). In contrast, the weaker political
38 ties the senior managers of privately-owned organizations had with state institutions
39 resulted in lower attention to state-oriented logics. In consequence, legitimacy works
40 undertaken varied in both set of organisations.
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50 The paper is organised into five sections. The following two sections present the
51 theoretical backdrops and the research context, followed by a description of the research
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3 methods used in section four. The study findings, discussion and conclusions are presented
4 in the last two sections.
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6 7 **Managing Institutional Logics** 8

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10 'Institutional logics' are overarching sets of principles that prescribe "how to
11 interpret organizational reality, what constitutes appropriate behaviour, and how to
12 succeed" (Thornton, 2004, p. 70). In short, they can be defined as 'organizing principles
13 (Friedland and Alford, 1991, 248) or 'rules of the game' (Thornton and Ocasio, 2008, 112).
14 Embodied in practices, norms and beliefs, logics 'specify which issue to consider salient,
15 which ends to pursue, which means to employ, which standards to use to define success
16 (Smets, Jarzabkowski and Burke, 2015). In transitional situations, there will be uncertainty
17 about which institutional logics will shape the cognitions and behaviours of senior executives
18 because they need to make sense and manage the transition from a legacy, command and
19 controlled economy environment, to a new market-oriented one without ever being sure
20 that the movement is as reliable and certain as this.
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30 Many scholars have examined the co-existence of multiple logics and their
31 interactions at the organisational level such as business-like health care and medical
32 professionalism logics (Reay and Hinings, 2009); science and care logics in health (Dunn and
33 Jones, 2010); commercial and development logics in banking (Battilana and Dorado, 2010)
34 and market and family logics in family and state-owned firms (Miller et al, 2010). However,
35 existing empirical work tends to focus more on investigating the endurance of logics at field
36 level and less on how organisations adapt to, or respond to the co-existence of multiple
37 competing logics (for exceptions see Battilana and Dorado, 2010; Greenwood, Diaz, Li and
38 Lorente, 2010; Kodeih and Greenwood, 2014). The study undertaken by Battilana and
39 Dorado (2010) showed how a Bolivian bank satisfied the demands of the competing logics of
40 commercial and development objectives through hybridisation in hiring and socialisation. A
41 few studies on transitional or emerging economies showed that large organisations dealt
42 with competing institutional demands by political activism (non-market strategy) (Nell et al,
43 2015); by 'compliance and adaptation' legitimation strategies simultaneously (Zheng et al,
44 2015, 389), and by hiring local workers (Forstenlechner and Mellahi, 2011). Many scholars
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underscored the difficulties new ventures and new sectors have in establishing legitimacy during a time of transition to a market-oriented economy (McMillan and Woodruff, 2002; Nee, 1992; Smallbone and Welter, 2012; Turcan and Fraser, 2016).

But the ways in which and the types of legitimacy works senior managers engage to deal with plurality of logics remain understudied. This is especially so in the context of transitional economies. In a context where private sector activity is still considered dubious, the legitimacy of organisations operating with the use of purely market logics can be considered of doubtful legitimacy. 'Legitimacy' is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995, p. 574). In other words, organisational legitimacy is judged by the *appropriateness* of its actions in the given social context (Tost, 2011), or by organisation's acceptance by its environment (Kostova and Zaheer 1999: 64); or "A social judgment of appropriateness, acceptance, and/or desirability" (Zimmerman and Zeitz, 2002: 416). Though crucial in the creation and sustenance of organisational forms, less is known how legitimacy is acquired and maintained (Suddaby and Greenwood, 2005). Thus, legitimacy has to be worked at, be achieved and accomplished as it enables access to resources, market and long-term survival (Hitt et al, 2004). Entrepreneurs need to establish and intensify networks with the environment (managers of other businesses, more legitimate and more powerful players) as matter of urgency in transition economies (Peng, 2003, 99-102). In the case of China, Smallbone and Welter (2012) reported that the rapid development of entrepreneurship was possible because of entrepreneurs' astute handling of the dual requirements of both socio-political and economic conditions. Deephouse and Suchman (2008) suggest the state, the professional bodies, the society at large, the media, and inter-organisational relationship to be sources of legitimacy for organisations. But these all sources of legitimacy are not of equal importance across the contexts and hence research in legitimacy should focus on identifying 'who has a collective authority over legitimation in any given setting' (Ibid, P, 55). Next, we set out the research setting to unpack the main instantiations of the logics in the study context.

National context

With a population of 102 million in 2016 (CIA World Fact book, 2016), Ethiopia is the second most populous country in Africa and is one of the ancient civilisations. It is widely known for its physical and ethnic diversity and for over-dependence on a volatile agricultural economy that is susceptible to recurrent severe droughts, an unstable political situation and disruptions caused by a long-term civil war (Woldesenbet et al, 2007). A number of institutional frameworks in Ethiopia are either underdeveloped or not properly functioning, creating high level of uncertainty in the business environment. Institutional voids are present due to high levels of market imperfections, the absence of market-supporting institutions and low contract-enforcing mechanisms (World Bank, 2009). Ethiopia ranks 149th in the 2015 Index of Economic Freedom report. That report ([http://www.heritage.org/index/pdf/2015 , 205-206](http://www.heritage.org/index/pdf/2015_205-206)) showed that economic freedom is suppressed by: (a) persistent state intervention in the relatively closed economy; (b) weak institutional basis; (c) inconsistent implementation of regulations [which] impede business activities; (d) restrictions [of] foreign investment in major industries and keeping important sectors of the economy closed to global trade and investment; e) state institutions which are dominated by ruling EPRDF officials who reportedly receive preferential access to credit, land leases, and jobs. The contextual instantiation of the two most prevalent social orders, the state and the market, are described below.

