Title
An intermediary`s Two Sided Legitimacy Problem:
The case of wine-brokers: Part 1

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Research Question
How does the matchmaker gain legitimacy from the buyer side? Does specialization on a certain producer (region/status) favors more or diversification? What is its implications on the buyer profile?

Methods
In order to analyze such research questions, we anticipate a longitudinal study with the data of a wine-broker company where we analyze the trading list.

Results
Expected results are: specialization before becoming legitimate in terms of region and status. After legitimacy, we expect to see diversification in terms of region but not status.

Abstract
Introduction
Intermediaries have the power in certain markets to have influence on the choices of production and consumption of certain commodities (Odorici and Corrado, 2004). These organizations function more effectively in contexts where the quality of the product is uncertain such as wine industry (Yavas, 1992). Intermediaries in the wine industry are called wine-brokers. In the wine industry, wine-brokers are matchmakers whose duty is to reduce uncertainty about the search results as well as other externalities of both sides: producers and buyers (Yavas, 1992).

These intermediary organizations face legitimacy problems. Studies in organizational theory demonstrate the results of social categories in different markets where we see that an organization specializing on a certain category performs better than an organization, which span multiple categories (Zuckerman, 1999). These results has been explained both from the organization side related to operational difficulties (Negro and Leung, 2013) as
well as from the audience side in relation to unclear identities (Rao et al., 2005).

Because of the two sided-nature of an intermediary, these organizations are subject to evaluation from both buyer side and the producer side regarding their legitimacy. In this paper, the aim is to apply the relationship between specialization in one category and legitimacy to an intermediary organization; a wine-broker. In this specific paper (Part 1), the legitimacy from the buyer side is taken into consideration where we explore the difference in trade list of a wine-broker before and after the organization became legitimate.

Theoretical Background

Intermediaries

In markets where the nature of the commodities allow, other than producers and buyers, there are also intermediaries in between. These middlemen, which help to reduce uncertainty about the search results (success or failure) as well as other externalities, exist in two different modes: matchmakers and marketmakers (Yavas, 1992). Marketmakers are wholesale merchants or industrial distributors where they profit from the difference of the ask and the bid price whereas matchmakers are compensated by a revenue-sharing commission, which is obtained through the match making among the producers and buyers. (Baritaux et al. 2006) Between these two types of middlemen, the choice of being either one depends on the expected profits in the market as well as the ability of the audience to evaluate the products (quality uncertainty). Matchmakers, in markets where there are information asymmetries among the buyers and the sellers can profit by gathering the information necessary for the exchange opportunities (McGarry, 1951). Matchmakers also have the duty of balancing (per se knowing) the different perception regarding the quality of a product or service from the seller side and the consumer side (Corduas et al., 2013).

Matchmakers who are known as wine-brokers as well has several obstacles to tackle such as; efficiency of the matching (Aubert et al., 2006) having enough knowledge; expertise (Jones, 2003); matching supply and demand in terms of quantities (Spulber, 1996), reputation (Bardhan, Mookherje and Tsumgari, 2013) and finally which also is the focus of this paper is the legitimacy (Wilkinson, 2001). Legitimacy is a social process, which involves the perceptions of several actors (customers, stakeholders, experts, resource providers, media and interested audience) about the viability of a business model (Tripsas, 2009).

Legitimacy from an organizational theory perspective

In organizational theory literature, the roots of the concepts of legitimacy goes back to the argument of being evaluated by belonging to a legitimate category (Zuckerman, 1999) as well as the motives behind isomorphism in terms of organizational forms from a neo-institutional perspective (Meyer and Rowan, 1977). As a result, an organization would be legitimate in the eye of its audience when it is fitting in certain characteristics of the category in which it is being evaluated for. For this reason, homogeneity of the organizations becomes inevitable feeding the institutional system and creating certain barriers for entry (Zuckerman, 1999). From the audience perspective, when a new category becomes legitimate, the attention of the audience will not be any more about accepting the category yet about who is in the category, therefore certain level of heterogeneity is allowed after category legitimization (Navis and Glynn, 2010).

