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Vlerick Leuven Gent Management School

the Autonomous Management School of
Ghent University and Katholieke Universiteit Leuven

RESEARCH REPORT

THE LEGITIMATION STRATEGIES OF INTERNATIONALIZING FLEMISH SMES AND THEIR SUBSIDIARIES

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Flanders District of Creativity is the Flemish organization for **entrepreneurial creativity.** It was founded in 2004 by the Flemish Government as a non-profit organization and enjoys broad support. Flemish businesses, academia, and public institutions use Flanders DC as a platform for cooperation in the pursuit of a more creative Flanders region.

Creativity is the key ingredient in making companies more successful and in helping regional governments ensure a healthy economy with more jobs. Flanders DC inspires creativity and innovation:

1. by learning from the most **creative regions** in the world,
2. by igniting **creative sparks** in everyday life and business, and
3. by providing **research, practical business tools and business training,** in cooperation with the Flanders DC Knowledge Centre.

1. Districts of Creativity: Inspiration from the most creative regions

Responses to global challenges are best found within an international network of excellence. With the single aim of learning from the very best, Flanders DC aims to unite the most dynamic regions in the world within the ‘Districts of Creativity’ network. Every two years, Flanders DC convenes the Creativity World Forum, bringing together government leaders, entrepreneurs, and knowledge institutions to exchange ideas about how to tackle pressing economic problems and make their regions hotbeds for innovation and creativity.

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- **Ondernemen.meerdan.ondernemen**, an online learning platform
- **Creativity Class** for young high-potentials
- **Flanders DC Fellows**, inspiring role models in business creativity
- **Creativity Talks**, monthly seminars on business creativity and innovation
- **Innovix,** online innovation management game
- **Flanders DC Academic Seminars,** research seminars on business creativity and innovation
- **TeamScan**, online tool
- **Web 2.0 Readiness Scan**
- **HR Toolbox**

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EXECUTIVE SUMMARY

A relatively large number of small and medium-sized enterprises (SMEs) in Flanders have an international presence, through which they are able to significantly enhance their contribution to the economic development of the Flanders region. These innovative and niche market firms are often characterized by a broad geographic scope, relative to their size, and many have internationalized rapidly.

While these firms internationalized with a variety of motives, including expanding market scope based on an existing competitive advantage, acquiring additional resources or new sources of knowledge, they share a common resource need in foreign locations, for organizational legitimacy. Put simply, their multinational subsidiaries needed to gain social approval, to be judged as appropriate, acceptable, and desirable business partners, not only in their host country environments, but also with headquarters and with other subsidiaries. It was the granting of legitimacy that enabled these firms to draw in the resources of capital, technology, skilled labor, and customers needed to survive.

The objective of this study was to focus on the particular legitimacy challenges faced by Flemish SMEs as they internationalized by establishing multinational subsidiaries. We sought to identify SMEs' legitimacy needs, the drivers of those needs, the sources and benefits of legitimacy, and the strategies SME multinational subsidiaries followed to achieve legitimacy.

Through a series of case studies, we identify six legitimacy needs that were met through firm strategies. These were needs to show market legitimacy (the rights and qualifications to conduct business in a foreign market), relational legitimacy (worthiness to be a partner), social legitimacy (conformity to local rules and expectations), investment legitimacy (worthiness of the business activity), internal legitimacy (acceptance of the firm by its employees), and alliance legitimacy (validity and appropriateness of alliance and joint venture activity). These legitimacy needs are met from several sources. We find that these Flemish SMEs applied learning about how to manage legitimacy across subsequent stages of internationalization, as well as evidence of legitimacy spillovers. We conclude with recommendations for SME owners and managers, as well as with recommendations for policy makers.

1 | INTRODUCTION

"Being from Belgium is a big advantage... In Europe, Belgium is considered extremely neutral. For Spanish firms, it is easier to book a Belgian company than to book a German, English or French firm. They are too proud to invite German people. People appreciate our modesty. This is in our genes. We will support the client and never oblige him to do something. We are also flexible. This chameleon attitude is typically Belgian. The Dutch or Germans would probably come over and tell them: we are doing it this way. We will be there to talk and give the maximum support and advice."
Interviewee, Alfacam (2009)

"In China, we have a lot of competition from US and German firms. The Germans come to China and tell the customer what to do. This does not work in China, because they have a much longer history than we do. When Americans come into China, they want to take over. This does not work either. We come from a small country, take the local trains, smoke local cigarettes, drink local beer, stay in local hotels and take local taxis. The customer feels how we look at the world. We are there to listen, to learn and to help."
Interviewee, Vyncke (2009)

In two earlier studies, we found that a relatively large number of small and medium-sized enterprises (SMEs) in Flanders are internationally active, with the potential to contribute significantly to the economic development of the Flanders region (Onkelinx & Sleuwaegen, 2008, 2009). In our first report, focused on SMEs' strategic contexts, we found that opportunities for international expansion had been presented by trade liberalization and by the potential of advances in information technologies to reduce the costs and risks of internationalization (Onkelinx & Sleuwaegen, 2008). Firm level advantages from internationalization have come from sourcing cheaper inputs, lowering costs through economies of scale, and responding competitively to rivals' strategic moves. Other than motives for internationalization, we also examined the internal and external constraints faced by SMEs' considering internationalization, including firms' appetite for increased risk, the perspective of the entrepreneurs and leaders of SMEs, the availability of finance, and legal and other regulative constraints.

In our second report, on firm-level internationalization strategies, we found that SMEs in niche markets and with products with a relatively short life cycle opted to internationalize more rapidly from Flanders, and to be present in a larger number of markets. These innovative, niche market players relied heavily on networking and to use multiple modes of internationalization, including exporting, licensing, and establishing joint ventures or wholly-owned subsidiaries. In contrast, firms in mass markets, with products with a longer life cycle, tended to enter fewer markets sequentially (Onkelinx & Sleuwaegen, 2009).

During this work, we observed that many SMEs had chosen to internationalize by entering into alliances or joint ventures with overseas' partners, or to establish their own overseas subsidiaries. This emphasis upon location and organization, rather than destination (for exports), can be seen as a response to changes in the strategic context facing firms of all sizes across industries, notably the importance of knowledge as the key asset driving sustainable firm performance and the global interconnectedness of activities (Cantwell, 2009). Firms increasingly develop competitive advantage through their networks of organizations that are embedded in subnational regions, that may either be centers of excellence for a particular field or otherwise contain valued resources. Firms have increasingly had “asset-seeking” or “asset-augmenting” motives (Dunning, 1995, 1996) for investing abroad, with their resultant networks of subsidiaries forming a differentiated network of subsidiary organizations and headquarters (Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1997). This trend of internationalization is not limited to large multinational corporations (MNCs), but we also observed it among SMEs, despite their generally having fewer financial and other resources to support internationalization (Knight & Kim, 2009). This suggests that the process of internationalization for SMEs may be different in degree, if not in kind, from that of larger firms.

The frameworks and tools of international business (derived from economic analysis) have yielded many insights for understanding MNCs for much of the period up to 2000 (Collinson & Morgan, 2009). These provided insights into many of the salient questions of this period. For example, the ‘question of the day’ in the 1970s was to explain why cross-border transactions were internalized within firms rather than conducted through external markets. The explanation was framed in terms of relative efficiency in minimizing transaction costs risks, with the firm having internalization advantages in minimizing transaction costs (Buckley & Casson, 1976), as well as in preventing leakage of know-how and reputational damage (Hennart, 1991). The firm made decisions, such as mode of entry abroad, based on the comparative costs and benefits of alternative governance structures.

Questions of organization and strategy became more prominent following the idea that certain sorts of markets fitted particular firm strategies, resulting in distinct organizational configurations (Bartlett & Ghoshal, 1989). Two important insights came from this work. First, in this contingency approach to MNC organization, a firm’s history and its founding context – termed ‘administrative heritage’ by Bartlett and Ghoshal – additionally constrained the pattern of ongoing international expansion and cross-border management within the MNC, with the environment principally analyzed in terms of the similarity and distinctiveness of markets. The second important idea was that firms organized across borders, not only in a way that optimized the balance between contending pressures for efficiency from global integration and for responsiveness to local market needs, but additionally for worldwide innovation.

As firms expand abroad and operate in many different cultural and institutional environments, these environments create tension in MNCs, between contending isomorphic pulls from the firm’s home and host country environment to conform to often conflicting patterns of behavior and structure (Westney, 1993). This focus on pulls from the environment transcends the idea of integration or responsiveness as managerial strategies for different businesses. As Scott (2003: 147) explains:

> *“There is no doubt but that many organizations operate in very complex and uncertain environments. Perhaps the premier example is the multinational corporation, which must simultaneously operate in a number of global markets and in numerous host countries while, at the same time, confronting requirements to exhibit some consistency among the various units of the enterprise.”*

For the multinational subsidiary, the question is which set of institutions are more important to it, those that make it legitimate (socially accepted) in its local, host country context or those that enhance legitimacy with headquarters and other subsidiaries? The greater the institutional distance between home and host country, the greater the difficulty of transferring management practices from headquarters to the subsidiary and the more likely that host country influences will prevail (Kostova & Roth, 2002; Xu & Shenkar, 2002).

The challenges faced by managers of newly formed multinational subsidiaries have been described as their having to overcome liabilities, especially the "liability of foreignness" – of simply being foreign relative to a home country incumbent (Zaheer, 1995). The liability of foreignness is related to, but not synonymous with, the increased costs of doing business abroad which principally refer to market-driven costs, in the way used by Hymer (1976). It refers more broadly to the subtler institutional/relational and institutional costs of engaging in business abroad. These institutional and relational costs incurred by foreign firms relative to local firms include the costs of "outsidership" from local networks in host countries, when foreign firms lack linkages to important local actors. Institutional costs arise when the foreign firm is less familiar with, and incurs additional costs in learning and complying with, local, taken-for-granted routines ("the way we do things around here"), regulations, and professional standards. These institutional costs are additional to cultural differences and the more familiar concept of cultural distance (Kogut & Singh, 1988).

Legitimacy, being the acceptance of the foreign firm alongside the local firm, is a condition of alignment that signals that a multinational subsidiary has overcome these liabilities. It may then more easily, as a local insider, draw in needed resources, such as of capital, technology, personnel, partners, customer relationships, and conform to local regulations. The legitimacy challenges may additionally require firms to overcome other liabilities of operating across international borders, including the liabilities of country of origin (Ramachandran & Pant, 2008) – for example Belgium compared with France or Germany – of newness (Stinchcombe, 1965), and of size. Of interest to this study was the question of the liability of size and of whether SMEs increase additional costs of operating abroad from having a liability of smallness. For Aldrich and Auster (1986), smallness presents a challenge for firms in procuring needed resources, whereas for Kostova and Zaheer (1999) a larger firm and larger home country (e.g., a past colonizer) may present greater liabilities for firms expanding abroad.

The objective of this study was to improve our understanding of the legitimacy challenges faced by Flemish SMEs as they internationalized by establishing multinational subsidiaries. We sought to identify SMEs legitimacy needs, the drivers of those needs, the sources and benefits of legitimacy, and the strategies SME multinational subsidiaries pursued to acquire or enhance legitimacy.

A central tenet of institutional theory is that, driven by the motive of acquiring legitimacy, organizations will employ similar practices to other firms in their environments based upon differences in what it means to be rational across institutional contexts (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Thus, organizations become “isomorphic” with each other. For example, firms in Japan, Taiwan, and South Korea operate based on very different sets of institutional principles and so exhibit dissimilar organizational and interorganizational structures (Orrù, Biggart, & Hamilton, 1991).

