

**Legitimacy Gaining in the firm's
foreign market entry process – A network approach**

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Abstract

Within the IMP tradition (Ford 2002), expectations on behavior is one of the variables explaining how relationships evolve. Although expectation is emphasized both within the interaction model (Group 2002) as well as comprising one of the variables in relationship development (Ford 2002), expectations on a more general network context level need to be further explored. This becomes especially evident when studying foreign market entry processes where it is essential for the firm to understand and manage these expectations. A foreign market entry is within the network approach defined as a firm expanding its existing network context by building relationships across borders (Blankenburg 1995). The potential counterparts in the host country are embedded in a context where the norms and values are institutionalized and differ from the firm's home country. In the foreign market entry process it is necessary for the firm to be aware of the expectations on behavior within the host country in order to be able to develop relationships. What effects expectations in a pre-relationship phase? This is one of the issues dealt with in this paper.

Taking the network approach (Håkansson and Snehota 1995) as a point of departure and bringing back institutional theory - more specifically legitimacy (Aldrich and Fiol 1994) - this paper seeks to define and describe the legitimacy gaining process from a international network perspective. We argue that legitimacy as a mediating variable can extend our understanding of the network approach. It is concluded that the legitimacy gaining process is important to include in explaining relationship building and network extensions across borders. The research implication is that relationship initiation processes and networking should be understood as the firm's (cap)ability to gain or maintain legitimacy in different network context, i.e. in entering a new or expanding the existing network context, or to influence actors.

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Introduction

Involvements in foreign markets have received considerable attention and have been a widely discussed subject in the field of international business research tradition. As pointed out by Oliver (1990) little attempt has been made to explain what causes and under which conditions relationships occur. Taking the conclusion one step further, and applying it to the foreign market entry process it follows that more research has to be done about how relationships are created in order to increase our understanding and degree of explanation of foreign market entry processes and the creation of international business networks. One of the antecedents for relationship building as mentioned by Oliver (1990) is the perception of the firm as perceived by others. This perception has been defined as legitimacy, which we adapt in this paper by defining *legitimacy as a generalized perception or assumption that the organization and its actions, as perceived by others, are trustworthy, credible, desirable, proper, or appropriate within a certain socially constructed context of norms, values, beliefs, and definitions*. This definition is in line with how Suchman (1995) defines legitimacy. Legitimacy among other things consists of trustworthiness as perceived by others, and since other organizations constitute the focal actor's network context, legitimacy is a prevailing condition necessary for the survival of the firm. This means that without legitimacy the network will not be willing to supply resources, as also pointed out by Sharma (1991). In this paper we are going to argue that legitimacy is the antecedent for a firm's relationship building in the foreign market entry process, which is important for the firm's access to resources and thus its survival.

This paper is a conceptual paper, where we introduce the concept of legitimacy into the business network approach (Håkansson and Snehota, 1995; Håkansson and Ostberg, 1975; Snehota, 1990; Anderson et al, 1994; Anderson et al, 1998; Halinen and Törnroos, 1998; Gulati et al, 2000) as a way of explaining foreign market entry. The concept of legitimacy, widely discussed in the institutional theories (Meyer and Rowan, 1977/1991; Scott, 1987/1991; DiMaggio and Powell, 1983/1991; Deephouse, 1996; Human and Provan, 2000; Suchman, 1995; Elsbach, 1994; Ruef and Scott, 1998; Pfeffer, 1978/1989) has not been elaborated in detail within the business network approach. One of the reasons for implementing the concept of legitimacy is that in our view, legitimacy is the antecedent to relationship building. The purpose of this paper is to define and describe the firm's legitimacy gaining process as it extends the network context in the foreign market entry process through relationship building.

Although necessary, to introduce legitimacy into the foreign market entry is not done without first pointing at the underlying assumptions in the business network approach and institutional theories. Institutional theories seek to explain the process of homogenization of the organizational behavior within certain boundaries determined by common activities. Whereas the business network approach sets out to explain the firms' behavior within a delimited heterogeneous environment from a focal actors' perspective. Thus, the difference is that the institutional theories view the environment as consisting of organizations, but do not go further into the respective organizations' behavior and relationships with other specific actors in order to explain the behaviors (Jepperson, 1991). The business network perspective on the other hand, takes the specific relationships into account, without further elaborating on how the actor is perceived by others, as a way of explaining the firm's behavior within the firm's network context and creation of relationships.