The State logic

In the study context, organisational legitimacy was achieved through the display of principles associated with revolutionary democracy. According to Abbink (2006, 195) '[r]evolutionary democracy aims at the collective mobilization of the people, led from above by the party. It stems from a combination of Marxist and ethno-regional ideology....' It sees the ruling party as a vanguard of the politics enabling the party-dominated government structure to retain strict control on the country's economy, politics and social affairs. With

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3 misguided belief, private businesses were considered as potential ‘threats’ to the status quo
4 and hence needed to be neutralised or co-opted as necessary. The principle of revolutionary
5 democracy requires business to be acquiescent, loyal to the ruling party and operate on neo-
6 patrimonial rule (that is, ‘the privileged power holders operate in an informal and often non-
7 transparent manner, and over which the formal institutions do not have a decisive say’
8 (Abbink, 2006, 196); the principle which significantly differs from the business logic based on
9 liberal economic imperatives. Hence, businesses are expected to uphold the values of the
10 developmentalist state and to contribute to the state development priorities. Organisational
11 goals would then focus on generating rent through market-based activities in a socially
12 responsive manner to help sustain the state political hegemony. In this regard, the Far East
13 countries such as Taiwan, Korea and China’s approach to development were taken as apt
14 models for learning and mimicking (Abegaz, 2013). This required business organisations to
15 symbolically adopt values emphasising their role in supporting national development
16 priorities through the provision of products and services. The state logics thus require
17 businesses to have politically motivated ties with legitimate others such as the government-
18 sponsored business associations, state supervisory agencies and informal political networks.
19 Depending on the organisations’ location within the remit of strategic priorities set by the
20 government, businesses’ attention would focus on rent generation.
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34 [TABLE 1 ABOUT HERE]
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37 *Market logic* 38 39

40 In contrast, for the market logic, the source of legitimacy is the certification and
41 endorsement by the relevant state agents, as the state (*mengist*, as known locally), is
42 considered the ‘unified concept of sovereignty and the machinery of power’ (Woldemariam,
43 1984; cited in Bekele et al, 2016, 2). In this context, the legitimacy conferred by the state
44 would be the most pervasive, powerful and important as it shows an “acceptance of the
45 organization by its environment” (Kostova and Zaheer, 1999: 64). Thus, firms are likely to
46 give more emphasis to linkage legitimacy as the connection to the powerful, legitimate
47 actors and institutions would enhance organisational legitimacy, firm survival and
48 performance (Roth & Kostova, 2003; Zheng et al, 2015). Developing ‘personalised interfirm
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relationships' (McMillan and Woodruff, 2002, 162) and networking and personal ties (Peng, 2003, 99, Peng & Luo, 2000) were found to be the key entrepreneurial strategies in the context of underdeveloped market supporting institutions to 'obtaining market information, interpreting regulations, and enforcing contracts'. Being market-oriented in a socially responsive manner becomes a core value of the businesses. The organisational goals put emphasis on the business success/growth. Organisational actors interpret firm success as an ability to gain social acceptance/endorsement through trading in an emergent market conditions (resilience in surviving during an initial phase of entry to successfully operating in a fledgling market). Achieving the business goal of growth, however, is problematic and contested because of the influential political actors' perception of business as 'rent seeker' than proper and legitimate entity. The exchange is coordinated less by market forces and more by bureaucratic mechanisms (Kornai, 2000). So, the businesses are expected to both symbolically (managing meaning and impressions) and substantively (material action) respond to such challenges by demonstrating their socially desirable contributions (that is, employment creation, paying taxes, and generating foreign currency) to gain state-public acceptance and endorsement. These may involve a skilful use of language and rhetoric which signify managerial competence, professional process and practices (Zott and Huy, 2007) and learning and applying market-oriented practices (Roth and Kostova, 2003). As Nee and Opper (2012) argue in the case of China, isomorphism with the state-owned enterprises can be considered as the best legitimating mechanism for private businesses. The basis of strategy would then be realising business goals in a socially responsive manner, by identifying openings in the market and mimicking successful other businesses. Essentially, a strategic business criterion is likely to inform the business strategy which aligns, to some extent, with prescriptions of the emergent market logic. Thus, resource acquisition for business survival and growth is given priority in business attention.