One of the most enduring definitions of legitimacy put forward in a seminal paper by Suchman (1995: 574) was that:

> *Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.*

Legitimacy is important because, a Scott, Ruef, Mendel, and Caronna (2000: 237) explain:

> *Organizations require more than material resources and technical information if they are to survive and thrive in their social environment. They also need social acceptability and credibility.*

A legitimate organization is perceived to be more worthy, meaningful, predictable, and trustworthy (Suchman, 1995). Organizational legitimacy is a motive for firms because it is positively related to an organizations’ capability to access needed resources, such as customer relationships, employees, or financial capital. Indeed, a variety of scholars within the strategic management field have come to regard legitimacy as the primary resource needed for firm survival, since it is only through legitimacy that firms can procure other resources (e.g., Dacin, Oliver, & Roy, 2007; Lounsbury & Glynn, 2001; Zimmerman & Zeitz, 2002). Yet, unlike resources, legitimacy is not a commodity to be possessed or exchanged, but is a condition of cultural alignment, normative support, or consonance with relevant laws and rules (Scott, 2008). The process of gaining (losing) this cultural and institutional alignment is legitimation (de-legitimation), which is the ordering or sequencing by which the legitimacy of a particular subject, such as an organization or a practice, changes over time. Legitimation is a process of social justification of an organization or its activities, such that these are publicly validated or endorsed (Dacin et al., 2007).

Pressures on organizations to conform to the (often conflicting) demands of their environments vary in strength (DiMaggio & Powell, 1983). For some practices, organizations may be coerced, or forced into adoption to avoid social sanction (e.g., compliance with local environmental regulations), for other practices there may be strong normative pressures to adopt particular practices (e.g., in recruitment and career management), and for yet other practices organizations may be motivated to mimic other organizations based on their interpretation of what has been successful, or simply to avoid looking deviant or backward (e.g., entering a new country by means of a joint venture). Organizational sociologists (e.g., Scott et al., 2000) have sought to deepen our understanding of which organizational elements are affected by pressures for social conformity, which audiences confer legitimacy, and what form (or dimension) of legitimacy is being conferred.

The concept of legitimacy is different from kindred concepts, such as reputation, status, and prestige. Organizational prestige (Perrow, 1961) is a narrower concept referring to the acquisition of favourable public image involving recognition of distinctive competencies or roles. Reputation has been defined in two ways. First, sociologists have defined reputation as the assumptions and rational beliefs about a firm's intentions or future behavior that others make based on proxies or signals, often from past patterns of behavior, in the absence of perfect information (Rao, 1994). Reputation has also been seen as fundamentally an economic concept, capturing perceived differences in overall quality or merit leading to improved performance (Fombrun, 1996; Washington & Zajac, 2005). Status is a socially constructed, intersubjectively agreed-upon and accepted ordering or ranking of social actors based on the esteem or deference that each can claim through membership of a group with distinctive practices, values, traits, capacities, or inherent worth (Benjamin & Podolny, 1999; Washington & Zajac, 2005).

While these other concepts all focus on cultural aspects of organizational life, organizational legitimacy is a broader concept that stresses that an organization conforms with social values, norms, and expectations from its social and economic environment. It is also helpful to think of legitimacy as about the absence of negative problems, rather than the presence of positive achievements. Finally, organizational legitimacy has the property of being non-rival – it is rarely a zero-sum game but instead often a win-win outcome for organizations through mutual affirmation among legitimate actors (Deephouse & Suchman, 2008).

The Dimensions of Legitimacy

Organizational scholars have identified several types, or dimensions of legitimacy. Two broadly similar trichotomies have been put forward by Suchman (1995) and Scott (2008). In Suchman's (1995) seminal statement, legitimacy can be either pragmatic, moral, or cognitive, with each of these focusing on both organizational essences and actions, either continually or episodically.

Pragmatic legitimacy, based on interest, comprises exchange, influence, and interest and can involve exchanges with key audiences. Relevant others will provide support, or legitimate, an organization based on the expected value that such support brings to a particular set of constituents. For example, employers (alongside the general public, non-union workers, coalition partners, union members and covered non-union members) often grant pragmatic legitimacy to, and are accepting of, unions based on weighing up the gains and losses of dealing with them. Equally, employees grant pragmatic legitimacy to a union if they consider that it represents their interests.

Moral legitimacy, based on evaluation, results from a positive normative evaluation of the organization and its activities. It rests on judgments about whether, say, an organization's structure, procedures, characteristics, and outputs are "the right thing to do" (Suchman, 1995: 579) based on beliefs about whether the activity makes society better off, in turn based upon the respective audience's own socially constructed value system (Suchman, 1995). Continuing the example of a union, even if a union is granted pragmatic legitimacy by an employer, its managers rarely accept unions as morally appropriate and valued parties to the employment relationship. Employees may also evaluate their union's moral legitimacy.

Finally, cognitive legitimacy, based on cognition, is the idea that an organization is comprehensible to, and taken-for-granted by, key internal and external audiences. The organization has to fit with available models that furnish plausible explanations for the organization and its endeavours (Suchman, 1995). For example, to be granted cognitive legitimacy, a union has to meet audiences' expectations about what a union should "look like." Hence, cognitive legitimacy has properties of predictability, plausibility, inevitability, and permanence (Deephouse & Suchman, 2008).

Scott (2008) drew on a distinction between cognitive and sociopolitical legitimation made by Aldrich and Fiol (1994), for whom sociopolitical legitimation is the process by which key stakeholders accept an organization as appropriate and right, and cognitive legitimation is the spread of knowledge about an organization. Scott (2008) effectively divided the sociopolitical category into regulative legitimacy and normative legitimacy, yielding a trichotomy of dimensions of legitimacy. Examples of regulative legitimacy include adherence to government rules and regulations, whereas normative legitimacy includes societal norms, such as the professional norms that pertain to the practices of accountants and lawyers, and societal values, such as to treat all employees fairly.

The Sources of Legitimacy

The sources of legitimacy are internal and external audiences who collectively observe organizations and make legitimacy assessments (Ruef & Scott, 1998). The source depends, therefore, upon the relevant audience which at any time has collective authority over legitimation in a particular setting.

The relevant audience can be relatively narrow, such as was evidenced by the jurisdictional struggle between the accounting and legal professions over the legitimation of a new organizational form, multidisciplinary partnerships (Suddaby & Greenwood, 2005). In contrast, the audience granting legitimacy of the global energy industry after the oil spill from the Exxon Valdez was wide, encompassing popular opinion, state regulators, industry analysts, political activists, and various other expert communities (Deephouse & Suchman, 2008). At an intermediate level between society-at-large and specific legitimacy granting bodies is the media, which has a dual role in that it both affects legitimacy as well as reflecting public evaluation by others (Pollock & Rindova, 2003).

Studying legitimacy at the level of small-firm multilateral networks, Human and Provan (2000) distinguish between insiders – the organizations that belonged to the networks – and outsiders of the network. The same dichotomy between insiders and outsiders also exists for firms, for which legitimacy has to be granted both by employees (insiders) as well as by outsiders, including suppliers, customers, partners, industry associations, regulators, professional associations, competitors, and information intermediaries. For organizations, accreditations, listings in directories, charitable donations, the degree of connectedness of a board of directors, and strategic alliances with prestigious partners may all contribute to legitimacy.

The Measurement of Legitimacy

For measurement of legitimacy granted by society at large, scholars have assumed that the more numerous the number of adopters of a particular organizational form or practice, the more widespread its acceptance and the greater its legitimacy (Deephouse & Suchman, 2008). Accordingly, quantitative researchers have used organizational density as a proxy for cognitive legitimacy, calculated to be the number of organizations of a particular type.

Researchers have also used more direct measures of organizational legitimacy, including content analyses of media coverage. For example, in empirical work to measure the legitimacy of the US biotech population, Hybels, Ryan, and Barley (1994) used an annual count of newspaper articles. Subsequent work has used richer empirical measures, including media statements, certification and licensing, endorsements, and links to prestigious organizations.

Separate measures have been developed for pragmatic legitimacy, which is more socio-political in approach (Baum & Powell, 1995). Connections to legitimate others through interorganizational relations (Galaskiewicz, 1985) are one measure of pragmatic legitimacy. Dacin, Oliver, and Roy (2007) suggest that strategic alliances, mediated by alliance governance structure and partner selection preferences, serve an important legitimating function that significantly influence alliance and partner performance. In an early study of organizational legitimacy, Singh, Tucker, and House (1986) measured the legitimacy of voluntary social service organizations based on whether or not they were listed in a local city directory, registered as a charity, and endowed with a large (and presumably organizationally embedded) board of directors. The idea of measuring connections to government, industry leaders and associations, and other relevant audiences has been a strong measurement strategy in quantitative empirical work (e.g., D'Aunno, Sutton, & Price, 1991).

Finally, some researchers have measured legitimacy by focusing on negative assessments, rather than on positive accounts, endorsements, or the level of adoption of a particular organizational form or practice. There have been case studies of the particular legitimacy challenges faced by organizations such as Nike and Exxon, and Deephouse (1996) measured the absence of legitimacy challenges as an indicator of an organization's 'acceptance,' in the sense of it being left to pursue its activities without interference from regulators.

Legitimacy measurement strategies need to be tailored to the respective research design, as well as to the type and elements of legitimacy being measured. A general measurement challenge in all of this work is that, by definition, legitimate organizations do not stand out but are taken for granted.

Legitimation Strategies

Organizations can significantly influence the acquisition (or loss) of, maintenance of, and repair of legitimacy. For example, in early work, Galaskiewicz (1985) identified several ways that organizations sought to enhance their legitimacy, such as by donating to charities, forming director interlocks, and obtaining external endorsements.

Strategic scope for managing legitimacy arises for several reasons. First, organizations have many constituents and audiences, including their employees, customers, suppliers, regulators and media analysts, with often contradictory values and expectations. Second, there may be ambiguities in exactly what is required to be acceptable, or legitimate. Skilful legitimacy management is based on an awareness of which situations merit appropriate responses (Suchman, 1995) to such conflicts, uncertainties and ambiguities.

There are two principal ways that an organization can influence its legitimacy, namely by substantive management and by symbolic management (Ashforth & Gibbs, 1990). Substantive management involves an organization making real, material changes in its goals, structures, and processes, while symbolic management involves the organization managing the meaning of "who it is" and what it does in such a way as to appear consistent with relevant legitimacy-conferring audience expectations. Drawing from impression management theory, Ashforth & Gibbs categorized ten specific actions that organizations can take in their pursuits of legitimacy (See Table 1).

Table 1 Actions in Pursuit of Legitimacy (Ashforth & Gibbs, 1990)

Substantive Management	Symbolic Management
Role performance	Espousing socially acceptable goals
Coercive isomorphism	Denial and concealment
Altering resource dependencies	Redefining means and ends
Altering socially institutionalized practices	Offering accounts
	Offering apologies
	Ceremonial conformity

Of the substantive management strategies, role performance means meeting performance expectations of societal actors that the organization is dependent on for critical resources, such as in relation to financial performance and in human resource management and work practices. Coercive isomorphism involves conforming to formal or informal rules and regulations, such as from regulative agencies, though with many such rules and regulations being ambiguous or controversial, there may be scope for sensemaking and collective interpretation (Scott, 2008). Altering resource dependencies follows the arguments of resource dependence theory (Pfeffer & Salancik, 1978), that an organization can alter its degree of dependence on valuable outside resources through actions such as developing long-term contracts, alternative suppliers, or slack resources. Altering socially institutionalized practices involves attempts to convince relevant others a firm's practices are legitimate, or socially acceptable, such as by lobbying, litigating, or co-opting outside interests.