Common for these two views is, however not explicitly pointed out, that organizations are engaged in continuous and important exchanges with other organizations in their environments. Thus, organizations are considered as open social systems (Pfeffer, 1978/1989). Both within the business network approach and the institutional theories, business firms transact with customer and supplier organizations, financial institutions, as well as with federal and local regulatory and legal authorities, thus all relevant actors. The consequence of these interactions is that organizations face uncertainty, as they cannot control everything. They are also interdependent with other organizations to access and exchange resources, personnel and information. (Pfeffer, 1978/1989) The society contains of different organizations: political (such as regulatory agencies), economic (where firms and trade unions are included), social (e.g. clubs) and educational actors (e.g. universities) (North, 1996), where the firm is only one of the building blocks. Firms interact with organizations in the society, forming a system of relationships (Pfeffer, 1978/1989). This structure can be seen as a network of actors that can be resembled to what in the institutional theory is described as an organizational field (DiMaggio and Powell, 1983/1991). What is considered to be a proper behavior differs between countries, meaning that what is morally accepted in one society may be seen as suspect in another due to cross-

national differences in cultural norms and values. (Aldrich, 2000) The foreign market entry process is a matter of relationship building across borders. The potential counterparts are embedded in a different context where their behaviors are formed by the setting they are operating within. We argue that, in foreign market entry processes it is necessary for the firm to be aware of the constituents of legitimate behavior within the new context, and how they are going to be perceived by others is effected by whom they interact with.

Foreign market entry process – received theories

As operations abroad involve risks and uncertainty about the foreign micro- and macro environment, international business research has analyzed this phenomenon from two main approaches (Benito and Welch, 1994): (1) the economics stream (Coase, 1937; Hymer, [1976(1960)]; Hennart, 1991; Williamson, 1975, 1985; Buckley and Casson, 1976; Dunning, 1980, 1988, 1999) and (2) the behavioral/process stream (Johanson and Vahlne, 1977; Melin, 1992; Johanson and Wiedersheim-Paul, 1975; Johanson and Mattson, 1989; Eriksson et. al 1997)

The *first stream* builds on Coase (1937) criticism of the neoclassical economics and Hymer's [1976(1960)] control perspective in international operations resulting from removal of competition and advantages possessed by the firms. Coase (1937) argued that exchanges between individuals or groups of individuals, coordinated through the price mechanism on the market, are associated with some transaction costs. When the transaction costs of the exchange administrated by an entrepreneur are lower than those of a market exchange, it is more profitable to internalize and coordinate the exchanges within the firm, increasing efficiency and reducing risks (c.f. Coase, 1937; Argyres and Porter Liebeskind, 1999). This way of reasoning has been further developed by transaction cost theorists. Transactions that involve uncertainty about their outcomes and that require transaction specific investments are more likely to be internalized within hierarchically organized firms, due to agents' bounded rationality and the tendency for opportunistic behavior (Williamson 1975, 1985; Hennart, 1991). The creation of a hierarchical system reduces the incentives for opportunistic behavior (Hennart, 1991). Internalization of the external markets across national borders creates the multinational enterprise and the benefits steam from the avoidance of the external market imperfections (Buckley and Casson, 1976; Dunning 1999). Anderson and Gatignon (1986) developed a model of choice of foreign entry mode based on the transaction cost theory. They mainly focused on the control aspects related to integration, where various entry modes offer various degrees of control depending on asset-specificity, external and internal uncertainty and free-riding potential. As pointed out in the eclectic paradigm (Dunning, 1980), international production depends on three main advantages as perceived by enterprises: the assets possessed by the firm (ownership-specific advantages), the internalization of assets (internalization advantages) and the location of the production (location-specific advantages) (Dunning, 1980; 1988). International competitiveness of a firm rests not only on possession of superior resources but also the desire and ability of the firm to internalize assets and that foreign market production gives unique benefits for the firm (Dunning 1980; 1999)