Research Design

A multiple case study approach was deployed with data collected over two periods five years apart in 2010 and 2015. These two periods were chosen because the case study

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3 organisations chosen for the study had seen contrasting developments in their business
4 operations: whilst the banking organisations enjoyed phenomenal increase in their business
5 outreach and growth, the tannery organisations made less expansion and there were
6 changes in management/ownership in one of them. Multiple cases are considered to be
7 relevant for this study for three reasons. First, multiple cases allow *the observation of*
8 *variations* in symbolic and substantive responses in the process of gaining, maintaining and
9 extending legitimacy during a time of fundamental institutional changes and presence of
10 logics plurality (Eisenhardt and Greener, 2007; Kodeih and Greenwood, 2014; Thornton,
11 Ocasio and Lounsbury, 2012). Second, multiple cases 'enable comparisons that clarify
12 whether an emergent finding is simply idiosyncratic to a single case or consistently
13 replicated by several cases' (Eisenhardt and Graebner, 2007, p. 27). In doing so, multiple
14 cases make possible theorization which is grounded in varied empirical evidence (Eisenhardt,
15 1989). Third, this research strategy helps to answer the "how" and "why" research questions
16 in unexplored research areas (Edmondson and McManus, 2007; Yin, 2018).

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28 The cases were drawn from four organizations organised in matched pairs. Two banks and
29 two manufacturing and exporting businesses were compared. One of the banks was a state-
30 owned institution and the other a private bank set up in an early phase of transition. One of
31 the manufacturing-exporting businesses was a state-owned tannery while the other was a
32 privately-owned tannery. Each of the businesses apart from the private bank had about four
33 decades 'business' experience. They were each medium to large in size (Table 2). Both the
34 banking and tannery sectors were chosen for this study because of the Ethiopian
35 government considers them as 'strategic sectors' for economic development. For instance,
36 the banking organisations operate in a protected business environment (entry of foreign
37 financial institutions is prohibited) with less competition and the tannery and leather
38 industry is given preferential treatment as the country enjoys a comparative advantage in
39 this sector. Both sectors are thus considered crucial, in part, for the success of the
40 government development initiatives along with firms in energy, communications and
41 agriculture sectors. The case selections were also based on difference in ownership type
42 (state-owned and private) to explore the influence of ownership in legitimacy building in a
43 time of transition. The basic profile of the resultant cases is shown in Table 2.

[TABLE 2 ABOUT HERE]

Data Collection and Analysis

The study used two data sources including two-phase interviews with senior managers in case study organisations, secondary published materials about the case study firms, and about the business environment in which they operate. The primary data collection instrument was the semi-structured, face-to-face, interview.

Respondents from the case study organisations were selected based on three criteria: (1) they were senior managers with responsibility to scan and interpret the business environment (Daft and Weick, 1984), (2) they were involved in making strategic decisions on organisational matters, and (3) they represented the echelon of various functional areas. Semi-structured interviews were used to tap into the senior managers' experience of the institutional complexity arising from the plurality of logics and, actions and practices they considered as appropriate to deal with these logics and legitimacy building. Overall, 34 senior managers were interviewed in these four sample case study organisations to tap into their interpretations and accounts on many key dimensions. These included the interpretation of the institutional environment and changes within it, their experience of managing business in unstable, volatile, situations; their account of how they managed tensions and conflicting signals from the environment for gaining, maintaining and defending organisational legitimacy. Hence, the interview questions prompted managers to reflect upon their personal interpretations of the nature of the institutional environment and the implications they drew to deal with evolving state and market imperatives. The data collection did not encounter any language issues because of both the respondents and the researcher were proficient in both the local and English languages. Access to a sizeable group of Ethiopian senior managers was by no means easy. Many months were needed to negotiate access through a wide variety of networks and through long-drawn out approaches via official channels.

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3 Semi-structured interview questionnaires provided some direction to the respondent
4 while also permitting additional open response beyond the initial question. Throughout the
5 process, the researcher made use of new insights in subsequent interviews and put feedback
6 loops in place to substantiate new insights with the interview sample. Interviews were
7 conducted face-to-face and averaged about one and one half hours. Interviews were
8 recorded verbatim and transcribed professionally for coding and analysis. The investigation
9 followed an inductive approach, relying on a qualitative, interpretive, approach. Using this
10 approach helped to build an emergent theory from a perspective that gives voice to the
11 respondents' experience of underlying logics in the process of legitimacy building.
12 Furthermore, over 600 pages of secondary data was gathered from the case study
13 organisations' annual reports, performance review reports, consultancy reports,
14 newsletters, media analysis and relevant industry and policy reports. These archival
15 materials allowed us to frame the research and organisational contexts.
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26 The study adopted a common approach to qualitative data analysis such as used by Gioia et
27 al., (2013). Initially using an open coding, relevant concepts were identified in the data and
28 grouped into categories which provided evidence how senior managers experienced the
29 institutional plurality, dealt with the tensions between the demands of the institutions of the
30 state and market, and engaged in legitimacy works. The analysis proceeded with identifying
31 first-order codes, or descriptions which showed the meaning, or, interpretation, provided by
32 our respondent managers (Van Maanen, 1979). Examples of the identified first-order codes
33 or descriptions included 'attitude of renewal and change', 'manipulating meanings of
34 actions', 'changing mind-set of people', and 'entrepreneurial commitment' and 'addressing
35 state-public expectation'. Our analysis of the interviews and material showed the
36 importance of the perceived *legitimacy aspiration* and the required legitimacy work in the
37 process of managing the state and market logics. In order to generate higher order
38 constructs, the analysis focused on identifying relationships between and among first-order
39 codes/ descriptions. These core constructs then refined in line with the literature on
40 institutional complexity or institutional logics (Greenwood et al, 2011, Kodeih and
41 Greenwood, 2014) and emergence of legitimacy and legitimacy building (Ahlstrom et al
42 2008; Ashford and Gibbs, 1990; Bitektine, 2011; Dori and Honig, 2013; Suchman, 1995;
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3 Zimmerman and Zeitz, 2002). Second-order categories emerged from this process included
4 'legitimacy constructing', 'legitimacy extending', and 'exemplifying social orientation' (see
5 Table 3).
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11 The findings of the study showed that the state-owned enterprises were engaged in
12 'legitimacy extending' works whilst the private owned enterprises utilised a 'legitimacy
13 constructing logic'. Both set of firms however, engaged in different degrees, on exemplifying
14 social orientation. Table 3 presents the sample quotes, main themes and core constructs.
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19 [TABLE 3 ABOUT HERE]
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24 Findings and Analysis