Of the symbolic management strategies, espousing socially acceptable goals makes the point that, while such goals may be espoused, in practice the organization may pursue less acceptable goals. An example might be disclosing ethical policies, but failing to implement policies to monitor compliance. Organizations may also conceal and avoid situations in which they have to reveal a practice or outcome likely to undermine legitimacy, or frame or justify practices or outcomes in terms of values that are seen as legitimate. For example, firms may conceal that they are in bankruptcy from potential customers to avoid the discrediting label of bankruptcy and of a Chapter 11 reorganization (Sutton & Callahan, 1987). Alternatively, firms may use persuasive language, or rhetoric, to acquire organizational legitimacy, as was the case in the discursive struggles within accounting and law over the emergence of a new organizational form, that of multidisciplinary partnerships (Suddaby & Greenwood, 2005). Accounts include excuses and justifications, such as attributions of particular outcomes or practices as beyond an organization's control by, for example, blaming the environment (Sutton & Callahan, 1987). Apologies, by expressing remorse for a negative event, may signal an understanding of the rules, earn sympathy, and generate the impression that management has learned from a negative event. Finally, actions of ceremonial conformity with a practice or organizational model include its espousal, but non-implementation (Fiss & Zajac, 2004), or its implementation, but without substance, such as by establishing a corporate ethics committee with "no teeth".

Prominent as a means of symbolically managing organizational legitimacy is the use of impression management tactics, perhaps because this is easier than projecting legitimacy by adopting and maintaining widely used and accepted organizational characteristics and practices (Elsbach, 1994; Elsbach & Sutton, 1992). Impression management is the use, by an organization's spokesperson, of verbal accounts to defend, excuse, justify, or enhance organizational behaviors and project legitimacy. More effective accounts are those that refer to both technical and institutional characteristics of the organization (Elsbach, 1994). Scholars of entrepreneurship have, for example, categorized symbolic actions that build legitimacy required to procure resources needed by start-ups, including conveying an entrepreneur's personal credibility, professional organizing, organizational achievement, and the quality of stakeholder relationships (Zott & Huy, 2007). An organization's spokesperson may also adopt rhetoric as a discursive strategy (Fine, 1996) to enhance an organization's legitimacy.

While organizational theorists have emphasized that legitimacy is a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws (Scott, 2008), it is the conceptualization of legitimacy as a resource necessary to acquire other resources that has been taken up by strategic management scholars (Zimmerman & Zeitz, 2002). New ventures, for example, experience particularly severe challenges in winning acceptance either for the propriety of their activities, or for their validity as practitioners (Suchman, 1995), a condition termed the "liability of newness" by Stinchcombe (1965). To overcome this liability and gain legitimacy, entrepreneurs of new ventures engage in cultural entrepreneurship by crafting stories to make the unfamiliar familiar by framing their new ventures – often through metaphor and analogy – in terms that are understandable and thus legitimate (Lounsbury & Glynn, 2001; Salancik & Leblebici, 1988). Through these accounts, new ventures gain the legitimacy that enables them to acquire new capital and other resources.

It seems that firms' organizational legitimation strategies sit alongside their competitive strategies, overlapping in complex ways, and suggesting a tension between pressures to conform and pressures to be different. Yet, it would be wrong to conclude that these strategies apply to different elements of an organization. More fundamentally, a strategy itself can be more-or-less legitimate. As

Fligstein (1991) showed, diversification strategies themselves became legitimated among the largest US corporations over the 1919-1979 period. Strategies for managing assets in financial services (Haveman, 1993), regarding the adoption of poison pills (Davis, 1991), and acquisition strategies (Haunschild, 1993) have all been shown to be feasible once they became legitimate.

Since organizations are not powerless in the face of strong institutional forces (Oliver, 1991, 1997), it has been argued by strategy scholars that they should aim for a balance among these pressures for differentiation and conformity (Deephouse, 1999). In addition to conforming, organizations can select among, manipulate, or create new rules, regulations, norms and values, and practices (Zimmerman & Zeitz, 2002). Conflicts, variation, and ambiguities among pressures on organizations provide scope for choice, for strategy (Greenwood, Oliver, Sahlin, & Suddaby, 2008). This refocuses attention on how organizations acquire, manage, and use legitimacy beyond mere conformity.

Many strategies either have legitimacy consequences or are primarily followed for the purposes of gaining organizational legitimacy. Take strategic alliances. Why do organizations enter into strategic alliances? The traditional view has generally emphasized one of four efficiency-based rationales.

First, transaction cost theory considers alliances an intermediate "hybrid" form of organizing, between market and internalization into a firm's hierarchy (Williamson, 1975, 1985, 1991). Alliances attenuate hazards from contracting between firms in the market, but at the same time minimize the costs that would arise from shirking and bureaucracy inherent in the firm. So, alliances would be preferred when costs of transacting – the ex ante costs of drafting an agreement and the ex post costs of monitoring and enforcing it – are intermediate. The costs and inefficiencies of contracting increase when transactions require substantial specialized investments by one or more parties, or there is uncertainty about future contingencies rendering contracts incomplete (since contracts cannot account for all possible contingencies).

Second, the resource-based view holds that strategic alliances arise when firms in vulnerable strategic positions need resources that alliances bring or when firms in strong social positions capitalize on their assets to create alliance opportunities (Eisenhardt & Schoonhoven, 1996). Two firms will enter into an alliance, according to this perspective, when the pooled resources generate a value in excess of the value prior to pooling (Chung, Singh, & Lee, 2000). Firms in difficult market conditions or pursuing expensive or risky strategies may use alliances to procure access to critical resources (Eisenhardt & Schoonhoven, 1996). Third, firms may enter into alliances to learn from each other, about each other, with each other, or simply about alliance management (Doz, 1996; Inkpen & Tsang, 2007; Khanna, Gulati, & Nohria, 1998).

Fourth, social network analysts have focused upon how participation in alliances generates information about potential future alliance partners (Gulati, 1999), so that a firm's ability to form new relationships is determined by the set of opportunities provided by its existing position in a network of firms (Ahuja, 2000). Cooperation always has a social dimension, not only through the linkages and connections made through extended networks, but a high degree of interconnectedness signals that a firm is of high quality, trustworthy, and can manage alliances, leading to additional opportunities (Eisenhardt & Schoonhoven, 1996).

Yet, whatever the espoused motivation or explanation for alliances, legitimacy is always implicated, as some studies have shown. For example, firms may enter into strategic alliances to enhance their legitimacy by improving their reputations or congruence with prevailing norms in the environment (Lin, Yang, & Bindu, 2009; Oliver, 1990), and firms from emerging markets may partner with other firms with strong reputations and images to enhance their organizational legitimacy (Hitt, Dacin, Levitas, Arregle, & Borza, 2000).

That strategic alliances may have primarily legitimacy enhancing motivations was emphasized by Dacin, Oliver, and Roy (2007: 170), who argue that:

> *"...the social, symbolic, and signalling characteristics of alliances may serve as a source of legitimacy for partnering firms, and that this legitimacy itself is a strategic resource with the potential to yield significant economic and competitive (i.e., technical) benefits for firms. For this reason, firms will often be driven to achieve legitimacy. Accordingly, we suggest that legitimacy serves as a means to achieve competitive or technical ends rather than an end in itself in firms' decisions to establish alliances."*

Drawing from earlier work on the legitimacy benefits obtained from having interoganizational relations with actors with substantial status and reputations, Dacin et al. (2007) presented a typology of five interacting and overlapping legitimacy needs met through strategic alliances, how these influenced partnership selection and alliance governance, and how these influence firm and alliance performance.

One way that an organization may interpret and respond to institutional expectations and so acquire legitimacy is through its members constructing and displaying a recognized, appropriate, and accepted, organizational identity as a strategic orientation. A firm's institutional environment contains legitimate identity elements from which firms can construct, give meaning to, and legitimize their organizations (Glynn, 2008). For example, in order to enter the specialty segment of the beer market, major breweries sought to conceal their true identities as large mass producers on specialty products (Carroll & Swaminathan, 2000). One of the organizational identity elements of being a specialty brewer is that brewing is not contracted out, but is a craft-like process according to traditional methods and using natural ingredients. In this way, organizational identity mediates access to resources, with legitimacy the result of actions taken to achieve perceived membership of an accepted category of organizations. Identities are conferred by an organization's audiences (Hsu & Hannan, 2005), including its set of stakeholders, but may be constructed by an organization's members.

Cultural and institutional differences across international borders result in organizational legitimacy challenges for firms that are greater in degree, if not different in kind, from those confronting firms operating within a single country. Firms establishing activities abroad must achieve legitimacy for their organizations' survival and evolution.

Anecdotal stories of legitimacy issues across borders include Kostova and Zaheer's (1999) account of the legitimacy problems encountered by the American agricultural and food producer Cargill when it entered the Indian market, where it faced resistance from local farmers who perceived Cargill as a "new colonization" of India by the West. Similarly, Cuervo-Cazurra, Maloney, and Manrakhan (2007) cited Sarik Tara, Chairman of Enka Holdings, Turkey's largest construction company, saying that his Company had to look for contracts in Russia rather than in France because in France, "I am stamped 'Made in Turkey,' not 'Made in Germany.'" Both of these anecdotes suggest that legitimacy influences a firm's choice of country to enter.

Legitimacy considerations have also significantly influenced choice of entry mode by firms expanding abroad. A recent strand of work by international business scholars has shown legitimacy to be the key motive in choice of entry mode, finding that MNCs tend to imitate the dominant mode of entry into a country (Lu, 2002; Yiu & Makino, 2002), and to decide their level of ownership stakes in overseas organizations in response to the balance of pressures for internal legitimacy within the MNC and for external legitimacy in the host country industry and country of entry (Chan & Makino, 2007).

This finding is of no surprise to organizational sociologists, who have emphasized the importance of culture and institutions to internationalization since the work of Westney (1993). Prahalad and Doz (1987) had earlier developed an "integration-responsiveness grid" to capture the differing pressures on international business, pressures for global coordination and integration, and for local responsiveness in international markets. Drawing on institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), Westney (1993) reframed the tensions between local responsiveness and global integration by shifting the focus from end products and markets to organizations that straddle multiple and conflicting organizational fields (Scott, 1994), each field comprising a set of organizations with which a particular MNC organization competes, cooperates, and is compared.

In empirical work, scholars including Robinson (1994) and Rosenzweig and Nohria (1994) studied the pressures on subsidiary organizations by measuring the similarity of human resource management (HRM) and work practices to host country versus parent patterns. Zaheer (1995) took this work a step further in her study of control systems adopted in foreign exchange trading rooms. She found that subsidiaries that imported home-country working practices performed better than those that adopted local, host country practices, and concluded that firm-specific advantage may be a more effective way of overcoming the increased costs of doing business abroad for foreign firms – what she calls the "liability of foreignness" – rather than imitation of local practices.

These insights were followed by a series of studies by Tatiana Kostova and colleagues (Kostova, 1999; Kostova & Roth, 2002; Kostova & Zaheer, 1999), which started from the premise that an MNC subsidiary is in a situation of "institutional duality," confronting pressures to adopt sets of practices from the host country or from the headquarters' home base. They developed a country-level "institutional profile" as a composite of the laws and regulations, social knowledge and cognitive categorization, and values with regard to a particular issue, such as quality management (Kostova & Roth, 2002). The choice for the subsidiary revolves around which set of institutions are more important, with the level of difficulty of transferring practices from headquarters to a subsidiary increasing in the "institutional distance" between home and host country contexts (Kostova & Roth, 2002; Xu & Shenkar, 2002). This work depicts managers and employees in MNCs struggling to deal with the competing demands of external markets, internal coordination processes, and conflicting pressures from different cultural and institutional contexts (Collinson & Morgan, 2009).

The degree of similarity of a multinational's subsidiary's practices to prevailing local patterns contributes to shaping the organization's legitimacy (DiMaggio & Powell, 1983; Meyer, Scott, & Deal, 1983). However, organizational legitimacy, as a more holistic perspective on the level of acceptance of an organization in its local environment, also depends upon environmental characteristics, and the legitimation process by which the environment builds its perceptions of the organization (Kostova & Zaheer, 1999). In other words, whether or not particular organizational characteristics (e.g., level of MNC ownership) and practices (e.g., work and HR practices) are more or less similar to prevailing local patterns may contribute to organizational legitimacy, but other factors may be more or less important, as the examples of Cargill and Enka Holdings illustrate.