The *second stream* builds on the behavioral theory of the firm and has a process view of internationalization. This internationalization process model (Johanson and Vahlne, 1977; Melin, 1992) described internationalization as a process of commitment to a market, which was constantly evaluated. According to Johanson and Vahlne (1977) market knowledge and market commitment were two important concepts where more knowledge about the market a firm has and the more specialized the resources are to the specific market, the higher the value of the resources and the stronger the commitment to the market. Products are considered to be non-standardized and heterogeneous. Decisions to establish operations on a foreign market are made from perceived possibilities and/or problems in the market, which in turn has an effect on whether the firm will commit more or less to the market (Eriksson et al, 1997). The model builds on the assumption of incremental commitment to the market as a result of gradual gaining, integration and use of knowledge about foreign markets and operations. When the firm lacks experience and knowledge about foreign markets the perceived risk is high and the degree of investment is kept low. As the firm learns more about operating on foreign markets and experience is gained, investments increase. (Johanson and Wiedersheim-Paul, 1975)

However, in recent years scholars within these two streams of international business research emphasize the importance of networks in foreign operations (c.f. Dunning, 1995; Johanson and Mattsson, 1988; Blankenburg Holm, 1995; Chetty and Blankenburg Holm, 2000; Coviello and Munro, 1997). Viewing internationalization from a hierarchy or market decision are not enough in explaining the international involvement of firms “[...] as networks of alliances become more important, the composition and behavior of the group of firms becomes a more important determinant of the foreign production of the individual firms comprising the network.” Dunning (1995:473). The entry of a firm into a foreign market is in this paper seen as the process of extending the firm’s business network context into an international setting as firms operate in a relational context of interconnectedness. This implies that the survival and performance of the firm depends upon its linkages to other organizations (Oliver, 1990; Sharma, 1991; Gulati et. al, 2000). As pointed out earlier in the introduction, it is important to consider legitimacy, which we argue is an antecedent in the relationship building. This argument will be further developed below.

The institutionalization of legitimacy

When relations emerge, expectations, norms and rules are shaped for how the exchanges between actors within that context should be conducted and are reshaped through further interactions. Through connected relationships some of the behaviors become formalized in the society through norms, rules and regulations while other behaviors like expectations, perceptions and values can be added, together constituting the institutional components. Institutions include all restrictions that people create in order to form the human cooperation (North, 1996). The institutional components i.e. the values, norms, beliefs, rules and perceptions in the organizational field (DiMaggio and Powell, 1983/1991; Ruef and Scott, 1998) exert a pressure on the organizations to act in accordance to the expectations from the society. As stated above, organizations consist of political entities (such as regulatory agencies), economic bodies (where firms and trade unions are included), social bodies (e.g. clubs) and educational centers (e.g. universities) (North, 1996). When the organization’s behavior conforms to the expectations, it is considered to be trustworthy, proper, appropriate and credible, thus it is considered to be legitimate. (DiMaggio and Powell, 1983/1991; Meyer and Rowan, 1977/1991; Scott, 1987/1991). An organization is more likely to survive if it obtains social support, acceptance and legitimacy from the external institutional environment (Meyer and Rowan, 1977/1991; DiMaggio and Powell 1983/1991; Meyer and Scott, 1992; Parsons, 1956). Thus, the chance for an organization to survive is significantly increased if the organization demonstrates “[...] conformity to the norms and social expectations of the institutional environment.” (Baum and Oliver, 1991:189; see also Meyer and Rowan, 1977/1991). If an organization develops ties to societal institutions, it shows a desire to be adherent to the institutional expectations and cultural beliefs (cf. Scott, 1987/1991; Ruef and Scott, 1998). This external legitimacy raises the organization’s position relative to that of other organizations in the environment, contributing to the organization’s increased legitimacy, stability and predictability (Meyer and Rowan, 1977/1991) and greater ease of access to resources (DiMaggio and Powell, 1983/1991).

Summarizing the above, we have defined legitimacy as a generalized perception or assumption that the organization and its actions, as perceived by others, are trustworthy, credible, desirable, proper, or appropriate within a certain socially constructed context of norms, values, beliefs, and definitions. Forming the institutional components is a two-way process. Existing institutional components influences relationships that evolve and the institutional components are at the same time shaped and influenced by the firm’s relationships. Reasoning in this way about the complexities surrounding the interplay between the firm and the structural system, which build the society, an important antecedent for a firm’s relationship building is to be perceived as legitimate in order to gain access to resources important for its survival.

