

## **An Ethnographic Study of New Venture and New Sector Legitimation**

*Evidence from Moldova*

Turcan, Romeo V.; Fraser, Norman

*Published in:*  
International Journal of Emerging Markets

*DOI (link to publication from Publisher):*  
[10.1108/IJoEM-10-2012-0142](https://doi.org/10.1108/IJoEM-10-2012-0142)

*Publication date:*  
2016

*Document Version*  
Accepted author manuscript, peer reviewed version

[Link to publication from Aalborg University](#)

*Citation for published version (APA):*  
Turcan, R. V., & Fraser, N. (2016). An Ethnographic Study of New Venture and New Sector Legitimation: Evidence from Moldova. *International Journal of Emerging Markets*, 11(1), 72 - 88.  
<https://doi.org/10.1108/IJoEM-10-2012-0142>

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## **An Ethnographic Study of New Venture and New Sector Legitimation: Evidence from Moldova**

### **Abstract**

This study explores the process of legitimation of international new ventures from an emerging economy and the effect such ventures have on the process of creation and legitimation of a new industry in that economy. It is a longitudinal ethnographic case study. Following an inductive theory building approach, data were collected over an eleven year period via in-depth interviews, participant observations, and unobtrusive data. Data reveal three different contexts in which legitimation takes place: legitimation of the new industry and of the new venture domestically and internationally.

A new venture drives the process of industry legitimation by achieving legitimacy threshold first nationally at meso and micro levels as well as internationally. The challenge therefore for such a venture is to establish legitimacy in the absence of any precedents at the organization, industry or international levels. Unless at least one new venture achieves legitimacy threshold in a new industry there is no possibility for that industry to become institutionalized. The authors advocate for further research at the intersection between legitimation, international entrepreneurship and emerging markets in order to further advance the emergent theory.

The data suggest that in order for an international new venture to achieve cognitive legitimacy and socio-political legitimacy in an emerging industry located in an emerging economy, and successfully internationalize, it shall (i) design a robust business model targeting both internal and external stakeholders, (ii) engage in persuasive argumentation invoking familiar cues and scripts, (iii) engage in political negotiations promoting and defending incentive and operating mechanisms, and (iv) overcome the country-of-origin effect by pursuing technology legitimation strategy.

Governments and NGOs may wish to see new industries emerge but they lack the means and mandate to establish and lead them themselves, instead rely on enabling actions, such as investment in capacity building. However, building capacity for an as-yet non-existent industry in an emerging economy may prove to be counter-productive, driving a brain drain of qualified workers who are forced to migrate to find suitable work. Our work leads us to speculate about whether there may be a role for investment in programmes of industry legitimacy building in pursuit of public policy objectives.

The study puts forward a process model of new industry legitimation. The model theorizes the process of change from an initial condition in which an industry does not exist to a final condition in which it is institutionalized. The model addresses the case where the initial catalyst is the formation of an international new venture that is the seed for the birth of the industry. Since both the new venture and the new industry lack cognitive and socio-political legitimacies, the model theorizes temporal emergence of these at organizational and industry levels, leading ultimately to institutionalization.

## **Introduction**

In this longitudinal ethnographic case study research we explore the process of emergence of an international new venture (INV) from an emerging economy and the effect an INV has on the process of new industry creation in that economy. More specifically, drawing on legitimation theory, we focus on how an emerging economy INV acquires legitimacy and how this INV contributes to the legitimation of the new industry within which it operates.

With this study we aim to contribute to the advancement of the growing international entrepreneurship research field (Coviello *et al.*, 2011). To achieve this aim, we address herein a number of criticisms of the field. The extant international entrepreneurship research suffers from coverage bias (Turcan *et al.*, 2010) by focusing mostly on high-technology INVs from developed economies (Yamakawa *et al.*, 2008). It also suffers from theoretical paucity (Jones *et al.*, 2011) and needs to borrow more actively from other disciplines in order for a robust international entrepreneurship theory to emerge (Turcan *et al.*, 2010). To this criticism, we may add that research on legitimation in international business and research in international entrepreneurship are, respectively, in an embryonic stage (Turcan *et al.*, 2012) and virtually non-existent (Jones *et al.*, 2011). In our quest, we side with Alon and Rottig (2013, p. 487) who suggest that “emerging markets provide an opportunity to examine entrepreneurship in different contexts and forms”. We extend this view by arguing that emerging economies serve as an attractive test-bed for enhancing and advancing international entrepreneurship research field.