For Kostova and Zaheer (1999), an MNC subunit confronts two legitimating environments, at the corporate (parent) level as well as the external (host country) environment. Legitimacy spillovers occur when greater social recognition for one organization (or group of organizations) leads to similar organizations receiving greater social recognition (Kostova & Zaheer, 1999). Just as the legitimacy of incumbent organizations may spillover to facilitate the emergence of new forms of organization (Ruef, 2000), a legitimacy spillover occurs when the legitimacy of a foreign subsidiary is positively or negatively affected by the legitimacy of an MNC's set of subsidiaries or by the legitimacy of subsidiaries from different parents from the same home country in the host country. One consequence of legitimacy spillovers may be that similar organizations may share in benefits such as greater resource availability (Dobrev, Ozdemir, & Teo, 2006; Kuilman & Li, 2009).

Internal legitimacy spillovers occur within the MNC, such as from a parent to its subsidiary or vice versa, such as when Nike's perceived problems with its hiring practices in its Southeast Asian subsidiaries negatively affected the legitimacy of Nike as a whole (Kostova & Zaheer, 1999). Or, take the case of a firm that has a strong history of having expanded abroad through establishing wholly-owned subsidiaries. In consequence, internal legitimacy of, say, a joint venture in a newly entered country – perhaps a response to external legitimacy pressures from the host country environment (e.g. in China) – may be elusive.

External legitimacy spillovers occur across organizations. For example, Brannen (1995) found that among the cultural barriers to technological changes to the US operations of an American firm that had been taken over by a new Japanese parent was the attribution to the North American organization of simply being "Japanese." The "Japanese" were regarded as "the Enemy," with the organization having imposed on it an identity consistent with media images of Japanese-owned factories as "hell camps" (Brannen, 1995), a perspective supported by popular books on working conditions within Japanese companies in the US (e.g., Fucini & Fucini, 1990).

The nascent literature on legitimacy within MNCs has begun to flush out some of the contingencies leading to weak or strong legitimacy of an MNC's organizations. It follows neoinstitutional theory in emphasizing the structures of meaning within which organizations must operate – for example, what it means to be "Japanese," to be "Belgian", or to be a wholly-owned as distinct from a joint venture subsidiary organization. An organization and its members can and do pursue legitimation strategies, as the last section describes. Institutions are "inhabited" (Scully & Creed, 1997), consistent with observations in Westney (1993) that Japanese transplants evolved over time as they adapted to changing organizational, institutional, and economic pressures. Further, MNCs may even act as agents of change for host-country institutions through avenues such as professionalization of the host country environment, spillovers to local firms , and through encouraging regulatory pressure through government and international institutions (Kwok & Tadesse, 2006). Legitimacy may be the key resource needed by multinational firms and their subsidiaries.

Most, if not all, of the work on legitimacy and multinational firms has been conducted in larger firms. We know little about the significance of legitimacy for SMEs, which we define as firms with 500 or fewer employees (Coviello & McAuley, 1999; Knight, 2000), despite our earlier findings of the increasing role of internationalizing SMEs (Onkelinx & Sleuwaegen, 2008, 2009). Internationalizing SMEs seldom fit the typical profile of larger MNCs, having fewer tangible and intangible resources. Internationalization may also represent a bigger commitment for SMEs than for larger firms, for which internationalization may be but one extension of business scope, along with increases in products, customers and markets. This suggests that the internationalization process for SMEs may be distinguished from that of larger firms.

We identify three extant behavioural models of internationalization that might help to explain the patterns of SME expansion from Flanders and Belgium. These are the Uppsala model, the business network perspective, and the international new venture perspective.

In their **internationalization process model of the firm** (also known as the **Uppsala** model), Johanson and Vahlne (1977) described expansion abroad as a sequential process, especially for firms with a European home base. Having established themselves in domestic markets, firms gradually expand abroad and engage in multinational activity. Firms respond to pressures to internationalize by marginally increasing resource commitments to enter new markets. The process is incremental because uncertainty avoidance only slowly gives way to the exploration of foreign markets from having accumulated knowledge and experience from prior sequential entries.

The underlying assumptions of the Uppsala model are bounded rationality (rather than rationality based on optimization) and uncertainty avoidance. The model has two change mechanisms, by learning and through commitment decisions. Firms change as they learn from their experience of internationalizing, as well as through commitment decisions to strengthen foreign market positions.

Conceptually, the Uppsala model of internationalization is related to the idea of organizational capabilities, with firms slowly developing the capabilities to manage across international borders. In the Uppsala model, the gradual expansion abroad can be observed in two patterns. First, firms expand from nearer to further locations abroad, as they gain understanding of foreign locations and overcome psychic distance, defined as differences from the home country in terms of language, education, business practices, culture, and level of industrial development. Second, firms evolve in stages up an establishment chain from initial market entry through relationships with sales agents, to having their own sales forces and then engaging in manufacturing.

For the Uppsala model, it is only direct firm-level internationalization experience that matters for managerial decisions to further internationalize. The greater the firm's accumulated experience, and learning from past foreign market activities, the more it can make further commitments abroad. In this way, current exposures to foreign markets influence ongoing, future commitments abroad.

The Uppsala model focused its explanation of the evolution of multinational organization on internal selection pressures. As managers' incrementally enhance their skills and knowledge, the firm develops capabilities to increase commitments abroad in terms of entry mode and location.

Internal selection forces, such as the management stresses caused by diversification, were also the selection criteria for earlier explanations of the evolution of firms abroad that had focused on changes in organizational structure, as firms gradually increased their scope in terms of products and geographic locations (Franko, 1976; Stopford & Wells, 1972). In a third approach focusing on internal selection pressures, Perlmutter (1969) explained an evolution of managerial attitudes as shaping the multinational organization.

A number of empirical studies of the internationalization of firms have pointed to the role of networks in the internationalization of firms. A study of the internationalization of small software firms concluded that business network relationships had an impact both on foreign market selection as well as on mode of entry (Coviello & Munro, 1997; 1995). Their finding of the importance of the internationalizing firm's business network was supported by studies of the internationalization of Japanese suppliers of automotive components, whose expansion path was shaped by their interorganizational relationships with buyers (Martin, Swaminathan, & Mitchell, 1998).

In early work from a **business network perspective**, Johanson and Mattsson (1988) suggested that the international strategy of a firm is influenced by the strategies of all the firms in the business network with which the firm interacts, including its suppliers and customers. They developed a four-fold typology to describe internationalizing firms based on the stage of internationalization of the firm juxtaposed against the stage of development of its business network. If the firm's own network structure is not very internationalized with little knowledge of foreign markets and it has a low degree of internationalization, the internationalizing focal firm is an "Early Starter" and more likely to expand abroad through greenfield investments or other foreign direct investment. In the same context of a low level of internationalization among its business network, if the firm is highly internationalized it is a "Lonely International." In the different business network context of a more highly internationalized network, a firm with a relatively low degree of internationalization is a "Late Starter," while a firm that is as highly internationalized as its network partners is an "International Among Others."

In their study of internationalizing Finnish SMEs, Holmlund and Kock (1998) considered the firm's social network as distinct from, but partly overlapping with, its business network. Knowledge of foreign markets gained through a firm's network ties before first foreign market entry (Sharma & Blomstermo, 2003). Following Coviello (2006), "insidership" in networks, developed before entry into a foreign market, perhaps even before a firm is founded, has a significant influence on the location, mode, and patterning of foreign market entry and expansion.

For the business network perspective, learning about foreign markets and opportunities may come not only from the firm's cumulated direct experience, but also from others with which it interacts or observes in its business network.

A more recent criticism of the Uppsala model has been of its failure to explain why and how some firms engage in earlier and more rapid international expansion (McDougall, Shane, & Oviatt, 1994; Oviatt & McDougall, 1994). Instead of incremental learning, the **international new venture perspective** explains internationalization as first and foremost based on the entrepreneurial competencies of the venture's management team. It identifies other factors enabling earlier internationalization, including the knowledge intensity of the firm's resources, improved infrastructure for cross-border operation, and the use of alternative governance mechanisms to access and mobilize resources across national borders (Sapienza, Autio, George, & Zahra, 2006).

This perspective in fact represents a variety of different contributions, by scholars of “born global” firms (Fan & Phan, 2007; Knight & Cavusgil, 1996), “early internationalizing firms” (Rialp, Rialp, & Knight, 2005), and “international new ventures” (Servais & Rasmussen, 2000). Like other firms that expand abroad, international new ventures suffer a “liability of foreignness” (Zaheer, 1995) relative to their host country domestic competitors. However, they are doubly inflicted since, as younger firms, they additionally suffer from a “liability of newness” (Stinchcombe, 1965) relative to older-established firms for which a business network may afford access to information and resources that lowers the cost of foreign market entry and enhances the probability of new entrant survival.

From the perspective of our study of internationalizing SMEs for Flanders DC, one issue with this literature is that while some SMEs may rapidly internationalize, SMEs are conceptually distinct from early internationalizers. The international expansion path of SMEs seems different from the internationalization process model of the firm (see below), but it also differs from that of early internationalizers. Few SMEs seem to be born global, even measured by exports, and it is far from evident that SMEs expand abroad rapidly – indeed many remain home-country based SMEs and only take their first footstep abroad after decades of having sustained competitive advantage in Flanders.

A second issue is that many studies from the international new venture perspective mismatch theoretical constructs and measures. For example, Knight and Cavusgil’s (2004) study of born-global firms is based on a sample of firms that had been established for up to more than 20 years at the time of their study.

Third, much of this literature defines and measures internationalization based on exports (e.g., Knight & Cavusgil, 2004), whereas our study focused on how internationalizing SMEs overcome the legitimacy challenges of their foreign subsidiary organizations. Establishing organizations overseas through foreign direct investment (FDI) presents more fundamental challenges for SMEs than merely exporting. Yet, it is through their multinational subsidiaries that SMEs may more easily tap into and develop knowledge networks that may sustain competitive advantage in the longer run. Information and knowledge that can be accessed from afar without a locally embedded organization and relationships is by definition available to all, and so is unlikely to become a source of competitive advantage.

Fourth, the literature does not explicitly focus on legitimacy or the social processes of becoming accepted in a host country, that we expect to be more salient for internationalizing SMEs establishing multinational subsidiaries. The internationalizing SME is different in kind from exporters, whether described as new ventures, rapidly internationalizing firms, or born global firms.

The few studies of internationalizing SMEs that have been carried out suffer from the third problem stated, that while they seek to describe internationalizing firms they in fact use data from exporters. For example, Knight and Kim (Knight & Kim, 2009) usefully develop a set of hypotheses based on the distinctiveness of internationalizing SMEs being a relative lack of resources. They hypothesize that internationalizing SMEs must nurture and structure intangible resources to surmount their deficiencies in tangible assets and financial and human resources. They find that SME international performance is a function of what they term international business competence, defined by four dimensions of managers’ international orientation, international marketing skills, international innovativeness, and international marketing orientation. Yet their sample of SMEs was constructed based upon SMEs with export revenues of at least 25% of sales. It is quite possible, therefore, that these "highly international firms" (Knight & Kim, 2009: 263) either have no multinational subsidiaries, nor perhaps even managers with passports. What is important from this work, however, is the identification of SMEs as relatively resource poor.

The importance of separating out exporting from foreign direct investment is clear from work such as that of Lu and Beamish (2001), who compare internationalization through establishing multinational subsidiaries with the lower organizational commitments of using alliances or exporting activity. From their study of 164 Japanese SMEs, they conclude that the positive effect on performance extends primarily from SMEs' FDI activities. Consistent with the fact that firms face a liability of foreignness from increased costs of doing business abroad (Zaheer, 1995), they find that when SMEs first begin FDI activity, by establishing multinational subsidiaries, profitability declines, but greater level s of FDI are associated with higher performance. They further find that alliances with partners with local knowledge can be effective in helping SMEs overcome deficiencies of resources and capabilities when they expand into international markets. The significance of the difference between exporting and FDI – muddled in much of the rapid internationalization perspective – becomes clear from their finding that exporting moderates the relationship that SME FDI has with performance. Finally, they show a strategy of high exporting concurrent with high FDI to be less profitable than one that involves lower levels of exports when FDI levels are high.