The institutionalization of organizational behaviors is a process, which is a consequence of competition, pressure from the state or the professions increasing interactions between organizations, and structures of inter-organizational domination and coalitions emerge. During this process, the organizations’ awareness of each other increases as well as the load of information. Through the interactions between the organizations, perceptions of the organizations are formed, that is different identities of the organizations are established. These identities vary between the counterparts. The pressures finally results in a structure, called the organizational field, where norms, values, rules and perceptions are institutionalized. (DiMaggio and Powell, 1983/1991). The organizational field consists

of all the relevant organizations such as key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products constituting a recognized area of institutional life.

In the process forming the organizational field, organizations are influenced by different mechanisms and as a result organizations come to resemble each other. One of these mechanisms is a coercive pressure often originating from laws, rules or dominating actor, which forces the organizations to adapt. A second mechanism leading to a mimetic behavior, where the organization chooses to imitate a legitimate organization depends on uncertainty, where the miming is made in hope of gaining legitimacy and reduce the uncertainty. The normative pressure, lastly, is when the organization itself tries to influence the institutional components, thereby changing them to be more in line with the organization. (DiMaggio and Powell, 1983/1991; Ruef and Scott, 1998). Thus, how organizations are perceived by different parties is dependent on whether they adapt their behavior due to coercive pressures, by mimetic behavior or by being a part of forming the context, thereby transforming the organization's own identity (c.f. Aldrich and Fiol, 1994; Sevón, 1996). If the organization acts in a way that can be perceived as negative (e.g. if the organization acts in an unethical way), the result can be that negative identities form, such as a picture of the organization as a clumsy or nervous actor (Ashforth and Gibbs, 1990).

Legitimacy is a perception held by other organizations, which evaluate the firm's behavior. These perceptions can be common but at the same time vary between different actors. When the legitimacy as perceived by others is evaluated from whether the firm's behavior is in accordance to the self-interest of the public or to the regulative pressures (coercive), is called *pragmatic legitimacy* (Suchman, 1995; Ruef and Scott, 1998). This means that the firm should show a willingness to satisfy the interests of the organizations within the direct and indirect relationships. Another evaluation is whether the firm uses socially accepted techniques and procedures (Scott, 1987/1991), and the actions of the firm thus favors the society as defined by the constituents' socially constructed value system. This has been defined as the *moral or normative legitimacy* (Suchman, 1995; Ruef and Scott, 1998). The degree of acceptance of the firm is dependent on the degree of understandability of it and its activities as viewed by other network actors, i.e. *cognitive legitimacy*. An ultimate outcome of the cognitive legitimacy is when the firm is taken-for-granted. (Suchman, 1995; Ruef and Scott, 1998; Aldrich and Fiol, 1994)

We can conclude that the institutionalization of the behaviors is a process, which emerges as the organizational field is formed. Since, this process often takes place within the boundaries of a country, cross-national differences in cultural norms and values, i.e. what is considered to be a proper behavior may differ. (Aldrich, 2000). This means that what is morally accepted in one society may be seen as suspect in another since legitimacy is formed through interactions between organizations in different settings. Ending up the discussion in this section leads us to propositions below.

Proposition 1:

Legitimacy is an antecedent for relationship building, determining the firm's access to resources and its survival.

Proposition 2:

Legitimacy is formed by the interaction between the relevant organizations, political as well as business organizations, is context specific and has an effect on the firm's relationship building processes.

Legitimacy and relationships

Relationships are important when firms are dependent on exchanges of knowledge, skills and other assets that are hard to transfer. (c.f. Dunning, 1995, Gulati et. al 2000; Powell, 1990) When exchanges are complex formal contracts are of secondary importance (Forsgren and Johanson, 1992; Powell, 1990). To get access to certain types of assets, which are of crucial importance for the firm's survival, are not easy through single transactions, but rather are made through continuous exchanges, which might be built on trust. One of the preconditions for relationships to occur, as stated above, is that the counterpart perceives the focal actor as trustworthy, credible, desirable and that it will act proper and appropriate during the continuous exchanges. As pointed out by Granovetter (1985:490) individuals have "[...] a widespread preference for transacting with individuals of known reputation

[...]", based on the information from a "[...] trusted informant [...]" who have dealt with the counterpart and found this party trustworthy, or relying on "[...] information from one's own past dealings with that person." Connecting this to foreign market entry, which is to create new relationships across borders, the firm has to prove its trustworthiness. As legitimacy is formed in an organizational field, this means that already existing relationships affects the image and identity of the firm, where the image can be spread through reputations. Thus, existing relationships are a vital part of the legitimacy forming process.

