

## The Emergence of an International New Software Venture from an Emerging Economy

Turcan, Romeo V.; Fraser, Norman

*Published in:*  
Software Business

*DOI (link to publication from Publisher):*  
[10.1007/978-3-642-30746-1\\_10](https://doi.org/10.1007/978-3-642-30746-1_10)

*Publication date:*  
2012

*Document Version*  
Early version, also known as pre-print

[Link to publication from Aalborg University](#)

*Citation for published version (APA):*  
Turcan, R. V., & Fraser, N. (2012). The Emergence of an International New Software Venture from an Emerging Economy. In M. Cusumano, B. Iyer, & N. Venkatraman (Eds.), *Software Business: Third International Conference, ICSOB 2012, Cambridge, MA, USA, June 18-20, 2012, Proceedings* (Vol. 114, pp. 114-127). Springer Publishing Company. [https://doi.org/10.1007/978-3-642-30746-1\\_10](https://doi.org/10.1007/978-3-642-30746-1_10)

### General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal -

### Take down policy

If you believe that this document breaches copyright please contact us at [vbn@aub.aau.dk](mailto:vbn@aub.aau.dk) providing details, and we will remove access to the work immediately and investigate your claim.

# The Emergence of an International New Software Venture from an Emerging Economy

Romeo V. Turcan<sup>1</sup> and Norman M. Fraser<sup>2</sup>

<sup>1</sup> Department of Business and Management, Aalborg University,  
Fibigerstraede 10, 9220 Aalborg, Denmark  
rvt@business.aau.dk

<sup>2</sup> Henley Business School, Whiteknights, Reading, RG6 6UD,  
United Kingdom  
n.m.fraser@henley.reading.ac.uk

**Abstract.** This study is positioned at the intersection of legitimation and international entrepreneurship theories. It is a longitudinal ethnographic case study that explores the process of emergence of an international new software venture from an emerging economy and the effect this venture has on the process of industry creation in that economy. Data were collected over a two year period, 2010-2011, via in-depth interviews, observations, and unobtrusive data. Data analysis reveals three different contexts in which legitimation took place: legitimation of the new venture domestically and internationally, and legitimation of the new industry. To acquire cognitive legitimacy and socio-political legitimacy and successfully internationalize, an international new venture needs to design a robust business model targeting both internal and external stakeholders, engage in persuasive argumentation invoking familiar cues and scripts, promote and defend incentives and operating mechanisms in political negotiations, and overcome the country-of-origin effect by pursuing a technology legitimation strategy.

**Keywords:** Internationalization, legitimation, software, new venture, emerging industry, emerging economy, ethnography.

## 1 Introduction

In this longitudinal ethnographic case study we explore the process of emergence of a software international new venture (INV) from an emerging economy and the effect an INV has on the process of industry creation in that economy. More specifically, drawing on institutional 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 [1]. To achieve this aim, we address herein a number of criticisms of the field. The extant international entrepreneurship research suffers from coverage bias [2] by focusing mostly on high-technology INVs from developed economies [3]. It also suffers from theoretical paucity [4] and needs

to borrow more actively from other disciplines in order for a robust international entrepreneurship theory to emerge [2]. To this criticism, we may add that research on legitimation in international business and research in international entrepreneurship are, respectively, in an embryonic stage [5] and virtually non-existent [4].

We define an INV as a new venture that aims to derive profits from international activities right from their inception or immediately thereafter [6]. The emergent nature of the INV and of the new industry suggests that both initially lack legitimacy and credibility [7]. 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 [8]. As to the emerging nature of an economy, the most important criterion defining an emerging economy 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 [9].

We explore the legitimation process of MDsoft<sup>1</sup>, an INV in an emerging economy, the Republic of Moldova. MDsoft is in the business of custom software development. Data collection took place over the period of two years: 2010-2011. 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; observations, since one of the authors is the co-founder of MDsoft; and unobtrusive data.