What difference does size make? An assumption of much of the SME literature is that establishing multinational subsidiaries for smaller-sized firms – typically defined as having 500 or fewer employees – is more entrepreneurial than for larger firms. A corollary is that smaller internationalizing firms are more entrepreneurial than both larger firms and non-internationalizing SMEs. It is this assumption of entrepreneurial features that has contributed to the confusion of internationalizing SMEs with start-ups that are international from inception, with many concepts from entrepreneurship being considered relevant to describe the internationalization process of SMEs. Yet many SMEs in Flanders have only internationalized after long histories of having operated solely within Flanders, so their internationalization process may not resemble that of firms that rapidly internationalize from inception.

Kostova and Zaheer propose that larger and more visible MNCs and their subunits will find it more difficult to maintain legitimacy than smaller and less visible MNCs, because they are more vulnerable to attack by interest groups. This describe this as a "liability of being large and visible" (Kostova & Zaheer, 1999: 74). A counter argument from organizational sociology put forward by scholars of organizational populations is that smaller organizations have a higher propensity to fail than larger organizations, due to several liabilities of smallness (Baum & Oliver, 1991), including problems of raising capital, recruiting and training a workforce, and the costs of complying with regulations (Aldrich & Auster, 1986), with large size itself legitimating organizations as it signals prior success (Baum & Oliver, 1991). These perspectives share the focus on resource deficiency stressed by SME scholars such as Knight and Kim (2009) and Lu and Beamish (2001), but the most important resource related to success in internationalization through FDI is that of legitimacy (see Section 3 above).

Firms are more likely to engage in strategic change, and SMEs more likely to expand abroad, if this strategic choice is considered legitimate (DiMaggio & Powell, 1983; Haveman, 1993). Actions by other firms in their vicinity generate information clues and legitimacy that may affect the decision to expand abroad (Miner & Haunschild, 1995). As the business network perspective emphasizes, firms may reduce or surmount the liability of foreignness by learning from the experiences of other firms with which they interact or have connections.

Yet, even more important may be how firms model themselves on other firms whose history, experience, or location is perceived to be relevant to their own situation. Neoinstitutional theory differs from the business network perspective by pointing out that firms may imitate others within their immediate environments in search of effective practices (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983). For the business network perspective, a firm's internationalization process is influenced by the cluster or group of other firms with which it is embedded. Firms not only exchange resources, but share information and experience – such as about where and how to internationalize.

Beyond the network of cluster, however, a second relevant social structure for internationalizing SMEs that may affect the flow of information and legitimacy, thus encouraging imitative behavior, is the organizational field. Organizational fields are spheres of social activity within which firms mutually recognize each other's presence and actions (DiMaggio & Powell, 1983). The organizational field comprises those organizations operating in the same realm, defined by network and relational linkages, but also by shared cultural rules and meaning systems (Scott & Davis, 2007). Thus, the concept of a field calls attention to organizations that may not be linked by direct connections, but because they operate under similar conditions, behave in similar ways or have similar organizational structures.

Firms may imitate others' actions for competitive reasons under conditions of a loosely-knit oligopoly, such as entering a country to prevent a competitor from having a monopoly access to a valuable resource. However, institutional theory points out that firms imitating each others' expansion abroad may reduce uncertainty and enhance the legitimacy of establishing a plant abroad for all firms in an industry. Uncertainty is reduced, because the greater the number of foreign firms entering a country, the greater the corroboration that there is that an opportunity actually exists (Guillén, 2002). As the prevalence of a practice such as foreign entry increases, it becomes more likely to be taken for granted and legitimate.

Legitimacy opens the door for firms to access other resources. In a study of the legitimacy function of strategic alliances, Dacin, Olivery, and Roy (2007) put forward five types of legitimacy that could be provided by alliances, namely market legitimacy, relational legitimacy, social legitimacy, investment legitimacy, and alliance legitimacy. These legitimacy needs are shown in Table 2 below:

Table 2 The Legitimacy Roles of Strategic Alliances (Dacin et al., 2007)

Legitimacy Type	Definition	Legitimacy Source
Market legitimacy	Rights and qualifications to conduct business in a particular market	Partner's legitimacy in the market
Relational legitimacy	Worthiness to be a partner	Relationship with partner
Social legitimacy	Conformity of the firm to societal rules and expectations	Partner's social image
Investment legitimacy	Worthiness of the business partner	Partner's support and confidence in the business activity
Alliance legitimacy	Validity or appropriateness of strategic alliances	Isomorphism

Legitimacy is important for all firms, but it is more so for smaller and younger firms that need to establish themselves in their own business environments or to expand their scope of activities, such as across international borders. Not only do SMEs face the liability of foreignness, but additionally additional costs and risks due to their liabilities of smallness and, in the case of recently established SMEs, newness (Hannan & Freeman, 1977). What are these SMEs' legitimacy needs, the drivers of those needs, the sources and benefits of legitimacy, and the strategies SME multinational subsidiaries follow to achieve legitimacy?

Research Design and Setting

To explore the role of legitimacy in the successful internationalization of Flemish SMEs, we undertook a multiple-case, inductive study (Eisenhardt, 1989) using in-depth archival and field data to track closely how Flemish SMEs internationalized through establishing multinational subsidiaries. Multiple cases allow a replication logic in which cases are treated as experiments, with each serving to confirm or disconfirm inferences drawn from the others (Yin, 1994). This process typically yields more robust, generalizable theory than single cases (Eisenhardt & Graebner, 2007).

The research setting of Flanders was attractive because of the relatively high dependence of the Belgian economy on SMEs, and because Belgium – as a smaller European country by most measures relative to France and Germany – may be expected to offer fewer home-based resources when firms internationalize, including legitimacy.

We drew up our initial sample of firms from the theoretical basis (rather than randomly) that the legitimacy of a firm's industry should vary significantly and may create cross-level legitimacy spillovers. This follows the argument made by Hu (1992) that the firm-industry relationship (e.g., the "German chemical industry") carries legitimacy that may spill over to affect newly internationalizing SMEs more than the legitimacy of other multinational SME subsidiaries or the country. In the context of Belgium, we expected that industries such as brewing and chocolate would generate positive legitimacy spillovers to internationalizing SMEs from Flanders, but that other industries would be neutral or have negative country-industry spillovers. As a result, Flemish SMEs from Belgian industries with relatively low legitimacy should face higher legitimacy hurdles than firms from industries with higher legitimacy. Legitimation strategies should be more identifiable in SMEs from lower legitimacy industries.

We identified and studied (to varying degrees) six firms, namely Vyncke (industrial energy/clean energy), Alfacam (television facilities), Studio 100 (creative media and programming), Option (wireless/mobile technology), DesleeClama (mattress fabrics), TiGenix (biomedical products), and Duvel (brewing). However, we focused our theory-building efforts on two of these firms, for three reasons. First, these we were given good access to senior executives within these companies, who were willing to cooperate with our project. Second, Vyncke and Alfacam were both within industries that we considered to be low-legitimacy industries. Third, in the context of our , trading off the importance of depth relative to breadth, and for reasons of access.

Given our aim of understanding how the legitimacy challenges facing internationalizing SMEs changes as they expand abroad, we employed a longitudinal design that tracks the establishment of multinational subsidiaries. This design required that we study firms with rich archival histories and willingness to grant diverse, multiple interviews. These criteria further narrowed our choice to the two firms that we studied in detail.

Data Collection

We focused data collection on tracking the international expansion paths of Alfacam and Vyncke over their histories. Our primary unit of analysis was the "International move," which we defined as a foreign direct investment decision to establish or significantly expand (or contract) a subsidiary in a particular country. We relied on internal and external data sources. Internal data included interviews, internal company archival documents. The external sources included media articles about each firm. Using these archival data, we developed chronological case histories for each firm, based on international entry decisions and significant changes in commitments abroad. We organized the data by year and developed tables for each case. Where there were gaps in our data, we followed up through semistructured interviews with the senior executives, and with members who had been involved in particular historical periods and decisions of interest. Our initial interviews with the CEOs/founders were taped and transcribed, and lasted several hours, and began with open-ended questions that enabled the informants to provide a broad overview of the evolution of their respective firms internationally.

6 | CASE STUDIES OF LEGITIMATION STRATEGIES OF INTERNATIONALIZING FLEMISH SMES AND THEIR SUBSIDIARIES: ALFACAM AND VYNCKE

In Appendices 1 and 2 we provide summaries of the two internationalizing Flemish SMEs that we studied in detail, Alfacam and Vyncke. These two companies provided a rich understanding of the strategies of internationalization, as an extension of scope of their existing competitive strategies.

Both Alfacam and Vyncke were focussed differentiators (Porter, 1980), meaning that they targeted particular (narrow) segments of customers who had greater willingness to pay for products that had features that were higher in quality than competitors. In both cases, extending geographic scope was necessary to spread the costs of higher fixed cost investments, especially required in improving products and services such as in technologies, across a larger volume of sales. This in turn provided a barrier to entry to nationally-based competitors which were unable to shift from higher volume production using more established technologies to service narrower market niches, and so were unable to generate the commensurate global scale of sales provide sufficient returns on investments in new technologies.

It will be recalled that the Uppsala model of internationalization holds that firms internationalize in small steps, initially to locations with a low "psychic distance." While we recognized patterns of internationalization that would match this in terms of mode – especially Vyncke's having "learned" to always initially joint venture abroad – other aspects of these firms internationalization did not seem to fit this theory. Alfacam, in particular, has internationalized much more rapidly and to more distant locations. Equally, for Vyncke, the "map" of their international offices does not resemble what would be expected from a map shaded according to a gradation of "psychic distance" from Flanders or Belgium. We did not find, for example, Flemish firms expanding initially into the Netherlands or Germany, but to more distant locations. What explains these patterns?

Issues around legitimacy were often brought up by interviewees and were evident from analysis of our data. At the outset of the research forming the basis of this Report, we expected that a home country of France or Germany might provide greater legitimacy than Belgium, for reasons including the former countries' being larger and generally more recognized internationally, as well as from their having relatively strong national advantages in industries such as automobiles and chemicals.

Instead, what we found in our studies of Alfacam and Vyncke was that both an international perception of Belgium and Flanders' as having relative neutrality, as well as its relatively forgotten history as a colonizer, were advantages for these internationalizing firms. Importantly, these so far under-acknowledged home country advantages seemed to outweigh any disadvantage from having Belgium as a relatively small country home base or from Belgium's lack of renown for certain industries, such as electronics or automobiles. One clear example of this was the decision by the Olympic Movement to award exclusive contracts to Alfacam to produce televised programming for sports events. Other home country attributes that Alfacam and Vyncke found advantageous included foreigners' perceptions of Flemish humility and willingness to partner, rather than to rule, as well as having English as a strong second, or third, language and being willing to use English in business and management abroad.

These cultural and institutional attributes of Flanders' home country context in turn shaped the patterns of Alfacam's and Vyncke's internationalizations. They shaped these firms' strategies in important ways, as they learned how to position their businesses across borders.

The two firms differed in their source and level of initial advantage. While Vyncke internationalized and rapidly expanded its international scope from a strong home base in West Flanders, Alfacam had no strong national diamond (Porter, 1990) of advantage – indeed it seemed to have a distinctly weak home base. Alfacam did not have strong demand of factor conditions in its home market, nor a favourable industry structure or strong related or supporting industries. The pattern of home country characteristics represented in Porter's national diamond do not, therefore, explain these companies international successes.

While all Flemish firms are similarly embedded in the structure of their home country context, only a relatively few firms seem capable of recognizing how to draw from this and internationalize. In both cases, Alfacam and Vyncke implemented legitimation strategies to increase the effectiveness of their internationalizations.