Legitimacy is formed through the interactions between organizations forming the organizational field. Interactions are connected to each other forming a web of connected relationships, which can be described as a network. Since interactions between organizations form rules and expectations for what is an accepted behavior, the concept of legitimacy is of essential importance to consider in the network approach.

Legitimacy in the network

"Organizations are open social systems, engaged in constant and important transactions with other organizations in their environments. Business firms transact with customer and supplier organizations, and with sources of credit; they interact on the federal and local level with regulatory and legal authorities [...]" (Pfeffer, 1978/1989:756) The consequence of these interactions is that organizations face uncertainty, as they cannot control everything. They are also interdependent with other organizations to access and exchange resources, personnel and information. (Pfeffer, 1978/1989)

Networks can be described as a structure of connected actors. This structure consists of a set of identified active organizations, performing activities, exchanging resources with other actors and thereby creating value. The directly and indirectly connected relationships are interdependent of each other and the actors are embedded in different relationships, forming a web of relationships. The efficiency of the network depends on the efficiency and results reached in the connected relationships. (Håkansson and Snehota, 1989) These structures are continuously emerging, evolving and dissolving over time and are thus both seen as structures and processes (Anderson et al, 1998)

A *network context* describes the portion of the network seen from a single firm's point of view. As pointed out by theorists in the business network approach (Anderson et al 1994; Håkansson and Snehota, 1989) a network context "[...] is a social symbolic reality [of a firm] in which an organization chooses to exist, and does so by "framing" it." (Håkansson and Snehota, 1989:198). This network context is the focal firm's perceived portion of the network structure containing the relevant organizations/actors for the firm's activities and situations it confronts. This perceived reality has the features of the network structure described above. The network context is specific for each firm, depends on cognition and is translated into purposeful behavior. (Snehota, 1990) The *network horizon* indicates how extended the focal firm's view of the network is, thereby settling the boundary of the firm's network context. The horizon depends on the focal firm's experience and the structural characteristics of the network implying that the network horizon is changing over time as a consequence of conducting business. (Anderson et al, 1994; Snehota, 1990). The environment beyond the network horizons consists of those actors that a firm cannot or yet has not identified. These actors can only be described in terms of properties and attributes. (Snehota, 1990)

The different relationships the actor has, define the position of the actor. (Johanson and Mattsson, 1988). This position of the firm is directly dependent on its relationships, and indirectly dependent on the counterparts' relationships with other actors in the network (Seyed-Mohamed and Bolte, 1992). The position is a result of the activities performed and the resources that can be accessed by the actors, which shapes the collectively expected actions of the actor. Depending on the relationships and on the activities performed, an actor has different roles that describe the actor's intentions. (Anderson et al, 1998; Håkanson and Snehota, 1989) The identity of the firm is developed through the firm's relationships and is shaped by the position and roles the actor has and plays.

Position was also reflected on under the section, which considered the institutionalization of legitimate behaviors. Common to both views is that position is the result of the firm's activities and is defined in relation to how the firm is connected to other organizations, both directly and indirectly. This has an effect on the firm's possibility to access important resources.

We propose:

Proposition 3:

Cultural beliefs and institutional expectations have an impact on the firm's ability to access resources and thereby influencing the position reached in the network context.

The network context is defined from a focal actor's perception. The context is continuously changing as new relationships, direct and indirect, evolve and other dissolves. As an effect of the ever-changing context structure, the institutional components are also affected which might lead to changes in how the focal actor perceives, and is perceived, by others. The above leads us to conclude that legitimacy is not a state but a process of gaining, maintaining and repairing legitimacy, which is dependent on what is happening within the focal actors' network context.