We define an INV as a new venture that aims to derive profits from international activities right from their inception or immediately thereafter (Oviatt and McDougall, 1994). The emergent nature of the INV and of the new industry suggests that both initially lack legitimacy and credibility (Aldrich and Fiol, 1994). Moreover, uncertain decision-making settings characterize a new industry in which decisions are made under conditions of technology and market uncertainty, as well as goal ambiguity (Aldrich and Fiol, 1994; Turcan, 2008). As to the emerging nature of an economy, the most important criterion defining an economy as emerging is how well it helps buyers and sellers to come together, implying that an emerging economy falls short to varying degrees in providing the institutions necessary to support basic business operations (Khanna and Paleru, 1997).

In this paper we explore the legitimation process of MDsoft, an INV from an emerging economy, the Republic of Moldova. MDsoft is in the business of custom software development. Data collection took place over the period of eleven years: 2000-2011. Data were collected using several methods: in-depth interviews with the top management team and founders of MDsoft as well as a number of key stake-holders; participant observations, since one of the authors is the co-founder of MDsoft; and unobtrusive data.

### **Theoretical background**

The process of new venture emergence can be understood and predicted by viewing it as a quest for legitimacy (Tornikoski and Newbert, 2007). From a legitimacy theory perspective, legitimacy plays a key role in overcoming the liability of newness (Stinchcombe, 1965) and the liability of foreignness (Zaheer, 1995) that shape the behavior of INVs in the early years of their existence (Zahra, 2005). We define legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, beliefs, and definitions” (Suchman, 1995, p. 574).

In this paper we are concerned with legitimation of both an INV and a new industry within which it operates. At the outset, both lack cognitive legitimacy, defined as knowledge about the new activity and what is needed to succeed in an industry, and socio-political legitimacy, defined as the value placed on the new activity by cultural norms and political authorities (Aldrich and Fiol, 1994). This is what we call uncertain decision-making settings where decisions are made under conditions of technology and market uncertainty, as well as goal ambiguity. In these kinds of uncertain decision-making settings, the possible outcomes of decisions to pursue a new venture and the probability of those outcomes are unknown (Alvarez and Barney, 2005).

The first attempt to conceptualize the legitimation of new ventures and new industries was made by Aldrich and Fiol (1994). They explore strategies of legitimation at four simultaneous levels: organizational, intra-industry, inter-industry, and institutional. Even then, their theorizing assumes the presence of emerging competition as well as of sophisticated institutional context as found in developed economies. At the same time, Aldrich and Fiol (1994) do not theorize about

the process of (co)-emergence and (co)-legitimation of new venture and new industry. This gap remains in the literature.

New ventures seek various legitimation strategies in order to enhance their survival and facilitate the transition to other forms of organizing activities (Delmar and Shane, 2004). Several theoretical perspectives related to new venture legitimation strategies can be identified. For example, new ventures may seek legitimacy via conformance strategy (Suchman, 1995) that aims at achieving conformity within the demands and expectations of the existing social structure in which the venture is currently positioned; in other words, it means to follow the rules (North, 1990). New ventures may also pursue selection strategy (Suchman, 1995) that allows them to select a favorable geographic location where there are organizations that conform to similar rules, norms, values and models and may provide a new venture with legitimacy. An example would be for a software new venture to locate its operations in Silicon Valley, California, US or Silicon Glen, Scotland (Turcan, 2012). Through a manipulation strategy (Suchman, 1995) new ventures may make changes in the environment to achieve consistency between the venture and its environment.

When an industry is in the early years of its formation (Santos and Eisenhardt, 2009), it poses additional challenges and pressures on INVs' quest for legitimacy as there are few or no precedents for the kind of activities they want to found (Aldrich and Fiol, 1994; Navis and Glynn, 2010). In such a context, new ventures may pursue creation legitimation strategy that "...involves developing something that did not already exist in the environment" (Zimmerman and Zeitz, 2002, p. 425), such as new operating practices, norms, values, beliefs, expectations, models, patterns of behavior, and networks. It is theorized that this strategy is especially evident during the introductory stage of new industries (Zimmerman and Zeitz, 2002).

The extant empirical research on legitimation of new ventures and new industries highlights a number of symbolic legitimation strategies available to new ventures, such as credibility, defined as personal capability and personal commitment to the venture; professional organizing, defined as professional structures and processes; organizational achievement, defined as partially working products and technologies, venture age and number of employees; and quality of stakeholder

relationships, defined as prestigious stakeholders, and personal attention (Zott and Huy, 2007). To the above, INVs may pursue technology legitimation strategy to validate a technology or know-how; market legitimation strategy to better understand the market; operating legitimation strategy to have an optimal organizational gestalt; locational legitimation strategy to overcome the disadvantages of foreignness; alliance legitimation strategy to mitigate the risk of newness and smallness; and anchoring legitimation strategy to intentionally misrepresent the facts (Turcan, 2013).