We recognized from analysis of our case data similar categories of legitimacy needs to those identified by Dacin, Oliver, and Roy (2007), namely for market legitimacy, relational legitimacy, social legitimacy, investment legitimacy, and alliance legitimacy. One additional category of legitimacy need emerged from our data, which was the firms' needs in a host country to show that they were worthy employers, what we have termed internal legitimacy. The capability to recruit successfully, in turn, seemed to support other legitimacy needs, such as for market legitimacy.

For this reason, as a guide to data analysis of the internationalization of Alfacam and Vyncke, we adapted and expanded the framework of legitimacy needs proposed by Dacin, Oliver, and Roy (2007) described in Section 4 and Table 2. To the five legitimacy needs identified by (Dacin et al., 2007), we have added the category of internal legitimacy, which we define as worthiness to be an employer, since when Alfacam and Vyncke internationalized, one of their greatest challenges was having the capability to recruit good staff for their foreign subsidiaries and operations.

We also identified the presence and importance of internal and external legitimacy spillovers, described in Section 3. This is conceptually different from the transfer of knowledge across stages of internationalization that is the learning process supporting the gradual, incremental patterning of foreign expansion described by internationalization process theory. Alfacam and Vyncke seemed aware of these spillovers, and positioned their businesses internationally to try to maximize the advantage created by these spillovers.

In the next two Sections, and in Tables 3 and 4, respectively, we describe the legitimation strategies of Alfacam and Vyncke. Vyncke, especially, made extensive use of various forms of strategic alliance in its internationalization, which can be an important source of legitimacy in its own right, so we have added this to Table 4.

Alfacam's Internationalization and Legitimation Strategy

	Market Legitimacy	Relational Legitimacy	Social Legitimacy	Investment Legitimacy	Internal Legitimacy	Alliance Legitimacy
Definition (Dacin, Oliver, Roy, 2007)	Rights and qualifications to conduct business in a particular market	Worthiness to be a partner	Conformity of the firm to societal rules and expectations	Worthiness of the business activity		Validity or appropriateness of strategic alliances
Environmental characteristics	Legal entity (subsidiary) is necessary to tender for contracts from public broadcasters in Germany and France					
Firm characteristics	Generali Dome: largest TV studio in Benelux + largest indoor water reservoir in Europe	Alfacam is part of the Belgian Sports Technology Club (BOIC & Agoria)	We want an HR management that propagates diversity		Childcare center, gym, sports hall	
	Highest capacity in the world (OB vans)		Compliance with Belgian Corporate Governance Code			
Legitimacy spillovers	Learning from Israel (risk of terrorism)	Beijing Olympics were the 4th Olympic Games for Alfacam and the 1st to be fully covered in HD. Alfacam is experienced and has learned from the past.	Alliance with KDG College: Multimedia and Communication Technology	Retailers sell the decoders and access cards to consumers. They benefit from HDTV broadcast to sell their high definition televisions to consumers. Demand for HDTV broadcast will increase when more HDTVs are sold.		Commercial partnership: EXQI League. Football in Belgian 2nd division. Alfacam acquired the rights for €0; Belgacom paid €44.7 million for 1st division!
		Olympic Business Club: Alfacam's experience increases legitimacy of other Belgian firms	Campus on site with 300 students: positive effect on the inflow of new, skilled employees	Partnership with technology providers: Pioneer, Panasonic, Barco, Thomson, Sony, Canon, EVS, …		
Legitimacy source	References are key. Eurovision song festival contract in Israel (1999) was a turning point - after that, a number of mega events followed	Deloitte is auditor. Deloitte's international reputation is a very important guarantee, e.g. for people in Saudi Arabia.	CSR: 14000m² solar panels	HD is already the standard in Japan and US. Acceptence of standard in Europe will depend on content.		Telenet and Belgacom viewers can watch Euro1080 channels
	We have credibility. Once we did Beijing, every other job is easy	IPO - stock quotation supports credibility	ISO 14001 environmental certification	When France announced it would start broadcasting in HD, Germany followed.		Strategic alliance with Kinepolis
	EuroLinX: separate entity (customers are competitors)	GIMV has been shareholder since 1998		IWT 'Paul Zeeuwts Award' for Innovation (2009)		
	Subsidiary in Italy: experienced local manager (25 years for RAI)	"Olympics reinforce the image of quality and perfection of our company and our country"		Vlerick Award 2008 for sustainable international business of the year		
		"Being from Belgium is a big advantage"		Nomination for Export Lion 2008 (FIT), Enterprise of the year 2008 (de Tijd) and Manager of the year 2008 (Trends)		
		Belgium is considered extremely neutral. Spanish firms are too proud to invite German people.				

Alfacam's behaviors and patterning of internationalization displayed many of the characteristics recognizable from studies of international new ventures (Oviatt & McDougall, 1994). The company was building resources as it internationalized, rather than internationalizing from a given source of advantage, and would often move resources across borders – such as shipping its high-definition outside broadcasting vans – from one foreign market to another, according to business need. They would also procure other resources, such as high-technology cameras, through special contracts with leading-edge producers, and for larger international projects, such as international sporting events, a very high percentage of staff from its home base would relocate on temporary assignment to the foreign location.

How did Alfacam gain **market legitimacy** through establishing and building its rights and qualifications to operate in particular foreign markets, including endorsements by customers?

The story of Alfacam's early internationalization begins ten years after its founding, in 1997. An interviewee described its international evolution as follows:

> *"Alfacam's internationalization started in 1997 in Portugal. Initially we thought this is far: 2000 km. In the end, everything is coincidence and a good attitude. A Belgian company had a subsidiary in Portugal and they wanted something in high quality. One year later we went to Israel. References are key in this industry. After a good job, it's a snowball effect. In Spain, we did the Athletics World Cup. We met people that were head of the Olympics. They told us, jokingly: "if you can deliver twenty of these trucks in Athens, you can have the contract." At that time, we only had three trucks. But one year later they contacted us for pricing for Athens. We told them that we were currently constructing new trucks with high definition. In 2002, we were in Salt Lake City. Two months later, our trucks were in Japan and Korea for the World Cup. Football remains one of Alfcam's key competencies. In January 2008, Alfacam recorded the African Cup of Nations in Ghana and throughout 2007 and 2008 it recorded 500 football matches in Saudi Arabia and Jordan.*
>
> *Two years after its first international step, Alfacam realized 65% of its turnover abroad. It established subsidiaries in France and Germany. In December 2003, Alfacam acquired Euro TV Beteiligungs GmbH and Euro TV Mobil Production GmbH & Co KG and created Alfacam Deutschland GmbH. In April 2005, a second Alfacam subsidiary was set up in France: Alfacam France. These local offices enable Alfacam to tender for contracts from public broadcasters on the German and French markets. In 2008, an Italian subsidiary was set up in Milan. Alfacam hired an Italian with more than 25 years of experience working for RAI to manage this. The most recent subsidiary is the one in South Africa, which started in July 2007, after the Confederation Cup. It is now covering other sports, including rugby and cricket, for a number of South African TV stations."*

Alfacam also formed a strategic partnership with the German bestboys TV factory in order to expand TV services in the German, Swiss and Austrian market. A team of German top engineers and producers is leading Alfacam Deutschland. Alfacam covered important football games including the World Cup qualifiers Russia-Germany and Azerbaijan-Germany for ARD-ZDF. Thanks to the qualification of Germany against Russia, Alfacam reached an agreement with ARD-ZDF to deliver 11 outside broadcasting vans for the 2010 World Cup. Alfacam has also been successful in working with German customers outside Germany, from its German subsidiary:

2008 Olympics (Beijing)

The Beijing Olympics were the first to be fully covered in high definition. The Beijing Olympic Broadcasting Co (BOB) awarded the contract to record the opening and closing ceremonies of the 2008 Summer Olympics to Alfacam. The most popular sports, including athletics, gymnastics, tennis and football would also be covered by Alfacam. In total, 90 percent of all images would be recorded by Alfacam. For Alfacam, this would become their fourth Olympic event, and this experience certainly played an important role in convincing the BOB that they were the best partner for the top event.

At that time, the €12 million contract was the largest TV facilities contract ever for a single event. Alfacam had to invest in people and equipment: more than 100 people went to Beijing to cover the Olympics – a huge number relative to the fact that Alfacam employed 115 full-time employees at the end of 2007). For equipment, more than 200 high definition cameras and 18 mobile studios were needed. At the time the contract was awarded, Alfacam had only 120 high definition cameras and nine mobile studios.

Alfacam also closed a deal for the 2010 Winter Olympics in Vancouver and additionally to cover the 2012 summer Olympics in London. The contracts for these two events total €24 million. The Olympics are crucial events for Alfacam, as total turnover of the Alfacam Group in 2007 was €30.2 million. Furthermore, the profit margins on these special events are higher than for other jobs.

For the 2012 Olympics in London, Belgian firms joined forces in the Olympic Business Club to approach the Organizing Committee. With its ample Olympic experience, Alfacam played a leading role in this initiative. According to Fehervari, Belgian firms benefit from their multilingual staff and flexibility to deal with large international events such as the Olympic Games. “Belgians have a positive chameleon attitude, and don’t care about nationality, race or religion. Sometimes these arguments are key to choose a Belgian firm over a foreign competitor.
Alfacam is also part of the Belgian SportsTechnology Club (BSTC), a joint initiative of the Belgian Olympic Committee (BOIC) and Agoria, the Belgian federation for the technology industry. Its goal is to the increase the image and visibility of Belgian niche players and sell products and services to organizers of major sports events.

Alfacam has had less need to demonstrate **relational legitimacy** to possible partners than has Vyncke (see below). The Beijing Olympics were the first to be fully covered in high definition. The Beijing Olympic Broadcasting Co (BOB) awarded the contract to record the opening and closing ceremonies of the 2008 Summer Olympics to Alfacam. The most popular sports, including athletics, gymnastics, tennis and football would also be covered by Alfacam. In total, 90% of all images would be recorded by Alfacam. For Alfacam, this would become their fourth Olympic event, and this experience certainly played an important role in convincing the BOB that they were the best partner for the top event. At that time, the €12 million contract was the largest TV facilities contract ever for a single event. Alfacam had to invest in people and equipment: more than 100 people went to Beijing to cover the Olympics (at the end of 2007, Alfacam employed 115 FTEs). Moreover, more than 200 high definition cameras and 18 mobile studios were needed. At the time the contract was awarded, Alfacam had only 120 high definition (HD) cameras and nine mobile studios.

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> "**Being from Belgium is a big advantage**. *People in the US, they don't know Belgium. In Europe,* **Belgium is considered extremely neutral**. *For Spanish firms, it is easier to book a Belgian company than to book a German, English or French firm. They are too proud to invite German people. People appreciate our modesty. This is in our genes. We will support the client and never oblige him to do something. We are also flexible. This chameleon attitude is typically Belgian. The Dutch or Germans would probably come over and tell them: we are doing it this way. We will be there to talk and give the maximum support and advice."*

To gain **social legitimacy,** Alfacam cooperates with the Karel de Grote Hogeschool to shape their Multimedia and Communication Technology course. More than 300 students are based here to learn the technical part of making television. To accommodate clients and students, Alfacam included 54 guest rooms, two large auditoria (up to 300 persons) and six media labs in its Eurocam Media Center.

Alfacam has occasionally needed **investment legitimacy,** such as when it had to identify financial partners to cofinance expensive broadcasts when audiences were limited, especially for new kinds of broadcasting. Although HDTV was gaining market share in Japan and the US, European viewers had to wait until 1 January 2004 for the first HDTV broadcast, when Euro1080 launched its HD1 channel with the traditional Vienna New Year's concert. Until then, HDTV did not break through in Europe, since there were no HDTV broadcasts. As a result, consumers would not buy HD TVs, which in turn meant that broadcasters would not switch to HDTV, since viewers in Europe did not own HDTVs. Alfacam was the first company to break this stalemate.