## 2 Theoretical Background

The process of new venture emergence can be understood and predicted by viewing it as a quest for legitimacy [10]. From the institutional theory perspective, legitimacy plays a key role in overcoming the liability of newness [11] and the liability of foreignness [12] that shape the behavior of INVs in the early years of their existence [13]. 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” [14, p574]. In the early stages of their emergence, new ventures 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 [15].

To acquire these types of legitimacy, new ventures seek various legitimation strategies in order to enhance their survival and facilitate the transition to other forms of organizing activities [16]. Several theoretical perspectives related to new venture legitimation strategies can be identified. For example, new ventures may seek legitimacy via *conformance* strategy [14] 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 [17]. New ventures may also pursue *selection* strategy [14] 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

---

<sup>1</sup> The name of the company and the names of interviewees are disguised throughout the paper.

example would be for a software new venture to locate its operations in Silicon Valley, California, US or Silicon Glen, Scotland [18]. Through a *manipulation* strategy [14] 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 [19], it poses additional challenges and pressures on INVs' quest for legitimacy as there are no or few precedents for the kind of activities they want to found [7; 20]. In such context, new ventures may pursue *creation* legitimization strategy that "...involves developing something that did not already exist in the environment" [21, p425], 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 [21].

The extant empirical research on legitimization of new ventures and new industries highlights a number of symbolic legitimization 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 [22]. To the above, INVs may pursue *technology* legitimization strategy to validate a technology or know-how; *market* legitimization strategy to better understand the market; *operating* legitimization strategy to have an optimal organizational gestalt; *locational* legitimization strategy to overcome the disadvantages of foreignness; *alliance* legitimization strategy to mitigate the risk of newness and smallness; and *anchoring* legitimization strategy to intentionally misrepresent the facts [23].

As to the legitimization 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 [24; 25]. The key steps of the process of theorization are problem specification by framing the problem and justification by invoking professionals' values [24]. If the irregularities are not problematized, then extant theory will not be challenged, and rogue activities will wane or persist in a marginalized fashion [25]. Theorizing is thus not a momentary act but, one that requires sustained repetition to elicit a shared understanding of the problem [24]. In relation to the above, three sets of critical legitimization strategies may be available to new ventures: *bridging* diverse stakeholders; *theorization* of new practices (framing problems and justifying new practices and political negotiations); and *institutionalization* of new practices (by attaching them to preexisting organizational routines and reaffirming their alignment with stakeholder values on an ongoing basis) [26].

When 'innovations meet institutions', robust design mediates between institutionalized design and technical innovation [27]. 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” [27, p479]. The 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 [27]. 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 [28]. 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” [29, p158] 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” [21, p427] 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.

### 3 Method

Given the scarcity of empirical work regarding the internationalization and legitimization of INVs from emerging economies [3], we use a single, longitudinal ethnographic case study in line with a theory-building research design [30].<sup>2</sup> Our interest in this study is to explore the process of legitimization of an emerging economy INV and its impact on the process of industry creation within which it emerges, aiming to advance international entrepreneurship theory.

The case company was purposefully selected following sampling strategies pertinent to inductive, theory building research. We followed the intensity sampling strategy, the logic and power of which lies in selecting information-rich cases that manifest the phenomenon intensely, but not extremely [32] and in which the phenomenon of interest is transparently observable [33]. The selected case also had to resemble an INV as defined earlier [6], and be located in an emerging economy.

Based on the above sampling criteria, we selected for studying in depth MDsoft as an INV from an emerging economy, the Republic of Moldova. MDsoft started-up in 2000 with 4 people and grew over the span of 10 years to a medium-sized company with more than 500 employees, reaching an operating turnover of approximately 28

---

<sup>2</sup> Examples of extant longitudinal, ethnographic field work could be found in [25] and [31] that examine the construction of legitimacy and identity during the life cycle of an entrepreneurial Internet firm [31] and how innovation in activities lead to the establishment of a new practice via institutionalization [25].

million Euros. According to various rating agencies [34; 35; 36],<sup>3</sup> Moldova is considered as an emerging, factor-driven economy making marginal progress in fostering sound macroeconomic management and enhancing the entrepreneurial climate, scoring low on business freedom, investment freedom, corruption and labor freedom, as well as on protecting investors and enforcing contracts.