As to the legitimation strategies related to the introduction of an institutional change or the creation of new organizational form or practice, the extant research suggests that in order for a new form or activity to become more of a taken-for-granted practice, or for an institutional change to be instilled, they have to be theorized (Greenwood *et al.*, 2002; Lounsbury and Crumley, 2007; Suddaby and Greenwood, 2005; Vaara and Tienari, 2008; Vaara *et al.*, 2006). The key steps in the process of theorization are problem specification by framing the problem and justification by invoking professionals' values (Greenwood *et al.*, 2002). If the irregularities are not problematized, then extant theory will not be challenged, and rogue activities will wane or persist in a marginalized fashion (Lounsbury and Crumley, 2007). Theorizing is thus not a momentary act but one that requires sustained repetition to elicit a shared understanding of the problem (Greenwood *et al.*, 2002).

In relation to the above, a number of critical legitimation strategies may be available to new ventures: developing institutional vocabularies; bridging diverse stakeholders; theorization of new practices (framing problems and justifying new practices and political negotiations) and change; and institutionalization of new practices (by attaching them to preexisting organizational routines and reaffirming their alignment with stakeholder values on an ongoing basis) (Maguire *et al.*, 2004; Suddaby and Greenwood, 2005). One way to theorize the pursuit of cognitive and socio-political legitimation of a new venture and new industry is via discursive strategies, namely: normalization, authorization, rationalization, moralization, and narrativization (Vaara *et al.*, 2006).

When ‘innovations meet institutions’, robust design mediates between institutionalized design and technical innovation (Hargadon and Douglas, 2001). An innovation's design is defined as robust “...when its arrangement of concrete details are immediately effective in locating the novel product or process within the familiar world, by invoking valued schemas and scripts, yet preserve the flexibility necessary for future evolution, by not constraining the potential evolution of understanding and action that follows use” (Hargadon and Douglas, 2001, p. 479). Robust design reduces the uncertainty linked to the new activity, and ensures that the main stakeholders would consider the new activity legitimate.

When the venture and the industry are in their early stage of formation, the challenge ultimately lies in finding familiar cues that locate and describe new ideas without binding users too closely to the old ways of doing things (Hargadon and Douglas, 2001). That is, as new technologies emerge, entrepreneurs and innovations must find the balance between novelty and familiarity, between impact and acceptance. Furthermore, new venture conformity to norms and practices will legitimate only to the extent that those norms and practices are themselves legitimate, credible, and valued (Glynn and Marquis, 2004). It may be thus argued that in order to successfully legitimize the new venture in an emerging new industry, the entrepreneur will have to change and/or create new “structural meaning” (Abbott, 2001, p. 158) of norms, practices and values at macro, mezzo, and micro levels. It could be further argued that successful attainment of the legitimacy threshold “below which the new venture struggles for existence and probably will perish and above which the new venture can achieve further gains in legitimacy and resources” (Zimmerman and Zeitz, 2002, p. 427) will depend on the success of transformations that entrepreneurs will induce at the macro, mezzo, and micro levels. This challenge is further amplified by the emergent nature of the economy within which the new venture emerges. In this study we explore how entrepreneurs of new ventures change and create new structural meaning not only at the macro, mezzo, and micro levels, but also at the international level in an attempt to gain cognitive and socio-political legitimacy in an emerging industry located in an emerging economy.

## Method

Given the scarcity of empirical work regarding the internationalization and legitimation of INVs from emerging economies (Yamakawa *et al.*, 2008) as well as the process of (co)-emergence and (co)-legitimation of new venture and new industry, we use a longitudinal ethnographic case study following a single INV. We employ an inductive theory building approach in which a limited initial set of empirical observations is used to postulate a generally applicable theory which can be tested and refined against subsequent observations (Dyer and Wilkins, 1991). Our interest in this study is to explore the process of legitimation of an emerging economy INV and its impact on the process of industry creation within which it emerges.

The case company was purposefully selected following sampling strategies pertinent to inductive, theory building research. We followed an intensity sampling strategy, the logic and power of which lies in selecting information-rich cases that manifest the phenomenon intensely, but not extremely (Miles and Huberman, 1994) and in which the phenomenon of interest is transparently observable (Pettigrew, 1990). The selected case also had to resemble an INV as defined earlier (Oviatt, and McDougall, 1994), and be located in an emerging economy.