Audience and evaluation

The candidate-audience interface refers to a situation where there are two types of actors. The first is the candidate who is the one who tries to establish some kind of a relation with the second type who is the audience. (Zuckerman, 1999). The most important idea behind this interface is that it is asymmetric in the sense that the candidates compete among each other to have a relationship with the audience. Audience on the other hand has to evaluate and select the candidates (Zuckerman, 1999).
In contexts where there is uncertainty, the evaluation is general guided by certain factors (Zuckerman et al., 2003, pp. 1026); “a) how that candidate is perceived by others, particularly those making the same valuation b) the identities of the individuals and institutions that have sponsored, trained, or affiliated themselves with the candidate and c) the candidate’s past track record”.

If we aim to apply this interface to the situation of the matchmakers, we can see that a matchmaker has the two sides of the pendulum where these two sides play evaluate each other in order to evaluate the matchmaker.

Considering the matchmaker as an intermediary organization, this organization is under constant evaluation from both buyer and producer side who are evaluating each other in order to evaluate the efficiency of this organization. In this evaluation, specialization in a certain category (Hannan, Carroll and Polos, 2003; Negro and Leung, 2013) plays an important role. According to the organizational theory literature on legitimization, specialization from the producer side might bring legitimization (Navis and Glynn, 2010) therefore acceptance of a good performance of the matchmaker from the buyer’s side. This is because “more experience in the category is a stronger indicator of relevant competence” (Zuckerman et al., 2003).

Wine Brokers: Matchmakers of the wine industry

Wine differentiates itself from other agricultural commodities and beverages in certain aspects; the price range, price increase related to storage (aging vintages), price fluctuations related to weather and quality uncertainty until being consumed because of its nature of being an experience good therefore depending heavily on expert opinion (Storchmann, 2011).

Therefore, wine is not only an agricultural consumption but it has a deeper meaning and much more consequences than just a basic consumption. A matchmaker whose duty is to know the needs of both sides, in this industry therefore is different from just an import-exporter. This intermediary is subject to evaluation from both buyer side and the producer side in order to gain legitimacy. A wine broker is a matchmaker, but not exactly, a broker from the social networks perspective (Burt, 2004) since both sides are in the same industry yet does not have adequate information regarding the other side.

Research Questions and Expected Results

Therefore, in this paper, the first research question (in a general manner) is related to the legitimacy of the matchmaker from buyer side: How does the matchmaker gain legitimacy from the buyer side? Does specialization on a certain producer (region/status) favors more or diversification (more than one region)? What is its implications on the buyer profile?

From an organizational theory perspective, in order to gain legitimacy, we would assume that the matchmaker would first specialize in few regions of producers and/or high status wines. This would mean from the buyer’s side that investors will be more interested in such a matchmaker because investors have different needs (not immediate consumption but investment) and specialization would favor these needs since the matchmaker, by specialization, invest his time and resources on few regions therefore would know more and matchmaking results in success.

After the matchmaker becomes legitimate, we would expect diversification in terms of regions and status of wines. From the buyer’s side, the buyer profile would diversify as well and have not only investors but also mass consumers and individual consumers. The reasoning behind such diversification would be that the diversification from the producer’s side would attract buyers with not only investment purposes but also consumption.

One of the aims of the research is also to look at status specialization and region specialization separately to be able to explore the model better. The idea behind such separation is the assumption that the wine-broker even though diversifies in regions, by selecting only high status wines, would invest lesser because there are the
expert opinions (e.g. wine spectator). On the other hand, diversifying in regions along with diversification in status would mean that the wine-broker has to invest more time and resources in order to balance price/quality ratio.

In order to analyze such research questions, we anticipate a longitudinal study with the data of a wine-broker company. In this research, the aim is to analyze the trading list before and after the wine broker becomes legitimate. I will also check how the client list has changed before and after legitimacy. Obviously, there will be many control variables such as; status, price and ratings.

Therefore, the aim of this research is a single case study (Swiss wine-broker) where we analyze a wine-broker over the years (from start-up to current time) to understand how the organization became legitimate and whether the organizational theories of legitimatization fit the intermediary organization in terms of specialization.

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