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26 The main findings can be stated thus: the managers interviewed in each of the firms,
27 whichever the industry sector, and irrespective of being state-owned or private, all sought to
28 articulate the legitimacy of their institutions. But they did so in different ways and with
29 different emphasis to those ways. Senior managers in the state-owned enterprises sought
30 to *defend and extend* their firms' legitimacy whereas the private sector firms' managers
31 sought to *construct and project* legitimacy. They used both symbolic and substantive means
32 for gaining, maintaining or extending organisational legitimacy. Managers in all firms used
33 *exemplifying social orientation in* managing the market and state logic demands, at different
34 level of emphasis. These high-level findings are elaborated and analysed below.
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43 *Defending and extending legitimacy*

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45 Defending and extending legitimacy by senior management of the state-owned enterprises
46 required them to undertake a variety of legitimacy works. The state-owned enterprises
47 (ComB1 and LeathCo1) perceived that their 'business' practices are desirable and
48 appropriate for the public and the national economy. They argued that 'externals' such as
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3 users of their services and other stakeholders endorsed the worthiness of their visions and
4 that they have already shown their in-built competences to achieving them.
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7 However, shifts in economic policies confronted these firms with new challenges and
8 uncertainties. Some long-established practices and values such as the taken-for-granted
9 reliance on central, plan-driven demand, a feeling of secure markets, and the relatively
10 lower emphasis on costs, price and quality, were becoming matters of uncertainty under the
11 new conditions. In consequence, it was clear from their answers (shown below) that they
12 felt the need for changes in their organisational forms, strategy and practices to adapt to the
13 rapidly changing environment. They believed the shift in logics - from planned economy to
14 market economy – was threatening to alter the criteria used to evaluate the legitimacy of
15 their behaviours and actions. The General Manager of the tannery described that:
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23 We have been experiencing turbulence and uncertainty in the environment. There has
24 been a shift in policies and economic direction. These changes required us to find ways
25 how to deal with them by signalling that we are able to run a business in changed
26 environment and demonstrating managerial and business acumen.
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31 Their re-focus became to *extend* their legitimacy in response to institutional plurality
32 and uncertainty. Extending legitimacy by the state-owned firms was a problematic
33 undertaking as the senior managers in these firms were required to exert wide-ranging
34 efforts to show an attitude of renewal and change, and business acumen in the
35 organisations and to key referent audiences. The narrative of the Vice President for
36 Operations showed that they had been working tirelessly to change an organisational
37 structure, amend operational procedures and improve front line customer service in order
38 to provide efficient services and meet the expectation of their constituents.
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46 The deputy general manager of the state-tannery echoed how their role performance
47 had been tuned to make their organisation internationally competitive by adopting new
48 process technologies and partnering with internationally acclaimed leather company. He
49 said:
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3 Competing at international level has been a tremendous challenge for our tannery.
4 We were expected to demonstrate our competence and skills in managing the
5 enterprise with the commercial sense such as being able to export finished leather to
6 international markets. Such internal and external pressures forced us to adopt new
7 process technology to produce quality leather, to upscale our technical knowledge and
8 to establish partnership with the globally branded leather company to take us into
9 international markets.
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16 The above narrative showed how senior managers dealt with the state and the emergent
17 market logics with substantive actions. These included actions directed at performing their
18 expected management role and actions taken to conform to influential stakeholders' (the
19 government agencies and the buyers) expectations by marketing good quality leather and by
20 adopting modern processing technologies. The latter two can be considered as aspects of
21 coercive isomorphism (Ashforth and Gibbs, 1990). Further, management decision and action
22 to team up with Pittards, a globally renowned leather firm, suggested that they were, in
23 part, trying to alter resource dependence which was perceived as a viable strategy to enter
24 international market.
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32 In the state bank case, the appointment of high profile ministers onto the board of
33 directors, and the restructuring of the governance and management structure were meant
34 to strengthen the bank's legitimacy driven by the shifts in the prevailing logics. Through
35 rhetoric which signifies the appropriateness of re-structuring the governance and
36 management structures of the bank, senior managers engaged in symbolic actions as these
37 demonstrate subjective social meaning appropriate to evolving market context. The
38 substantive actions involved in restructuring process also helped to send signals which
39 showed the organisation's readiness and responsiveness to operate in an evolving
40 competitive market by establishing the legitimacy of authority structure, top management
41 and renewed organisational structure. High level endorsement such as the presence of the
42 Prime Minister and high level officials at meetings during a crucial restructuring phase was a
43 further device employed not only for redefining organisational means and goals but also to
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3 gain credibility by high value corporate clients. Such symbolic actions were directed at
4 defending and extending legitimacy as a response to shifting messages at the field level.
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7 ComB1 sought to adopt international best bank practices, engaged in the state-
8 sponsored bank transformation programme, adopted processes such as banking technology
9 and business process reengineering (BPR) to improve efficiency and customer services.
10 Similarly, LeathCo1 implemented ISO 9001 and ISO 14001. The senior executives in ComB1
11 sensed urgency of the importance of putting in place an 'appropriate' organisational
12 structure, values and practices, to deal with the competitive and market conditions. A
13 consultancy report attests:
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20 For many banks, the main challenge is to change their monolithic structures and to
21 develop distinct business concepts. This has already been recognised by the Bank's
22 management in establishing a market-oriented and systems-based business.
23 Development of a strong performance-based culture and the corresponding core
24 capabilities are also among Executive management's principal tasks (ComB1,
25 Consultancy Report).
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31 The ComB1 strategic outlook reads:
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34 ComB1's motto is "*exceed customer expectations!*" it has plans to adopt multi-pronged
35 strategies to realize this. To that end, it is keen to qualitatively improve customer
36 service by adopting modern banking technology (ComB1).
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40 The efforts of the two state-owned organisations to defend and extend their
41 legitimacy have both substantive and symbolic elements to them. For instance, the
42 organisational re-structuring through business process reengineering (BPR) by the state bank
43 and through adoption of total quality management (TQM) by the tannery were substantive
44 actions in that they may contribute to better work organisation, service delivery, and
45 operational efficiency, the effectiveness of which, however, remains to be seen. The
46 symbolic aspect of the organisational restructuring signals the idea that these organisations
47 have understood the imperative of market logic and trying to manage it. Attempts to
48 construct accounts which signified the appropriateness of the changes to meet multiple
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3 institutional logics continued. Both organisations appear to engage in what the institutional
4 theorist called coercive isomorphism (DiMaggio and Powell 1983), role performance and re-
5 defining the organisations' means and ends to demonstrate their competence of managing
6 the business in a commercially viable manner. Such substantive actions served 'powerful,
7 pervasive, and subtle myths' (Ashforth and Gibbs, 1990, 178) for their existence as business
8 entities.
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17 *Constructing Legitimacy*