To hire effectively, Alfacam has needed **internal legitimacy.** One way that it has sought to gain this has been through diversity in human resource management. For employees, there is a gym and a childcare center. Alfacam values corporate social responsibility, as reflected in its ISO14001 environmental certification and the 14,000 m^2 of solar panels on the roof of its Media Center.

Alfacam has also been involved in alliances, for which it has had to evidence **alliance legitimacy** – to show alliances as an appropriate form of business transaction. Broadcasting four hours per day in HD costs about €30 million, or as much as Alfacam's total turnover in 2007. Therefore, Alfacam had to look for partners to invest in Euro1080. In 2003, five companies decided to invest €12 million in Euro1080, the content part of Alfacam Group. These companies would all benefit from the breakthrough of HDTV in Europe. Japanese groups Pioneer and Panasonic and French Thomson sell high definition televisions. Next to these foreign partners, two Belgian firms are involved: Barco makes projectors and EVS produces the servers to store the digital images. Together, these firms will invest €12 million over two years. In 2005, Sony also started a strategic partnership with Alfacam to promote HDTV in Europe. Sony also bought 100.000 access cards.

Next to these technological partners, Alfacam also wants to generate income from the end users. Euronics, a European chain of consumer electronics retailers (e.g. Selexion and Expert in Belgium) will sell the decoders and access cards to consumers. The retailers also benefit from the HDTV broadcast of Euro1080 to sell their high definition televisions to consumers. Alfacam sources these decoders from Taiwan and Korea and sells them to retailers. Consumers pay €500 for a decoder and €100 for an access card. This should generate an income of €10 million for Euro1080.

Cinemas also finance part of Euro1080's operations. Alfacam has a strategic alliance with Kinepolis, a Belgian group with movie theaters in Belgium, France and Spain, Poland and Switzerland. Live broadcasting of important sports events and pop concerts in HDTV can become an important source of income for cinemas. Alfacam estimated the potential contribution of this channel to its income at €12 million. More recently, Alfacam signed partnership agreements with Canon, JVC, Carlsberg, Nuon, Sharp, Volvo Trucks, Tektronix, ING and KBC. Alfacam offers airtime on the Euro1080 HDTV channels in return for a total value of €5.5 million over three years.

Another alliance was formed when Euro1080 acquired exclusive TV rights to broadcast Belgium's second football division. Whereas Belgacom paid €44.7 million for the rights of the first division, Alfacam closed a commercial partnership deal and paid €0. With this deal, the football clubs hope to boost revenues as the increased visibility of the league will entice more fans to come to the stadium and advertising income will go up. Alfacam will broadcast the matches on its sports channel Exqi Sport, and the league will be called Exqi League. It will be the second football league (after the English Premier League) that will be fully broadcast in HD. Although HDTV is successful in the US, Japan, Canada and Australia, it is still far from reaching its full potential in Europe. Nevertheless, Alfacam felt confident that there is potential in this market in Europe and started Euro1080. Its technological partners are important to develop this market, but for HDTV to break through cable satellite networks are another indispensable link to bring this technology into European living rooms. In Belgium, Euro1080's channels can be viewed via Telenet, Belgacom and Indi.

Vyncke's Internationalization and Legitimation Strategy

	Market Legitimacy	Relational Legitimacy	Social Legitimacy	Investment Legitimacy	Internal Legitimacy	Alliance Legitimacy
Definition (Dacin, Oliver, Roy, 2007)	Rights and qualifications to conduct business in a particular market	Worthiness to be a partner	Conformity of the firm to societal rules and expectations	Worthiness of the business activity		Validity or appropriateness of strategic alliances
Environmental characteristics	Presence in market before starting JV (exception: India)			"Green" (clean) energy: awareness after Kyoto protocol.		Collaboration with local firms (project based)
Firm characteristics	Vyncke's history cannot be copied. Installations have a lifespan of 25 years.	Family business (4th generation) - most customers are also family firms, about the same size.	"When in Rome, do as the Romans do"	experience - technical skills: 140/220 employees are engineers	Long term relationships with Vynckeneers. Strong Vyncke culture: limited employee turnover.	"European technology"
	Innovation: we specialize in difficult fuels, fuel flexibility, strict emissions, high availability and low TCO.	Proven track record (°1912) and Long term relationships with customers.	"We come from a small country, take the local trains, smoke local cigarettes, drink local beer, stay in local hotels and take local taxis."	Suzhou Industrial Park: Bekaert and Picanol were already present	Chinese engineers are sent to Harelbeke for on the job training and to learn the culture	The Vyncke brand has a strong reputation. Imiatations are even sold as "Real Vyncke copy"
		Experience: technology, internationalization	"We are not Germans - Germans come to China and tell the customer what to do. When Americans come into China, they want to take over."	Vyncke evaluated 15 parks all over China, based on 20 criteria. Facilities were already present, so Vyncke could start its business immediately	Chinese manager at Suzhou plant (loyalty, technical and language skills)	JV track record: positive and negative
		Language: communication in English (e.g. in China: you need translator)	We sent a Belgian manager to India to introduce them into the Vyncke culture, our way of thinking	Using trade and investment agencies (FIT, BDBH)		
Motive for entering strategic alliance		Vyncke wanted to enter the Indian market - Forbes wanted to enter biomass-to-energy market	Until recently, India was not ready for Vyncke products, but the market has developed rapidly.			The Indian market is too large for Vyncke to enter alone. Forbes' sales organization is an important asset.
		Forbes-Vyncke: matching company aspirations and growing closeness between the two families				India & Thailand are the only countries you cannot enter alone; you need a joint venture. JVs are ideal to grow without taking too much risk
Legitimacy spillovers	Learn from Indian market and transfer this knowledge to China	Partner's legitimacy: Forbes' reputation in India	"Asianization": adjusting products to Asian market (India, China)		Send Chinese Vynckeneers to India to learn from experience in this market	
	Vyncke's breakthrough in China was driven by deliveries to German contractors in China.		Specific project in 1988: German emission norms were used in Belgium (German customer asked this; these norms were stricter at that time)			

	Market Legitimacy	Relational Legitimacy	Social Legitimacy	Investment Legitimacy	Internal Legitimacy	Alliance Legitimacy
Legitimacy source	Reputation/references: almost 4000 references worldwide	Forbes: previous JV experience with European firms	"In China, I use Chinese business cards with no English on it and my Chinese address. I have ten local business cards. Not even a double language. Of course, they see me as a foreigner, but a foreigner who wants to learn and respects China. "	"worldwide patented Dynamic Watercooled Stepgrate DWS®"	No global HQ. Multiple HQs,based on country specific capabilities.	"We have a long history of alliances"
	In Germany: need for German engineers and sales people. German technology and engineers acquired in 1997, from a German firm that went bankrupt.	"Four generations of entrepreneurship and experience, and with over 2,500 enthusiastic Customers worldwide in every continent"	Flanders, not Belgium, has the strictest emission standards on the planet. (today). In 1992, the German TA Luft emission standards were the main challenge to enter the German Market	Trends Gazelle Award (2009)	All emails in English (even between Flemish people)	In Brazil, we started with a Joint Venture, that ended in fully owned company.
	Need to show installation to potential customers (local references)	Forst & Sullivan award: "Vyncke combines European quality standards with the Asian sense of business"	"In West-Flanders, we don't care what they decide in Brussels. If they vote a new law, we already have a way of circumventing."	Frost and Sullivan Award for Market Penetration Leadership in the biomass to power market segment in South East Asia (2008)	CEO (Peter Vyncke) hires all employees and introduces them into Vyncke culture.	Forbes has successful JVs with 4 European partners: 2 from UK and 2 from Germany
	"Based upon the most advanced European technologies, we continually strive to provide such solutions designed especially for the Customer's local environment."	"The Germans, the Americans, the Dutch, they always have a connotation. We are neutral like Switzerland"	CSR: sharing entrepreneurial expertise for a better world	Young Flemish Entrepreneur award (Junior Chamber International, 2007)	Suzhou plant: designed in close collaboration with Chinese architects.	
	Singapore: government approval needed. Safety inspector liked Vyncke's culture and joined the company. He is still an agent in Singapore		Vyncke is founding member and financial partner of Incofin; an organization providing loans and equity participation for sustainable micro finance institutions in developing countries	Golden Bridge Export Award 2009 (Belgian-Luxembourg Chamber of Commerce in Great Britain)	Local business is run by locals. Expats only for short missions; specific projects.	
	China: to deal with the government, you have to be Beijing based. To deal with industry, you have to be based in Shanghai		Dirk Vyncke is chairman of Ex-Change, an organization stimulating entrepreneurship in developing economies.			
	Local sourcing and co-engineering		Infinite time horizon: preserve the planet for our children. "Our goals are not the next quarter, but the next generation"			

Vyncke's internationalization more closely resembles the behaviors that we would expect from the business network perspective. Vyncke resembles a Late Starter in the Johanson and Mattsson (1988) typology. It had remained West Flanders for generations of the Vyncke family before expanding abroad. Its internationalization relied heavily on networking, such as the importance of attending key industry trade fairs. Much of the networking was done by the CEO of Vyncke, rather than through existing customers or suppliers.

Vyncke's quest for **market legitimacy** and it strategy is revealed in its internationalization steps. Its headquarters location in south-west-Flanders was a key source of advantage in the early development of Vyncke. However, the local mentality may have been one of the reasons why it took 60 years for the company to internationalize. Something of the culture and history was explained as follows:

> *"This region is the richest of Flanders: the Leie-region. This river Leie was called the Golden River. This is also the most conservative place of Belgium. South-West-Flanders has a typical, hard-working mentality. Working hard, sweating and getting your hands dirty is what is most important. In other regions, people work less hard, but they would think before they start and waste less energy. This mentality is the reason why this region is so rich, but also why so few firms here internationalize. Very few companies grow from small to global, compared to, for example, Dutch firms. It's a local mentality and it sometimes bothers us to go international. In this region, everyone sits on his square hectare and does his own thing. The river and this hard-working mentality is where we started and still are. Nevertheless, Vyncke is now a global company."*

After 60 years of history with scarcely a footstep abroad, when Dirk Vyncke started at the company in 1972, he told his father he wanted to sell boilers and to "see the world." At that time, Vyncke was only doing business in West Flanders and in the north of France. Vyncke's significant internationalization started when the third generation of the Vyncke family took over. Dirk Vyncke – Peter Vyncke's father – took over when his father, Michel Vyncke tragically passed away in 1972. The oil crisis in 1973 provided a catalyst for growth and internationalization.

Vyncke's earliest internationalization was to Singapore and the US. Vyncke's North American office had sold a number of plants to greenhouse-owning companies in Canada and the northern US to substitute for natural gas fuel, using otherwise unusable demolition timber. Vyncke subsequently opened a large workshop in Frydek in the Czech Republic which has been operating for over a decade, where assembly and manufacture of some peripheral equipment is carried out. For foreign customer orders, large heavy pressure vessels are normally sourced locally to the customer, to Vyncke specifications, to avoid transporting them great distances. More recently, Vyncke opened a workshop in Suzhou, China, where it manufactures combustion systems solely for the Asian market. Dieter Vyncke, one of two sons of third-generation company chairman Dirk Vyncke, was based in Shanghai and oversaw this development.

With the early 2000s having seen substantial investments in energy systems in the Chinese market, more recent growth in the market for biomass fuel shifted dramatically towards Europe, with the share of total turnover from Europe increasing from 10% to 60%. Many European factories which traditionally used natural gas as their energy source saw energy costs escalate dramatically. The advent of carbon credits provided another strong incentive for panel mills to shift to the "greener" biomass energy.

Two customer responses illustrate this recent trend. Unilin, based in Bazeilles, France, ordered a Vyncke 20MW wood-fired hot gas generator to its existing line to almost completely eliminate the use of gas. For Sonae Indústria in Oliveira do Hospital in Portugal, Vyncke replaced an existing energy plant by building the new one alongside it to minimize the downtime during the switch-over. Portugal had a policy of clearing debris from the forest floor to help prevent forest fires and this material is used in energy generation.