Based on these sampling criteria, we selected for studying in depth MDsoft as an INV from an emerging economy, the Republic of Moldova. According to various rating agencies (e.g., The World Bank, 2011; The World Economic Forum, 2011), Moldova is considered as an emerging, factor-driven economy making marginal progress in fostering sound macroeconomic management and enhancing an entrepreneurial climate, scoring low on business freedom, investment freedom, corruption and labor freedom, as well as on protecting investors and enforcing contracts. MDsoft started-up in 2000 with 4 people and grew over the span of 5 years in revenue and number of employees on an average of 76% and 58% per annum respectively, achieving revenue of approximately 4 million euros and 260 employees. After a merger in 2006, MDsoft grew in revenue and number of employees on an average of 14% and 15% per annum respectively, achieving a revenue over 32 million euros and approximately 600 employees in 2011.



Our data collection and analysis occurred over a period of eleven years: 2000-2011. Data were collected using several methods: in-depth interviews, participant observation and unobtrusive data collection. We interviewed the top management team and founders of MDsoft who were driving the start-up process (six interviews). We also interviewed key stakeholders of MDsoft, e.g., the director of the industry association; the deputy minister of ICT; and two academics from the Moldovan Technical University who were actively involved at that time (2000-2001) in the process of industry creation. We also collected participant observational data since one of the authors of this study was the co-founder of MDsoft. Unobtrusive data (Webb *et al.*, 2000) were collected at length to contribute further to the triangulation of the data that were emerging from the interviews. The unobtrusive data consisted of (i) running records, such as legislative initiatives and bills, and (ii) episodic and private records, such as company sales, financial and organizational records, industry and institutional records, as well as internal memos and e-mails.

We created a database for the case to organize and document all collected data, thus contributing to the enhancement of the reliability of the study. To ensure further reliability, the following key activities of the case study protocol were adopted in the present study: negotiating access; writing the history of the case and highlighting the phenomenon of interest by exhausting all secondary sources prior to interviews; validating the history of the company at the first interview; negotiating access to the stakeholders of the company; and negotiating access for follow-up interviews.

Transcribed interviews were sent back to interviewees for review and comments were incorporated for further analysis. Along with such multiple sources of evidence (for the purpose of triangulation), the interviewees' feedback contributed to the construct validity of the study, that is, the extent to which the study captures what it sets out to (Yin, 2008). Explanation-building was conducted by describing and exploring the case in narrative form and constantly comparing emergent constructs and theory with the extant literature, thus contributing to internal validity (Yin, 2008). According to Dubin (1978), the very essence of description is to name the properties of things, and the more adequate the description, the greater the likelihood that the concepts derived from the description will be useful in subsequent theory building.

Within-case analysis, that is, in-depth study of a single case (Miles and Huberman, 1994), was the basis for developing early constructs surrounding legitimation of MDsoft and of the industry within which MDsoft operated. We then further theorized in an attempt to move to a higher level of (analytical) generalizability, thus contributing to external validity (Yin, 2008). During this process of data analysis we employed theoretical coding (Glaser, 1978) to conceptualize the emerging patterns within the case, and middle-range theorizing (Merton, 1957) to help manage the complexity of the emergent patterns. The sampling strategy adopted, as well as the sampling criteria developed also contributed to external validity of the study.

## **Research findings**

Analysis of the data collected reveals three different contexts in which legitimation took place. The credibility of MDsoft needed to be established in Moldova, as did the wider software industry it played a key role in pioneering. A different set of challenges was faced by the sales arm of the business in the UK market, UKsoft. Some of the strategies deployed in legitimating the business in these contexts were found in the data collected; these are presented below.

### *Legitimizing MDsoft in Moldova*

The British investor (the “Investor”) had previously co-founded a technology business that had achieved a successful IPO on the London Stock Exchange and, by the year 2000, was performing strongly in the dynamic dot.com economy. Before and concurrently with that he had held academic posts in the UK and published his work in international journals. The accessibility via the Internet of a corpus of research output and positive media coverage provided a vital source of independent validation for the member of MDsoft’s founding team who would otherwise have been hardest to evaluate in Moldova. The three Moldovan founders were also able to demonstrate significant prior credibility as managers and technologists in the local context. For example, the Chairman had been a co-author of the Moldovan Declaration of Independence from the USSR and had served for almost a decade as a Member of Parliament and respected public figure; by background, he was a professor of computer science and holder of a number of technology patents. The CTO had formerly held the same post in the country’s leading ISP business.

The Silicon Valley vision of startup technology companies being founded in garages by college drop-outs with nothing more than drive and ingenuity was completely alien to Moldova in 2000. In a culture that requires serious ventures to be led by serious people, referenceable accomplishments of the founders contributed to a bedrock of credibility from which MDsoft could begin to build its institutional legitimacy.