Economic activities of an actor do not occur in isolation, but rather the activities are embedded in social networks (Granovetter, 1985). In line with Halinen and Törnroos (1998) we argue that a firm is embedded in different network contexts depending on which actors, activities or recourses are employed. In this sense, a firm is embedded and can act in different types of network contexts (temporal, spatial, social, political, market and technological embeddedness), which can exist simultaneously depending on the purpose of the firms' activities. (Halinen and Törnroos, 1998)

Legitimacy and trust

For a relationship, trust, reputation and commitment are important components, since they encourage the parties to cooperate with the exchange partner, favoring long-term benefits of the relationship and lowering the risk for opportunistic behavior of the partners (Morgan and Hunt, 1994). Trust and reputation can be seen as informal, non-contractual, ways to govern relationships (Dyer and Singh, 1998; Uzzi, 1997; Gulati, 1995; Forsgren and Johanson, 1992; Håkansson and Snehota, 1995). Thus, trust increases with the exchange partner's reciprocity, and with the development of frequent, stable exchanges. Trust takes time to develop and a firm's relationships cannot be established instantaneously, but rather grow as trust between organizations develops (Håkansson and Snehota, 1995). Moreover, through reciprocal exchange relations it is possible to reach a more generalized sense of trust in others, establishing a trusting environment advantageous for the society. (Molm et al, 2000) In other words, as suggested by Molm et al (2000), through experience in reciprocal exchanges with others acting trustworthy under the condition of risk, it is possible to expect that other actors, with whom there were no direct experience, will also be perceived as worthy of trust, i.e. as we view as being perceived as legitimate within a context.

Trust has to be addressed within the boundaries of a relationship (Tomkins, 2001). One party's trust in another grows over time and is a necessary condition for commitment, which is important for the development of relationship between two actors. Commitment persists with courses of action on the bases of vague expectations and is an 'act of faith' (Håkansson and Snehota, 1995) Thus, commitment is one way to handle uncertainty and complexities of situations based on one party's expectations (Håkansson and Snehota, 1995), involving vulnerability (Morgan and Hunt, 1994). This implies that parties will seek trustworthy partners. Relationships characterized by trust are highly valued by the parties and they will desire to commit themselves to such a relationship (Morgan and Hunt, 1994). Therefore, trust is defined as "[the] adoption of a belief by one party in a relationship that the other party will not act against his or her interest, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of the other party." (Tomkins, 2001:165). Moreover, trust exists when one actor has confidence in an exchange partner's reliability and reputation (Morgan and Hunt, 1994; Bateson, 1988), i.e. "[t]rust is defined as a willingness to rely on the exchange partner in whom one has confidence." (Moorman et.al 1993:82)

According to Molm et al (2000) social exchange takes place within structures of mutual dependence between actors. In these structures the actors are dependent on each other for resources, which are provided to them through exchanges. The social exchange relations evolve in slow processes and develop gradually, where the parties can prove their trustworthiness, enabling them to expand their relations (cf. Blau, 1964; Forsgren and Johanson, 1992). However, social exchanges between actors impose risk and uncertainty, due to the fact that the counterpart might never reciprocate or might do so but minimally. Reciprocal exchanges are characterized by risk and uncertainty which are essential for trust and commitment development (Molm et.al., 2000) and they evolve together (Blau, 1964). Often it is not enough to consider that the counterpart is trustworthy, but that the other party reciprocates the commitment made. This implies that commitment is a result of actions and

counteractions. Shared interpretation is fundamental for mutual orientation and commitment. (Håkansson and Snehota, 1995)

Comparing trust and legitimacy we find both differences and connections between these concepts. The definition of legitimacy is the context's perception of the firm as trustworthy, credible, desirable, proper or appropriate. This means that legitimacy is a perception by a beholder that not necessarily has to be experienced through direct exchange with the focal firm, but can be something that is built upon reputation. Legitimacy is here a perception within a network context, but can also be connected to relationships. Trust, on the other hand, in our view has to be addressed within the boundaries of the relationship (Tomkins, 2001) and is therefore based on experience from the direct relationship. Legitimacy is an antecedent to relationships and trust, but not all relationships develop trust. When a direct relationship between two parties evolve, the perceived legitimacy can be either confirmed or rejected. In the cases when the legitimacy is confirmed it becomes an antecedent for trust building. The connection between the two concepts is when the legitimacy is confirmed and when the two parties have developed a relationship built on trust, the actor's trustworthiness becomes realized. Thus, we want to emphasize that legitimacy is a **perception** of an organization as trustworthy, that it will act proper or appropriate and also can be seen as credible and desirable within a certain context. Whereas trust is based on **experience**, resulting from direct exchanges where the counterpart's beforehand held perception of the organization's legitimacy is confirmed and revised.