Our data collection and analysis occurred over a period of two years: 2010-2011. 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 Technical University who were actively involved at that time (2000-2001) in the process of industry creation. We also collected observational data since one of the authors of this study was the co-founder of MDsoft.

Unobtrusive data [37] 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, industrial and institutional records.

We followed inductive theory-building strategies to analyze the data. We created a data-base 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 that 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. 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. According to Dubin [38], 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.

The within-case analysis [32] was the basis for developing early constructs surrounding legitimation of MDsoft and of the industry within which MDsoft operated. We then further theorised in an attempt to move to a higher level of (analytical) generalizability, thus contributing to the external validity. During this process of data analysis we employed theoretical coding [39] to conceptualize the emerging patterns within the case, and middle-range theorizing [40] 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.

---

<sup>3</sup> Note that the Republic of Moldova started being included in the ranking calculations from 2004/2005.

## 4 Findings

Analysis of the data collected reveals three different contexts in which legitimization took place. The credibility of MDsoft needed to be established in Moldova, as did the wider software sector 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.

### 4.1 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” [41, p363]. 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 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 articulating 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.

## 4.2 Legitimizing the Software Sector 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 [6]. 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 sector that initially seemed little more than fantasy. Specifically, the success of the Indian offshore software development sector 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,<sup>4</sup> 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 sector was not completely foolish.

Around four years after MDsoft launched, the Moldovan government introduced a package of generous tax reliefs specifically targeting the IT sector to encourage

---

<sup>4</sup> During the Soviet Union era, Moldova was promoted externally as an agricultural country in an attempt to disguise the presence of a dozen large high-technology enterprises and R&D centers that were involved in full-scale and component production and R&D activities mainly for the naval and aerospace Soviet war military complex. One of the co-authors worked for one of these companies and had access to four other enterprises.

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 sector; at the time of writing, it has 37 corporate members [42] 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.

### 4.3 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 on 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, recalls:

*"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,<sup>5</sup> 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 explain:

*"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."*

---

<sup>5</sup> BIGsoft is one of the largest software companies in the world.

*“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.

## 5 Theoretical Reflections

MDsoft faced the challenge of establishing both cognitive legitimacy and socio-political legitimacy [15]. That is, the company 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 sector of the economy, as theorized elsewhere [21], MDsoft pursued the creation legitimation strategy 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 [43].

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 [27], 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 [26] 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 [26] promoting and defending incentive and operating mechanisms aimed to make the sector of the economy efficient and eventually successful. Being integral to institutional change [24], 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 [23] in order to overcome the liability of foreignness, especially with reference to the country-of-origin effect. Of all the other internal and external legitimization strategies available to international new ventures [23], 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. 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 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 further argue that the acquisition of socio-political legitimacy is prerequisite to the acquisition of legitimacy threshold. Nationally, according to the 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 [44], we argue the acquisition of socio-political legitimacy is critical for passing that survival threshold.

The above mentioned strategic legitimization efforts by MDsoft were also directed towards changing and creating new structural meanings [29] that helped the new, emerging sector of the economy reach what we call *industry legitimization threshold*. The data suggest the industry legitimization threshold was achieved when the lawmakers made the ICT sector one of the country priority sectors and introduced a long-term tax relief package for software companies. In contrast to earlier findings [28] according to which industry norms and practices ought to be legitimate, credible and valued before a new venture can conform to them and eventually legitimate, our data suggest that the new venture may actually drive the process of industry legitimization by legitimating, achieving legitimacy threshold first nationally at meso and micro levels as well as internationally.