The quest for seriousness continued in MDsoft's approach to human resources. To begin with, in the absence of competition, it was possible to hire – literally – the smartest young engineers and mathematicians in the country. In the words of the Chairman, a former professor:

*“With the support of my friends from local universities, we were able to find very quickly a team of talented young Moldovans, many of them participants and winners of International Olympiads.”*

The founders consciously set out to promote a culture of excellence in the new venture. They embraced the idea, famously espoused by Steve Jobs of Apple, that “A players like to work with A players” (Isaacson, 2011, p. 363). Employees were encouraged to suggest and help recruit the programmers they most admired. Several respected university professors of computer science were among the early hires.

In its third year the business established a new department dedicated to education and training. Courses were taught in new technologies and project management, and all staff was required to learn English up to a specified standard. Each member of staff had a personal development plan with clear objectives and regular monitoring. In addition to investment in staff excellence, a quality system and set of operating processes was developed for the business. In its fourth year the company achieved ISO-9001 certification, and quickly added many other technical and business accreditations.

The company's conspicuous commitment to excellence became a prominent feature of its identity and helped to legitimate it, not just to the current and potential staff but also to the wider

community. This was reinforced in its fourth year when the business sponsored the creation of the country's first university Chair of Software Engineering.

In pursuit of socio-political legitimacy, the Investor and Chairman devoted considerable time and effort to articulate the vision and purpose of the business in the Moldovan media and with prominent figures in business and politics. A more mundane, but hugely important, contribution to the company's legitimacy resulted from its policy of proactively paying all legitimate taxes and never paying any illegitimate taxes, i.e., bribes. When the company was founded, rates of tax recovery in Moldova were extremely low, both from businesses and individuals. Against the general pattern, MDsoft kept only one set of accounts and promptly paid all taxes. By this simple means it established an identity with the authorities almost overnight as one of the best corporate citizens in the country. In the year after the business was established the Investor and the Chairman were summoned to see the Deputy Prime Minister who was struggling to understand how it could be that a new business was already contributing more tax per month than any single county in Moldova. As the Chairman explained:

*“From the very beginning we set three major goals – to have offices in Moldova and Romania, provide competitive salaries, and work transparently. These goals helped us to build a reliable and competitive company. During the first four years [MDsoft] continuously doubled its staff; by the end of 2005 we had around 145 employees.”*

In the context of the country's developing institutions it was not always possible simply to obey the law; sometimes it was necessary to help define it. For example, in its third year the company was presented with a large tax bill in respect of VAT (i.e., purchase tax). By law this had to be levied on all goods and services sold in Moldova. The software that MDsoft developed was sold outside of Moldova, chiefly in the UK, but no physical goods were transported out of the country, so the law was somewhat vague with respect to VAT. According to the Chairman:

*“It was very difficult to demonstrate to [the Government] that we indeed export our services, and to argue and use relevant data on how software services can be delivered via Internet without any customs approvals.”*

Tax officials privately agreed with the company that software exports should be VAT-exempt, but none dared to implement their opinion for fear that their decision in the absence of legal clarification would be interpreted as resulting from receipt of bribes. Thus MDsoft was required to pursue a legal action all the way to the Supreme Court, which decided in its favor and established the interpretation of VAT law relied upon by the country's software industry to this day.

The existence of MDsoft, a British-backed company, was acknowledged to be one of the factors that led the British government to open an embassy in Moldova for the first time. Formally opening the embassy, a member of the British Royal Family delivered a speech before the President, Prime Minister, assembled VIPs and media, in which he warmly eulogized MDsoft's vision and achievements, thereby effectively putting the company's socio-political legitimacy beyond doubt.

#### *Legitimizing the software industry in Moldova*

In the year 2000 the idea that Moldova could address global markets with knowledge products, such as custom software, could easily be dismissed as foolish (Aldrich and Fiol, 1994). Speaking about the first time the idea of software development for foreign markets was presented to him, MDsoft's Chairman reflected:

*“When I met one of my former students who told me that he and one of his friends were planning to launch a software company together with a British investor, I expressed my eagerness to join them, but it was like a joke – a joke I wanted to be a reality.”*

The existence of successful analogous models was used as a resource, first by the British Investor and subsequently by the wider founding team, to argue for the plausibility of a software industry that initially seemed little more than fantasy. Specifically, the success of the Indian offshore software development industry was used to inspire optimism. Most people were willing to concede that some of the challenges of poverty and underdevelopment in India surpassed even

those of Moldova. Most were also willing to concede that a priori India was an even less likely location than Moldova to give birth to a software industry with global reach. And yet, the facts spoke for themselves – India provided a clear existence proof that a well-conceived export-oriented software industry could emerge from the midst of economic despair to conquer global markets. MDsoft's founders appealed to the Indian example often over the first few years, but they were also able to reference comparable small scale, but still encouraging, initiatives in the immediate neighbors Romania and Ukraine, and in other countries of the region, such as Russia, Czech Republic and Hungary.