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19 The two privately owned enterprises (ComB2 and LeathCo2) sought to establish legitimacy,
20 by a combination of symbolic and substantive actions. One of the strategies included
21 rhetoric which conveyed the subjective meaning to signal that their services were not only
22 valuable and desirable but also economically appropriate. But, establishing the claim was
23 often difficult. Private property ownership had been proscribed by the previous socialist
24 regime and even under the new order there remained lingering suspicion about the
25 legitimacy of private enterprise. The President of the ComB2 reflected:
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32 [ComB2] was the first private bank to be established by private entrepreneurs amidst
33 looming uncertainties where there was no previous experience to draw on and when it
34 was a dream for many people that the private bank would ever be operational, by
35 pooling interested people together and mobilizing their saving Endorsement and
36 legal permit were essential mechanisms to show the appropriateness and importance
37 of the private businesses.
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43 Before a bank is fully established and starts providing services, no one knew if it will be a
44 successful enterprise. Because of this uncertainty, perceptions of the credibility of a Bank's
45 course of action depended on subjective social beliefs (Krueger, 2000) and on the actions of
46 the founding entrepreneurs who shaped these beliefs. The Bank founders showed
47 entrepreneurial commitment and accepted delayed gratification. These symbolic stances
48 eventually helped to convince many potential shareholders to buy shares of the bank (cf,
49 Zott and Huy, 2007). Further, the appointment of the senior management team including the
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3 president and vice presidents, who were senior executives of the state-owned banks,
4 appealed symbolically to various external stakeholders and helped to build cognitive
5 legitimacy of the private banks.
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9 Venturing into new business, in the sector the government considers strategic, has
10 been unnerving. In such a circumstance, the key to realising the business concept were
11 the people behind the business idea – the founding entrepreneurs. They had
12 displayed a high level of commitment and entrepreneurial spirit. It showed that
13 founders were determined and proactive to realise the vision of the bank amidst all
14 the risk and doubts associated with the new venture creation.
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20 The rhetoric of the president and the vice president showed the challenges encountered to
21 secure socio-cognitive legitimacy across different constituents: shareholders, the regulator,
22 the government and the public at large. A license to operate the banking business, as
23 certified by the National Bank of Ethiopia, was the core archetype of legitimation and this
24 enhanced the taken-for-grantedness of the private ownership of the banking business. This
25 aligns with the state logic principle as the legitimacy conferred by the state is not only the
26 most pervasive and powerful but also intrusive in the study context.
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33 Constructing legitimacy, where historical contingency of legacy and ‘patriarchal’ state
34 logic had penetrant influence, was not a straightforward task. For private sector firms,
35 building legitimacy was thus of a higher significance than the state-owned ones as the
36 latter’s legitimacy has already been validated. The most acutely important legitimacy was
37 the one based on linkages and associations. For instance, in the case of the private bank,
38 such legitimacy conferment was achieved because of the founding members’ association
39 with legitimate others (Suchman, 1995) in the environment, that is, the founding members
40 and the key investors, were seen as meeting the conditions of ethnic based ideology which
41 favours businesses connected to their region and ethnicity. This legitimacy dimension was
42 further bolstered by the membership and connections to industry or sectoral business
43 associations such as the Ethiopian Bankers’ Association and/or the Ethiopian Manufacturing
44 Industry Association.
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3 Senior managers in these two private firms also reported the relevance of acquiring
4 and maintaining pragmatic and cognitive legitimacy when dealing with the demands of the
5 state and market logics. The narratives such as 'we made our services accessible by opening-
6 up bank branches'; and 'we created positive external perception through jobs creation and
7 prudent business operations' were each indicative of this. These and related statements
8 signalled to the key referents at field level that their behaviours were desirable and
9 conformed to cultural expectations and norms. For example, the tannery senior manager
10 described how they have been dealing with changes in the environment:
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17 The changes in politics and policy during a time of transition meant that we had to up
18 our games. Our tannery has been in existence for many years; we felt that it was time
19 to change our business goals from survival to growth whilst keeping an eye on doing
20 business in socially, may I say, politically, an acceptable manner. We had, on the one
21 hand, to think about the ways in which we could exploit market opportunities, and,
22 also seek to contribute positively to job creation and bringing in hard currency which
23 benefit the country (Operations Manager, LeatherCo2)
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30 To address the doubts of key referents (state officials mainly) about the private
31 businesses, the privately-owned enterprises were taking certain steps to emulate
32 prescriptions associated with the logics utilised by the state-owned enterprises. To an
33 extent, they mimicked the practices and templates used by the state-owned firms. These
34 involved hiring of senior managers with work experience and networks in the state-sector;
35 adopting similar practices and processes used by the state enterprises; using formal
36 (business associations) and informal networks to have access to information and key actors
37 in the environment; and by engaging in socially desirable activities to win public confidence
38 and external validation. Such symbolic and substantive actions helped the private business
39 to gain and project their legitimacy.
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48 Furthermore, to deal with the demands from the evolving market conditions,
49 traditional business principles such as profitability, business growth and shareholder-value
50 drove the functioning of these private enterprises. The vice president explained:
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3 This business is established to make profit and to give shareholders dividends.
4 Continuity of business and sustained performance are essential to achieve these
5 objectives and these are clearly set by the Bank's board of directors and stipulated in
6 the articles and memorandum of associations.
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10 A cross-comparison of the four enterprises reveals how their perceived current
11 legitimacy resulted in variations in their interpretations and in the ways they should embrace
12 both logics. The state-owned enterprises saw the opportunity to extend their legitimacy to a
13 new level whereas the private firms saw the opportunity to construct their legitimacy. The
14 qualitatively different ways in which both sets of firms dealt with the state and the market
15 logics is discussed in the next section.
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22 **Discussion and Conclusion**