Proposition 4:

Legitimacy is an antecedent to trust, where legitimacy is a perception and trust is experience-based.

Legitimacy and the foreign market entry

In the beginning of this paper we defined the foreign market entry process of a firm as the process where the firm extends its existing network context into an international setting. This means that the firm enters into new relationships or that the existing relationships are developed across borders. As argued in proposition 1, legitimacy is an antecedent for relationship building. The institutionalization of what is considered to be an accepted, i.e. legitimate, behavior in a certain context is formed through interactions between the focal firm and the interconnected organizations in the firm's network context. The interconnected relationships impact the firm's access to resources important for its survival, thereby defining its position and forming its identity in the network context. Some of the firm's exchanges are complex and can better be handled in a relationship building on trust, meaning that legitimacy is always the antecedent for relations but in relationships trust has to be taken into consideration. This implies that the survival and performance of the firm depends, as we argue, upon others perception of the firm as legitimate in a certain context and its linkages to other organizations. Since the institutionalization process often takes place within the boundaries of a country, cross-national differences in cultural norms and values, i.e. what is considered to be a proper behavior, may differ between countries (Aldrich, 2000). In the foreign market entry process this means that the counterparts are embedded in another institutionalized network context. Therefore, what is morally accepted in one society may be seen as suspect in another, implying that the entering firm has to gain legitimacy within this foreign context.

Legitimacy gaining involves different types of activities as the firm extends existing and develops new relationships into the foreign market. The degree of internationalization of the network context has an impact on the firm's foreign market entry process. The consequence of being interconnected in a network context with low degree of internationalization is that the firm itself has to create an image towards the potential partners in the foreign market as being trustworthy and credible. By establishing a relationship with a firm that in its own network context has a high degree of legitimacy, other actors interacting with this counterpart will easier perceive the entering firm as legitimate. But in order to create this relationship the entering firm has to, as a first step, show its trustworthiness and willingness to act proper and appropriate. This can be achieved by following the laws, rules and norms that have been institutionalized in the foreign market. Thus, to gain legitimacy the firm has to screen the context, identify and understand the laws, rules and norms that constitute this context (Scott, 1987/1991; Ruef and Scott, 1998). This information can be received through databases, and law books among other sources and/or by interacting with government agencies, trade associations and other organizations (Deephouse, 1996). When the network context is to a high degree international a firm often find it easier to expand internationally as they can access information about the foreign context through the

existing relationships. (Majkgård and Sharma, 1998). In the cases when a firm follows a customer abroad, so-called client-following, it is possible for the entering firm to also be perceived as legitimate as this customer through its own relationships in the foreign market can create a perception of the entering firm as legitimate through word-of-mouth.

Identifying the coercive forces, i.e. the laws, rules and norms, are not enough, as legitimacy is also influenced by other forces as discussed above in the section concerning the institutionalization of legitimacy. In foreign market characterized as dynamic it is difficult to understand what is perceived as accepted behaviors. Therefore, the firm is likely to enter these kinds of markets by imitating the behaviors of an already legitimate actor in order to, in the eyes of the organizations within that context, be perceived as legitimate. (c.f. DiMaggio and Powell, 1983/1991; Forsgren, 2000; Kraatz, 1998).

Interacting with trade associations can legitimize a firm in the foreign market entry process, as other firms in the foreign market can be connected to same trade association. In this way, this can be resembled to the legitimating process described above, where a firm connect to an already legitimate actor. Forming or acting through trade associations or other organizations is thus a way of influencing the image of the firm and also a way of actively influencing the institutional components within the network context through lobbying. (Oliver, 1990). It is important for firms to influence the institutional components as to be more in line with their own activities, and thereby also gaining access to important resources, such as EU funding.