Many Moldovans were justifiably proud of the country's heritage of Soviet technical education, so the idea that Moldovan software engineers could stand shoulder-to-shoulder with international competitors was not completely implausible, even if it was hard to envisage how organizational structures could be financed and realized. Within its first two years, MDsoft itself came to be cited as a Moldovan existence proof in media and public policy discussions that the dream of a Moldovan software industry was not completely foolish.

Around four years after MDsoft launched, the Moldovan government introduced a package of generous tax reliefs specifically targeting the IT industry to encourage inward investment. This legislated incentivization played an important role in driving the expansion of existing software businesses and the establishment of new ones. In 2008 the Moldovan Association of Private ICT Companies was formed as a forum for larger businesses in the industry; at the time of writing, the Moldovan Association of Private ICT Companies (2012) had 37 corporate members. According to government figures there are now more than 1,500 ICT companies in the country, contributing approximately 10% of GDP, with 70% of the production of software companies being exported.

### *Legitimizing UKsoft in the UK*

UKsoft is MDsoft's sales, marketing and customer relationship partner in the UK within the same corporate group. UKsoft was the first business to sell software development services from Moldova into the UK. In a context where most potential customers had never heard of Moldova, the company initially sought to legitimate itself for purposes of selling with a combination of the

founders' track records and pricing that was "too cheap to ignore". As the Investor who was initially also the sole member of UKsoft's staff recalled:

*"When I started to go out selling I had to say to companies, 'Please send your mission critical software development projects to a country you have never heard of, to a company that has no track record, contracting with a one-person British company – and you have no way of verifying any of my claims.'"*

Initial sales were small, non-strategic for the customer, and with deeply discounted pricing. This created a number of modest case studies of successful delivery. The first significant enterprise sale was to develop an online portal providing pay-per-view access to a video library of high culture stage events, such as opera, ballet and theatre. The sale was closed largely on the strength of the Investor's prior standing with the customer's CTO. The project proved to be highly demanding for MDsoft, encompassing major learning steps in technology and business. However, the end result was a visually striking, richly functional media portal that compared favorably with systems developed by global leaders.

Because of this, MDsoft came to the attention of a global technology company, BIGsoft, which was planning to test the consumer appetite for pay-per-view live streaming media events. They organized a concert starring an A-list pop performer as their test event. When they began looking for a supplier to develop an online payments solution to process potentially very large numbers of ticket sales immediately before the start of their concert they drew a blank. As the Investor and the Chairman explained:

*"When BIGsoft went to all of the usual suspects, i.e., the market leaders in online payments, none of them would touch this project; they wouldn't have come anywhere near it. When BIGsoft asked us what experience we had, ultimately the answer was 'None, but what options have you got?' ... Eventually, the most robust stable...part of the whole system was our payment solution."*

*“It was a very ambitious project because it had to be run on a new BIGsoft ... server platform that at the time was a beta version. We did not have enough experience in the area of project management and in working with foreign partners. Nevertheless, our work was well received by BIGsoft as we successfully implemented their first industrial solution.”*

Orders followed from the credibility this won, and with them came further positive references and case studies. The necessity to justify the location of UKsoft’s production center (MDsoft) in an “exotic” location receded. In the UK market, where the concept of off-shore and near-shore sourcing of software development was already thoroughly legitimate, only the specific choice of Moldova needed to be justified, and referenceable success proved to be sufficient to achieve legitimation.

### **Theoretical reflections**

The iteration between data, emerging theory and extant theory led to the emergence of a process model of the industry and new venture legitimation (Figure 1). The theoretical reflections that follow are centered around this proposed model. We will first discuss the model and then develop propositions for future research.

*Figure 1 about here*

This is a model which theorizes the process of change from an initial condition in which an industry does not exist to a final condition in which it is institutionalized. The model addresses the case where the initial catalyst is the formation of an INV that is the seed for the birth of the industry. The challenge therefore for such a venture is to establish legitimacy in the absence of any precedents at the organization level or industry level. Unless at least one new venture achieves legitimacy threshold in a new industry there is no possibility for that industry to become institutionalized. Since both the new venture and the new industry lack cognitive and socio-political legitimacies, the model theorizes temporal emergence of these at organizational and industry levels, leading ultimately to institutionalization.