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24 This paper sought to examine how senior managers responded to competing
25 institutional demands of the state and market through legitimacy works. The study showed
26 how legitimacy aspiration shaped the calculated use of substantive and symbolic actions by
27 senior managers, with different degrees of emphasis, in response to institutional complexity.
28 These were two-pronged responses. On the one hand, senior managers sought to *construct*
29 *legitimacy* (private firms) or *defend and extend legitimacy* (state sector firms). Both
30 response mechanisms were mediated by the level of legitimacy the two sets of firms
31 enjoyed. For the state-owned enterprises, the salience of signals from the field level
32 referents, coupled with an established legitimacy level, gave them an opportunity to
33 hybridise practices and actions prescribed by the state and the market logics. They engaged
34 in legitimacy-extending practices aimed at rent generation embracing values of
35 development-orientation and principles of revolutionary democracy. Senior managers in the
36 state enterprises felt also they had to demonstrate their competence in managing business
37 in a commercial manner. More specifically, over the two periods of this study, the state
38 sector firms showed themselves to be adopting sufficiently the market logic in the context of
39 market competition, in terms of their commercial legitimacy, symbolic reputations amongst
40 the market stakeholders, and business performance. To act commercially was the key way in
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3 which these managers judged that they could win the continued support of powerful actors
4 in the new institutional environment.
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7 In contrast, the private enterprises, with low initial levels of legitimacy, focused primarily on
8 *building their legitimacy* through practices dependent upon market logic while
9 complementing these with activities which exemplify their concomitant social-orientation.
10 The legitimacy level of enterprises played a role in segregating as these enterprises followed
11 some of the steps taken by the state-owned firms, seeking to emulate these apparently
12 successful prescriptions. Thus, they mimicked practices and templates by hiring senior
13 managers with work experience and networks in the state-sector; by adopting similar
14 practices and processes used by the state enterprise; and by engaging in socially desirable
15 activities to win public confidence and external validation. They sought to signal that they
16 too achieved socially desirable outcomes and taken-for-grantedness.
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25 The outcome of the differentiated response by the two groups of enterprises was
26 that the state enterprises were able to draw on the broader repertoire of practices inherent
27 in both logics. These strategic moves to achieve an aspired legitimacy by combining
28 substantive and symbolic actions amounts to 'hybridising' and accords well with the recent
29 findings of Battilana and Dorado (2010), Greenwood and Kodeih (2014) and Pache and
30 Santos (2013). Through these means they were able to satisfy the competing demands from
31 the institutional environment. These enterprises' organisational features such as their
32 position in the field, ownership type and governance structure made them sensitive to the
33 demands of the state and market logics (Greenwood et al. 2011). Managers in the private
34 sector enterprises framed their strategies and thinking in terms of more singular and explicit
35 market logic, primarily focusing on gaining cognitive legitimacy along with linkage legitimacy
36 for realising business goals of growth and resource acquisition. However, the lack of a secure
37 legitimacy, coupled with under-developed resources, meant that they remained largely
38 reactive and constrained. They were less confident in their capabilities to cope actively with
39 the uncertain changes in the institutional environment and this in turn inhibited their
40 confidence in their business strategies. The findings discussion thus far provided evidence on
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3 how these two set of firms responded to institutional complexity and hence addressed the
4 research problem and question.
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7 The confidence in embracing market logic by the state-owned enterprise is of
8 interest because it contradicts previous studies which suggest privileged, incumbent,
9 organisations are seen as resisting institutional changes for fear of losing advantages that
10 they gain from current institutional arrangements (see, for example, Greenwood and
11 Suddaby, 2006, Durand and Szostak, 2010). These enterprises, we hypothesise, perceived
12 the *compatibility* of the state and market logics due not only to the influence of field level
13 actors' signals but also they are moving towards hybrid organisations (see, Bruton et al,
14 2015). Bruton et al (2015) contend that the hybrid nature of the SOEs enables them to