From the social construction of reality point of view [45], the emergence of a new industry or sector of the economy could be seen as a process whereby legitimization and institutionalization alternate each other and during which the bonds between the two are created or loosened up. In this context, we define legitimization 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 legitimization and institutionalization loosen up, eventually leading to socio-political legitimacy.

## 6 Conclusion

To achieve cognitive legitimacy and socio-political legitimacy in an emerging industry located in an emerging economy, and successfully internationalize, an INV 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 legitimization strategy. We advocate for more theory-building research at this intersection of legitimation and INVs within emerging and established industries as well as emerging and established economies in order to advance international entrepreneurship theory.

## References

1. Coviello, N., McDougall, P., Oviatt, B.: The Emergence, Advance and Future of International Entrepreneurship Research - An Introduction to the Special Forum. *J. Bus. Venturing* 26, 625–631 (2011)
2. Turcan, R.V., Mäkelä, M., Sørensen, O., Rönkkö, M.: Mitigating Theoretical and Sampling Biases in the Design of Theory-Building Research in International Entrepreneurship. *Int. Ent. Manage. J.* 6, 399–417 (2010)
3. Yamakawa, Y., Peng, M., Deeds, D.: What Drives New Ventures to Internationalize from Emerging to Developed Economies? *Ent. Theory Practice* 32, 59–82 (2008)
4. Jones, M., Coviello, N., Tang, Y.: International Entrepreneurship Research (1989–2009): A Domain Ontology and Thematic Analysis. *J. Bus. Venturing* 26, 632–659 (2011)
5. Turcan, R.V., Marinova, S., Rana, M.: Empirical Studies on Legitimation Strategies: A Case for International Business Research Extension. In: Devinney, T., Pedersen, T., Tihanyi, L. (eds.) *Institutional Theory in International Business, Advances in International Management*, vol. 12 (forthcoming, 2012)
6. Oviatt, B., McDougall, P.: Toward a Theory of International New Ventures. *J. Int. Bus. Stud.* 24, 45–64 (1994)
7. Aldrich, H., Fiol, M.: Fools Rush In? The Institutional Context of Industry Creation. *Acad. Manage. Rev.* 19, 645–670 (1994)
8. Turcan, R.V.: Entrepreneur-Venture Capitalist Relationship: Mitigating Post-Investment Dyadic Tensions. *Int. J. Entr. Finance* 10, 281–304 (2008)
9. Khanna, T., Paleru, K.: Why Focused Strategies May Be Wrong for Emerging Markets. *Harvard Bus. Rev.* 75, 41–51 (1997)
10. Tornikoski, E., Newbert, S.: Exploring the Determinants of Organizational Emergence: A Legitimacy Perspective. *J. Bus. Venturing* 22, 311–335 (2007)
11. Stinchcombe, A.: Social Structure and Organizations. In: March, J. (ed.) *Handbook of Organizations*. Rand McNally, Chicago (1965)
12. Zaheer, S.: Overcoming the Liability of Foreignness. *Acad. Manage. J.* 38, 341–363 (1995)
13. Zahra, S.: The Theory of International New Ventures: A Decade of Research. *J. Int. Bus. Stud.* 36, 20–29 (2005)
14. Suchman, M.: Managing Legitimacy: Strategic and Institutional Approaches. *Acad. Manage. Rev.* 20, 571–610 (1995)