MDsoft had to frame and communicate its own identity and mission in such a way that interested parties could understand it as a rational and coherent enterprise. It also needed to position itself socio-politically as an initiative that was appropriate and valid in the Moldovan context. Strategies of cognitive legitimation centered on establishing the credentials of the founders and the business model, and on framing the company's mission, in part at least, as the pursuit of excellence. The above challenge was amplified by the emerging state of the industry and of the economy within which MDsoft started operating. Related to the new industry of the economy, as theorized elsewhere (Zimmerman and Zeitz, 2002), MDsoft pursued a creation legitimation strategy (Zimmerman and Zeitz, 2002), thus contributing to the creation and legitimation of new laws and norms, new values and expectations, as well as new business models and operating practices. As to the emerging state of the economy, MDsoft had to overcome the country-of-origin effect in order to mitigate the liability of foreignness (Cuervo-Cazurra *et al.*, 2007).

In this quest for legitimacy, the data reveal several legitimation strategies adopted by MDsoft. First, MDsoft designed a robust business model targeting internal (employees) and external stakeholders. MDsoft did so, for example, by providing competitive salaries and continuous professional education for its employees, paying all taxes and complying with all laws and norms, achieving internationally recognized certification, and engaging in community/charity activities. In contrast to earlier findings according to which entrepreneurs in their pursuit of robust design shall decide, among other things, which details to hide from view altogether (Hargadon and Douglas, 2001), MDsoft decided from the start to operate openly and transparently.

Second, MDsoft engaged in theorizing its business model. More specifically, it engaged in persuasive argumentation (Maguire *et al.*, 2004) invoking familiar cues and scripts, such as referring to the success of Indian and Central European software companies. At the same time, it engaged in political negotiations (Maguire *et al.*, 2004) promoting and defending incentive and operating mechanisms aimed to make the industry of the economy efficient and eventually successful. Being integral to institutional change (Greenwood *et al.*, 2002), our data suggest theorizing is also integral to institutional experimentation when an industry emerges and tries to achieve its legitimacy threshold.

At the same time, MDsoft aggressively pursued a technology legitimization strategy (Turcan, 2013) in order to overcome the liability of origin (Ramachandran and Pant, 2010), with reference to the country-of-origin effect. Of all the other internal and external legitimization strategies available to international new ventures (Turcan, 2013), the data point to technology legitimization strategy as the strategy that contributes to rapid and successful internationalization of the new venture.

The above legitimization strategies were aimed at establishing both cognitive legitimacy and socio-political legitimacy of the new venture. Although these legitimization strategies were pursued concurrently, their effect on the acquisition of cognitive legitimacy and socio-political legitimacy is path-dependent. According to our data, there is a time-lag (of three or four years) between the acquisition of cognitive legitimacy and socio-political legitimacy. The data also suggest a cause-effect relationship between the two legitimacies, with cognitive legitimacy leading to socio-political legitimacy. We may conjecture that this is because the key stakeholders cannot place a value on something they do not understand or perceive to be conceptually coherent (e.g., Suddaby and Greenwood, 2005); thus:

P1: The relationship between cognitive legitimacy and socio-political legitimacy in a new venture is inherently temporal, and that

P2: The acquisition of socio-political legitimacy in a new venture is positively associated with the acquisition of cognitive legitimacy.

Our data further suggest that the new venture witnessed rapid growth after it acquired cognitive legitimacy, suggesting it reached the legitimacy threshold. For example, nationally, according to our data, MDsoft reached legitimacy threshold when it won its legal battles on the disputes over VAT and exporting software products. At the international level, MDsoft reached legitimacy threshold when it won and successfully delivered a software solution for one of the largest software companies in the world. Drawing on estimates of new venture survival after three years (Storey, 1994), we argue the acquisition of cognitive legitimacy is critical for passing that survival threshold and thus posit that:

P3: In an emerging industry a new venture achieves legitimacy threshold through the acquisition of cognitive legitimacy.

It is interesting to note here, that at the moment of the acquisition of cognitive legitimacy by the new venture, the industry did not have substantive existence beyond the new venture so it would be premature to speak of industry legitimacy (cognitively and/or socio-politically). However, our data point to the fact that the acquisition of cognitive legitimacy by the new venture led to the establishment of norms, values and practices which were available for appropriation in the emergence of the industry and which thus in turn led to cognitive and socio-political legitimization of the industry. As the impact of the new venture became clear it acquired socio-political legitimization in the process. Intuitively, it should be expected that socio-political legitimization of the new venture will precede legitimization of the industry. Our data however do not give us sufficient grounds for temporal dependencies between the acquisition of socio-political legitimacy by the new venture and legitimization of the new industry. These observations led us to posit that:

P4: Norms, values and practices established by a new venture in an emerging industry mediate the acquisition of cognitive legitimacy and socio-political legitimacy of the new industry.