Firms create trade associations, since public authorities to a high degree influence their business activities. By forming trade associations, the behavior of the individual firms become institutionalized, that is they agree on common practices, which help to promote a positive and legitimate industry image. Thereby they also more easily gain legitimacy in the eyes of the authorities, as they have a common standpoint. The agreed upon standpoint is seen as more legitimate than if the firms would try to influence on an individual bases, as this could be perceived by the authorities as a disagreement within the industry. By forming trade associations firms are able to influence the authorities, which are a part of the network context and which are forming the institutional components that have an impact on the behavior formalizations. But at the same time governments can also influence the firms through the trade association. In order to be more close to the political arena in the EU, trade associations extend their network context by establishing offices abroad. Thus, applying legitimacy view on foreign market entry processes we can also explain why trade associations establishes offices abroad, meaning that trade associations extend their network context in order to influence the political organizations which are important parts in the institutionalization of rules. The network extension can also be seen as a way gaining legitimacy in order to influence the forming of the rules.

A firm can also obtain legitimacy from an already legitimate organization through merging, acquiring or building joint ventures (Pfeffer, 1978/1989). This is a way for the firm to tap into an already established organization's position, reputation and legitimacy. Thus, by acquiring or building a joint venture with an already established organization the firm get access to embedded resources at the same time as the perceived uncertainty about the institutionalized behaviors are reduced. (Oliver, 1990) However, this '*obtaining strategy*' is not without complications, as the firm not only has to be legitimate within the eyes of the other actors in the network context, but also internally within the created firm. As pointed out by Aldrich and Fiol (1994) the legitimacy gaining is also about gaining legitimacy within the firm, as the individuals are the representatives towards other organizations. (see also Granovetter, 1985).

The perception of the firm as legitimate is not static, but rather is constantly evaluated through interactions between organizations. When there is a risk of being perceived as illegitimate the public relations might be an important source of influence. Interacting with the media is a channel, which could be used to show a desire to justify an action, thereby defending the image of the firm in the eyes of those within its network context (Sommerville, 1999). Hadjikhani and Håkansson (1996) analyzed the interaction between government and business units using the network approach. Their focus was how a scandal connected to a Swedish firm, called Bofors, doing business in India, influenced other Swedish companies and their way of doing business in the same country. As a consequence of the scandal, other Swedish companies in India were affected. One of the conclusions made was that how other companies are influenced depends on their position in the network in relation to the relationship affected by the scandal. When a negative incident occurs, *decoupling* the controversial activity is a way of maintaining legitimacy or at least decreasing the risk of being perceived as an illegitimate actor. (Meyer and Rowan, 1977/1991; Elsbach and Sutton, 1992).

Concluding the above ways of gaining legitimacy within and through the network leads us to the last proposition.

Proposition 5:

To succeed in the foreign market entry process the firm has to be perceived as legitimate, both within the existing as well as in the developing network context.

Conclusions

The concept of legitimacy has been discussed within the institutional theories, whereas only a few network researchers (cf. Sharma, 1991, Hadjikhani and Håkansson, 1996; Håkansson and Ostberg, 1975) have touched upon it discussing it in connection to foreign market entry processes. Legitimacy, is the perception of e.g. trustworthiness as perceived by others, but at the same time it influences the trust building process between two actors, and when trust is developed it simultaneously leads to the confirmation of the actor's legitimacy. Trust is connected to direct interactions, as it is something that evolves in the relationships. The behaviors of the organizations within a network context, has an impact on the firm's possibilities to establish, maintain and regain relationships. In order to get access to resources, the firm is dependent on whether it is perceived as legitimate or not.

In this article, we argued that legitimacy is an important concept to consider in the network view of firm's actions. Legitimacy in this paper was seen as a generalized perception or assumption that the organization and its actions, as perceived by others, are trustworthy, credible, desirable, proper, or appropriate within a certain socially constructed context of norms, values, beliefs, and definitions. Therefore this perception is vital for the firm's foreign market entry process through the relationship building, survival and access to resources. We proposed that the network context consisted of not only firms but also of other economic, political, social and educational actors relevant for the focal firm's network context. The interactions between the focal firm and other organizations form rules and expectations for what is an accepted behavior in that specific network context. Acting in a proper and desirable way in the eyes of the surroundings will create a perception that the firm is legitimate.

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