15. Ranger-Moore, J., Banaszak-Holl, J., Hannan, M.: Density-Dependent Dynamics in Regulated Industries: Founding Rates of Banks and Life Insurance Companies. *Admin. Sci. Q.* 36, 36–65 (1991)
16. Delmar, F., Shane, S.: Legitimizing First: Organizing Activities and the Survival of New Ventures. *J. Bus. Venturing* 19, 385–410 (2004)
17. North, D.: *Institutions, Institutional Change and Economic Performance*. Harvard University Press, Cambridge (1990)
18. Turcan, R.V.: External Legitimation in International New Ventures: Toward the Typology of Captivity. *Int. J. Ent. Small Bus.* 15, 262–283 (2012)
19. Santos, F., Eisenhardt, K.: Constructing Markets and Shaping Boundaries: Entrepreneurial Power in Nascent Fields. *Acad. Manage. J.* 52, 643–671 (2009)
20. Navis, C., Glynn, M.A.: How New Market Categories Emerge: Temporal Dynamics of Legitimacy, Identity, and Entrepreneurship in Satellite Radio, 1990–2005. *Admin. Sci. Q.* 55, 439–471 (2010)
21. Zimmerman, M., Zeitz, G.: Beyond Survival: Achieving New Venture Growth by Building Legitimacy. *Acad. Manage. Rev.* 27, 414–431 (2002)
22. Zott, C., Huy, Q.: How Entrepreneurs Use Symbolic Management to Acquire Resources. *Admin. Sci. Q.* 52, 70–105 (2007)
23. Turcan, R.V.: How International New Ventures Acquire Legitimacy. Paper presented at the European International Business Academy, Bucharest, Romania, December 08–10 (2011)
24. Greenwood, R., Suddaby, R., Hinings, C.: Theorizing Change: The Role of Professional Associations in the Transformation of Institutionalized Fields. *Acad. Manage. J.* 45, 58–80 (2002)
25. Lounsbury, M., Crumley, E.: New Practice Creation: An Institutional Perspective on Innovation. *Org. Stud.* 28, 993–1012 (2007)
26. Maguire, S., Hardy, C., Lawrence, T.: Institutional Entrepreneurship in Emerging Fields: HIV/AIDS Treatment Advocacy in Canada. *Acad. Manage. J.* 47, 657–679 (2004)
27. Hargadon, B., Douglas, Y.: When Innovations Meet Institutions: Edison and the Design of the Electric Light. *Admin. Sci. Q.* 46, 476–501 (2001)
28. Glynn, M., Marquis, C.: When Good Names Do Bad: Symbolic Illegitimacy in Organization. *Res. Sociol. Org.* 22, 147–170 (2004)
29. Abbott, A.: *Time Matters: On Theory and Method*. The University of Chicago Press, Chicago (2001)
30. Dyer, G., Wilkins, A.: Better Stories, Not Better Constructs, to Generate Better Theory: A Rejoinder to Eisenhardt. *Acad. Manage. Rev.* 16, 613–619 (1991)
31. Drori, I., Honig, B., Sheaffer, Z.: The Life Cycle of an Internet Firm: Scripts, Legitimacy, and Identity. *Ent. Theory and Practice* 33, 715–738 (2009)
32. Miles, M., Huberman, M.: *Qualitative Data Analysis: An Expanded Sourcebook*. Sage, London (1994)
33. Pettigrew, A.: Longitudinal Field Research on Change: Theory and Practice. *Org. Sci.* 1, 267–292 (1990)
34. Doing Business in a more Transparent World, <http://www.doingbusiness.org>
35. The Heritage Foundation, <http://www.heritage.org>
36. The World Economic Forum, <http://www.weforum.org>
37. Webb, E., Campbell, D., Schwartz, R., Sechrest, L.: *Unobtrusive Measures*. Sage Publications, Thousand Oaks (2000)
38. Dubin, R.: *Theory Development*. Free Press, New York (1978)
39. Glaser, B.: *Theoretical Sensitivity*. Sociology Press, Mill Valley (1978)

40. Merton, R.: Social Theory and Social Structure. Free Press, New York (1957)
41. Isaacson, W.: Steve Jobs: The Exclusive Biography. Little Brown, London (2011)
42. Moldovan Association of Private ICT companies, <http://www.ict.md>
43. Cuervo-Cazurra, A., Maloney, M., Manrakhan, S.: Causes of the Difficulties in Internationalization. *J. Int. Bus. Stud.* 38, 709–725 (2007)
44. Storey, D.: Understanding the Small Business Sector. Routledge, London (1994)
45. Berger, P., Luckmann, T.: The Social Construction of Reality. Doubleday, New York