The above mentioned legitimization efforts by MDsoft were also directed towards changing and creating new structural meanings (Abbott, 2001) that helped the new, emerging industry of the economy reach what we call industry legitimization threshold. The data suggest the industry legitimization threshold was achieved for example when the lawmakers made the ICT industry one of the country priority industries, introduced a long-term tax relief package for software companies, a new ICT bill was adopted, an ICT association was created, and further new software ventures were started up, including by MDsoft employees who left MDsoft. In contrast to earlier findings (Glynn and Marquis, 2004) according to which industry norms and practices ought to be legitimate, credible and valued before a new venture can conform to them and eventually become legitimate, our data suggest that a new venture may actually drive the process

of industry legitimation by achieving legitimacy threshold first nationally at meso and micro levels as well as internationally. We posit here that:

P5: The acquisition of socio-political legitimacy in a new venture is prerequisite to the acquisition of industry legitimacy threshold.

From the social construction of reality point of view (Berger and Luckmann, 1966), the emergence of a new industry or industry of the economy could be seen as a process whereby legitimation and institutionalization alternate each other and during which the bonds between the two are created or loosened up. In this context, we define legitimation as a process during which structural meanings are changed and/or created at micro and meso levels in order to achieve cognitive legitimacy and forge strong bonds with institutionalization. We define institutionalization as a process during which new structural meanings have strong traction at the macro level, making the bonds between legitimation and institutionalization loosen up, eventually leading to socio-political legitimacy.

### **Conclusion and future research directions**

In this study we aimed at exploring the process of new venture legitimation and rapid internationalization in the context of an emerging economy and the effect such ventures have on the process of new industry creation in that economy. We collected longitudinal, ethnographic data over an eleven year period via in-depth interviews, participant observations, and unobtrusive data. Grounded in data we put forward a process model of new industry legitimation. The data reveal that in order for an international new venture to achieve cognitive legitimacy and socio-political legitimacy in an emerging industry located in an emerging economy, and successfully internationalize, it shall (i) design a robust business model targeting both internal and external stakeholders, (ii) engage in persuasive argumentation invoking familiar cues and scripts, (iii) engage in political negotiations promoting and defending incentive and operating mechanisms, and (iv) overcome the country-of-origin effect by pursuing technology legitimation strategy.

As to the effect on new industry creation, the data suggest that the new venture may drive the process of industry legitimation by achieving legitimacy threshold first nationally at meso and

micro levels as well as internationally. The data further suggest that there is a time-lag between the acquisition of cognitive legitimacy and socio-political legitimacy. The data also suggest that cognitive legitimacy is a necessary, but not a sufficient condition for socio-political legitimacy. We thus conjecture that the relationship between cognitive legitimacy and socio-political legitimacy is inherently temporal and that the acquisition of socio-political legitimacy is positively associated with the acquisition of cognitive legitimacy. We advocate for more theory-building research at this intersection of legitimation of new ventures and new industries in order to enhance the process model of new industry legitimation.

With respect to new ventures in a non-existent industry, we have theorized that the relationship between cognitive legitimacy and socio-political legitimacy is inherently temporal, that the acquisition of socio-political legitimacy is positively associated with the acquisition of cognitive legitimacy, and that legitimacy threshold is achieved through the acquisition of cognitive legitimacy. With respect to the emergence of new industries, we have theorized that the norms, values and practices established by a new venture mediate the acquisition of cognitive legitimacy and socio-political legitimacy of that industry, and that the acquisition of socio-political legitimacy in a new venture is prerequisite to the acquisition of industry legitimacy threshold. Further research is needed to validate the proposed model of new industry emergence.

The impetus to start new ventures comes from entrepreneurs in the private industry, but what about new industries? Governments and NGOs may wish to see new industries emerge but they lack the means and mandate to establish and lead them themselves, instead rely on enabling actions, such as investment in *capacity building*. However, building capacity for an as-yet non-existent industry in an emerging economy may prove to be counter-productive, driving a brain drain of qualified workers who are forced to migrate to find suitable work. Our work leads us to speculate about whether there may be a role for investment in programmes of industry *legitimacy building* in pursuit of public policy objectives, since in contrast to the example explored here it is improbable that many entrepreneurs will choose to bear this cost themselves.

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Figure 1: Process model of new industry legitimization