15 balance the demands of the multiple stakeholders effectively when building legitimacy with
16 the state and maximising value for shareholders. The key referents at field level such as
17 government agencies, trade associations and intermediary organisations were providing
18 signals on the appropriate legitimacy of the enterprises. This finding has a number of
19 practical implications. First, intermediary organisations, such as the Chamber of Commerce
20 and the trade associations could play a business supportive role by signalling the imperatives
21 of market logics, for the enterprises operating in the private sector, whilst articulating the
22 need to be attentive to government policies and actions. Second, the regulatory,
23 supervisory and promotional agencies could articulate both logics for the state-owned
24 enterprises to make them successful competitors in the market place. Hence, in terms of the
25 state-owned enterprises, the idea that enterprises with established legitimacy resist change
26 because of fear of loss of benefit from the current arrangement has to be questioned.
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42 The paper makes three contributions in the area of institutional theory. First, this is,
43 as far as we know, the first study of its kind in an African context to study how top
44 management manage institutional plurality in a transitional economy context, though some
45 similar works exist in other contexts (see, Nee, 1992; Roth & Kostova, 2003; Hitt et al, 2003,
46 for examples). Legitimacy work is used as an important construct in enriching and
47 strengthening institutional accounts of how organisations cope with and manage competing
48 institutional logics (Greenwood et al. 2011; McPherson and Sauder, 2013). As a result, we
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3 can hypothesise that enterprises may be more motivated by their aspired legitimacy than by
4 their current one. This analysis extends the work of Kodeih and Greenwood (2014) by
5 showing not only the nature of legitimacy aspiration (i.e., projecting and extending) but also
6 identifying the kinds of legitimacy works required.
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10 Second, this study showed senior managers' interpretations of the significance of
11 legitimacy through construction of 'legitimate accounts' (Creed, Scully, and Austin, 2002)
12 connecting their own existence with the desirable public good in their contexts. They were
13 active in *exemplifying social orientation* to deal with and embrace the market and state logic
14 demands, at different level of emphasis. Exemplifying social orientation is both a symbolic
15 and substantive response in that it shows how the firms contribute to public-state
16 expectations. This is an interesting contribution of this study, because the country is in
17 transition from the state controlled economy to a free market, so that all firms need to show
18 social orientation, differing from existing studies in western countries. It also shows the
19 aptness of the use of the institutional theory to examine legitimacy building efforts by
20 organisations (Puffer, McCarthy and Jaeger, 2016), the strategic behaviour of firms to deal
21 with idiosyncratic institutional features of emerging markets (Pavlovich et al, 2016) and
22 under institutional complexity (Ding et al, 2016).
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34 Third, this study clarified how ostensibly conflicting logics can operate constructively in
35 tandem but with different attention by organisations (Besharov and Smith, 2014). In our
36 empirical setting, we suggest that the appointment of executive managers in state-owned
37 enterprise by government officials required these organisations to adhere strongly to the
38 logics signalled by the key referents at field level and this, in consequence, reinforced the
39 interdependence between managers to develop compatible ways to enact the two logics (cf,
40 Greenwood et al 2011; Smets et al 2012). In contrast, the weaker linkage legitimacy the
41 senior managers of privately-owned had with the state institutions resulted in lower
42 attention to state-oriented logics. In consequence, actions and practices were
43 predominantly geared towards market logics embracing the values of market-orientation,
44 business growth and resource configuration for growth.
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3 The study findings should be read along with its limitations. First, the study is conducted in a
4 single African country and in purposively selected sectors. A much more nuanced
5 understanding of how firms manage institutional complexity could be advanced by using
6 longitudinal research designs which feature multiple cases/sectors across many countries.
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8 Second, an in-depth examination of the interplay between enterprises' symbolic and
9 substantive actions over time and context is needed to extend and enrich the findings of this
10 study.
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Table 1 Instantiation of state and market logics

	State logic	Market logic
Source of organizational legitimacy	Subscription to revolutionary democracy and affiliation to the government supervising agencies	License and certification by the appropriate government agencies
Linkage legitimacy	High/concentrated	Low/diffused
Core value	Development- orientation	Market-orientation in socially responsive manner
Organisational goal	Rent generation to facilitate the developmentalist state goals	Business growth
Basis of strategy	Strategic political criteria: Realising state values through offering products and services and supporting national development priorities	Strategic business criteria: Realising business goals
Attention	Resource mobilisation for rent generation	Resource acquisition for growth

Table 2: The profile of the four business organizations

Organizations	ComB1	ComB2	LeathCo1	LeathCo2
Profile				
Ownership	State	Private	State	Private
Sector	Financial	Financial	Manufacturing export	Manufacturing export
Years in business	52	20	40	43
Number of interviewees	11	11	7	5
Size	large	Large	Large	Medium

Table 3 Core constructs, categories, and illustrative data

Core Construct	Categories	Representative quotes
Legitimacy extending	<i>Attitude of renewal and change</i>	<p>‘The rapid changes externally entailed us to show our stakeholders that we were adaptive and can deliver good services as usual’.</p> <p>‘In this competitive environment, the bank’s objective is to excel in its quality services and products’</p> <p>‘We seek to form business partnership with international firms to develop design, processing and marketing capabilities’</p> <p>In this volatile competitive environment, meeting customers’ demand is key to our performance;’</p> <p>‘Our bank implemented banking technology and business process reengineering to improve efficiency and customer service’</p>
	<i>Coercive isomorphism</i>	<p>“We had commendations from the National Bank of Ethiopia and the Audit Service Corporation on the effectiveness of the Bank’s internal controls – This shows that we are very prudent in our</p>

Core Construct	Categories	Representative quotes
	<i>Manipulating meaning of action</i>	<p>operations'</p> <p>'The Bank policies are designed in such a way that ensure all its activities comply with the central bank's rules and directives' and other relevant government regulations'</p> <p>"The three important positive developments initiated by the government enabled us to expand our businesses; we finance infrastructural and developmental projects such as housing, dams, electrification and burgeoning private sector'.</p> <p>'As state-owned enterprise, we invariably receive directions and support and accountable for what and how we do'</p>
Legitimacy constructing	<p><i>Changing mind-set</i></p> <p><i>Licensing and certification</i></p> <p><i>Entrepreneurial commitment</i></p>	<p>'Initially changing the mind-set of people that we can do business was very important to us'</p> <p>'The legacy of socialism still lingers on at some corners; the mind-set of some people in government about entrepreneurial initiatives has not seen much changes'</p> <p>'we comply to the state rules and regulations to show our conformance'</p> <p>'customers and stakeholders value our services'</p> <p>"Grant of license for banking was an ultimate recognition that the private banking business is allowed in this country and one of the main driver for venturing into banking business'</p> <p>'The Founders' of this bank show great resilience, commitment and sacrifice in the process of setting up and running it".</p> <p>We came to believe that our own survival is tied with how others see us how and what we do; hence we began to ask ourselves the questions such as 'how do various stakeholders value what we do?'</p> <p>'We aim to be a leading enterprise in the marketplace to show that we are capable to operate in changed competitive marketplace'</p>

Core Construct	Categories	Representative quotes
		We're focused on becoming market oriented enterprise'
Exemplifying social orientation	<p><i>Projecting a caring image</i></p> <p><i>Addressing state-public expectation</i></p>	<p>'The bank, for many years, has been providing custodian service to the public which were essential for maintaining the public trust'</p> <p>'This firm has been in business for many years but we believed that our survival depended on our ability in exploiting the current and emerging market opportunities while remaining committed socially responsible'</p> <p>'We grow with our customers'</p> <p>'Satisfying customers and shareholder is our priority'</p> <p>We work with government agencies to contribute to social and economic development'</p> <p>'We are at forefront in supporting the national economic development'</p> <p>'We are set up to achieve government objectives and very mindful of these when dealing with business matters'.</p>