An interviewee succinctly described Vyncke's strategy as follows:

> *"The niche in Europe is too small to be successful. We could have been successful as a local company, but we would have been a completely different company, with a different business. After the Asian crisis we fixed our strategy. Next to making the market large enough to continue in a niche, we decided to spread our risk. We are in seven different industries. All of our competitors have chosen one region and one industry. The problem is that we always fight the specialist. We do all the regions and all the industries, so it's a very expensive strategy, but you also spread your risk.*
>
> *Our global strategy is that we want to be present on a global scale, in good times and in bad times. We want to be present in order to spread our risk, but also the market has a long memory. It's not a hit and run strategy (except for Indonesia). We are a family company, we have an infinite time horizon. This global strategy is for the long run. We also go local. For every project we do, we never import anything, we avoid import taxes and transportation costs.*
>
> *We have considered entering the turbine business a lot, but we want a clear focus on one technology. The 500 companies in our industry all started as combustion engineers. Then, some went into manufacturing. They built big factories, and they need volume. They can't do a lot of product differentiation because of the volume. We decided to grow into a technological company, not a manufacturing company, worldwide in this niche."*

Vyncke operates in a heavily regulated industry. It needs to comply with legistlation, obtain the right licences and government approval. Furthermore, installations must be checked and approved by safety inspectors. The rights licences and qualifications can also become a competitive advantage, as evidenced by Vyncke's experience in China. Soon after obtaining the China Boiler Licence in 2002, Vyncke gained two major contracts in China. Its main competitor for these contracts, US market leader Geka Thermal Systems did not have this licence. Having to comply with strict emission standards can also turn out to be a competitive advantage:

> *"Flanders has the strictest emission standards on the planet. Once it meets the Flanders' standard, it will meet every other standard in the world."*

In each country, Vyncke has sought partners, and has needed relational legitimacy – to demonstrate its worthiness to be a partner. Networks, especially personal networks, have always played an important part in Vyncke's internationalization, especially through relationships with customers. It was explained:

"The sequence of internationalization is typically first trying to develop a market with agents or by other means, then going a step further. In China, we started in Beijing with an office, in order to serve our German clients. These German companies are big. They build complete factories, we build a part of that. Once you are there, people start talking to you and you can start networking.

Fairs are extremely important, because you need to expose yourself. International fairs are also important in terms of networking. In our sector, the whole world attends a fair. You need to expose your dream of internationalization on an international fair. Then, you start looking at the firms that are already there. You need a role model that can show you how you can realize your dream. You should try to talk with this person. You need to know which steps this role model took. We also talked to entrepreneurs in South West Flanders who were international. One of our role models (LVD) had an office in Singapore. He told us that he had sufficient space. Singapore has a very strange culture, even though Germany is probably as strange as Singapore. So the contact with a role model helps you to adapt quicker. There are other important elements, such as Flanders Investment and Trade (FIT) today. Our missionaries in South East Asia knew the region. So you try to use all these sources in order to build a network. That is what we did."

Vyncke established its subsidiary in Singapore in 1976 through office-sharing [with LVD]. This was before FIT had been established, no "ambassadors" from FIT. But Dirk Vyncke would always seek to make contact with other Flemish representatives, by socializing with them. Networks among the Flemish "missionaries" were dense, both in the business and political domains. Vyncke also used connections through the Rotary Club, and continues to do so, as well as with other Belgian companies, including LVD. They already had an office in Singapore.

When Vyncke sought to enter the US, it chose the south east, and sought out a partner. It found that Bekaert (a steel products company) was diversifying. It was no coincidence that it was Bekaert [like Vyncke and LVD based in South-West-Flanders], because networking was very important to Vyncke, which it identified as the Chinese way of doing business.

Vyncke has always sought to conform to local rules and customs in its quest for **social legitimacy**. Some of the ways that Vyncke has achieved this were described by interviewees:

"Why are we so international? It really is the culture of our company. We are all adventurers, we want to see the world. In 1975 already, our slogan was Small Scale Multinational. Now, it is Global Company, because multinational refers too much to profit centers. Bekaert is not a global company, it is a multinational company. We really have a global approach. In our business, it is probably necessary. But everywhere we go, we want a Vynckeneer from here. They are probably all West-Flemish. We always start with one guy from (West) Flanders that enters, then we get two and more [locals in the company].

Culture evolves, it changes and is also determined by new people. It is almost impossible to oblige them to adopt a certain culture. You need to adapt without changing your *individuality. You need to speak the local language as well. The American system wanted to force everyone to adopt values such as free market and democracy. For the Chinese, it is different. They have the Communism of Karl Marx, a German element, but it is their way. They have Buddhism, because it never dictated, they were never obliged. It was adopted because it was adapted locally. You need to show a lot of respect.*

As a Flemish company, what people know is chocolate and beer. It is good that we do not have that image like the Americans. The only colonization we did was Congo, and no one knows about that anymore. The German, the Americans, the Dutch, they always have a connotation. We are neutral like Switzerland."

Speaking to the need for **investment legitimacy**, the respondent added:

"We are in the business of engineering. In France, we get the profile of the German engineering, but with a romantic way of doing business. The US have the image of Belgium as a country that has a tradition of export. A German client said that if you manage to make things work in Congo, you are able to manage everything. It is a part of the thoroughness or soundness [of the Germans], but with simplicity. I do not know if people still think that today, because it was way back in the seventies. It is Germany, without arrogance, even though I think that they just perceive it as Europe, because the internal borders disappear. However, despite the fact that we're Europeans, they feel that we're more flexible, more customer oriented.

We are increasingly becoming European. We choose this. We need the profile of a European region, i.e. Flanders within a European region. Being Belgian is not important anymore. European technology is associated with Germany. We are from Europe."

Turning to **internal legitimacy,** Vyncke has been careful to use expatriates only for lightweight roles:

"Local business is always run better by locals. We only send out expats with a very specific target, like to start up a business. Expats are only used for small and short missions. My brother (Dieter Vyncke) went for three years: to find a location in China and build a factory. The factory is being run by Chinese people.

We do have headquarters, but more than one headquarter. There are a lot of competences and for each place, we look at the strength. For example, our headquarters for rice husk combustion and palm oil waste combustion cannot be in Belgium, because there are no have rice fields and palm oil. Czech Republic is ten times better at mechanical engineering than Belgium. It used to be the machine centre of the Soviet times."

Vyncke has occasionally had to demonstrate the validity, or appropriateness, of joint ventures as a legitimate means of forming alliances in foreign countries. In its quest for **alliance legitimacy**, Vyncke has been able to point to its considerable history and experience in using this form of interorganizational relationship. Vyncke has learned to use joint ventures in its internationalization, ventures which may transition to wholly-owned subsidiaries. It makes extensive use of joint ventures in its internationalization, but again it uses networks to identify partners and as a validator of partners and relationships, which occasionally evolve into subsidiaries. As an interviewee explained about the history of Vyncke's US subsidiary:

> *"Joint ventures are the best option for an SME to internationalize. They do not have sufficient resources to know the market or bear the risk of a full failure [e.g. of an acquisition]. Nevertheless, there was a period when we did not like joint ventures anymore. We know that joint ventures are the way to do it. It is a calculated risk, in that you know that you can solve a particular kind of technical problems. But, within the risky framework, other issues pop up. That is why we immediately contacted the BDBH (Belgian Foreign Trade Agency) and asked if they could help us. They helped us find a firm in Memphis, that was also experimenting with the technology. This firm also wanted a partner, so we started a joint venture. It was one of the best joint ventures we had. It was a good match. We were interested in the part of combustion technique. They were good at the part that surrounds the combustion. We agreed to do what we do best and divide the technologies.*
> *It was a fantastic story for four years. It stopped because of external factors. The dollar increased from 28 BEF tot 70 BEF, so it made no sense any more. We stopped the joint venture and we created Vyncke USA. We hired an American from the joint venture, because we always respect the local culture. The local guy from the former partner became the guy from Vyncke USA. But then, the problem was that there was no relationship with us, because there was no Belgian Vynckeneer. Vyncke USA was an American company. It created its own profile that was too distant from Vyncke."*

A different interviewee contrasted this experience with Vyncke's entry into China:

> *"We also considered a joint venture in China around 2000-2002. We do not have a joint venture in China, because of trust issues and communication. Communication should not be underestimated. Language is a big issue. It becomes more difficult if you need a translator; you don't feel what they want. Trust is another important factor. Most partners want to acquire your technology. In China, this happened to one of our competitors. Geka Thermal Systems (GTS), a US competitor gave its technology to its Chinese parner. The importance of the Chinese partner in the joint venture increased and GTS went bankrupt. In China, Vyncke only produces a part of the installation. It is also important to have a local presence. Dieter Vyncke is still present and we will keep a West-Flemish presence in China. But we are looking for a Chinese director. If you give them prospects, money, responsibility and a career perspective, they will stay.*
>
> *The most important thing is to find the right partner. It depends on the sector. We look for a partner that is upstream, downstream or just complementary. Like in the US, our partner did things around the installation. The installation was our job. He had his business, which was 'gathering dust' in a silo. He extended the value chain by taking us as a partner: it was 50/50. For us the American market was new, so we needed them. You need to find someone that is complementary. Like in India, they provide the boiler and we provide the inside stuff.*

Another major thing: avoid the possibility of entering each others' business. If this would happen, you would end up in a mess. That is always difficult with a joint venture, and we have had negative experiences regarding such conflicts. Partners that are in the boiler industry are very dangerous. They are not yet able to do what you can, but they can acquire your technology and then drop you. Of course, it's easy to co-operate with someone who is good at your core business. But eventually, they want your technology. They want your brand, they want your technology, they want your money and they want you out."

According to one interviewee, two markets cannot be entered alone: India and Thailand. In these markets, Vyncke has learned not to enter but through joint ventures, as its Thailand experience relates:

"In Thailand, we made the mistake of not starting with a joint venture. Instead, we used licenses, for our "older" technology (smaller installations). Getabec was our preferred supplier for Thailand and our agent. But Vyncke also did business directly in Thailand. So customers could also buy directly from Vyncke. This was an ambiguous situation. Getabec also wanted to sell more recent types of installations under license. Competitive pressure and evolutions in the market pushed Getabec towards higher level technology. The relationship between [us] and Getabec dated from the early 1990s. They had been talking about the idea of a joint venture for ten years. Eventually, Vyncke and Getabec started a 50/50 joint venture (2001). We could have started a joint venture earlier, but doing business in Thailand is difficult. Communication is indirect. It is hard to find out what they want. Cultural differences played an important role in not starting a joint venture in Thailand. For the joint venture we have with Getabec wa have a bank guarantee (surety). This gives us leverage to prevent them from copying our technology."

Although popular imagery is that Belgium is a small country known for industries such as chocolate and brewing, none of the entrepreneurs interviewed for this study were under the impression that their industry suffered from spillovers in the form of a negative country of origin effect. Moreover, Belgium's relatively small size and reputation abroad can be an advantage for entrepreneurs seeking to invest abroad, since there is no negative connotation. We did not find a liability of origin.

> *"The Germans, the Americans, the Dutch, they always have a connotation. We are neutral like Switzerland"*

> *"Being from Belgium is a big advantage. Belgium is considered extremely neutral."*

Although all firms interviewed are based in Flanders, none of these firms profile themselves as being Flemish.

For those firms for which developing networks is important to internationalization, fairs are extremely important for coming into contact with customers and building networks. Flemish firms also seem to rely on, and learn from, the experience of other Flemish SMEs as they internationalize, as Vyncke had done from LVD in the sheet metalworking industry when they shared an office in Singapore. We conclude that it is important that organizations such as FIT enhance their efforts on helping these firms to develop their business networks, including participation to industry fairs. Meeting the right through networking can dramatically speed up the internationalization of an SME.

Sharing experiences and learning from other firms is crucial to avoid making mistakes. One way to do this is through office sharing. This is not only a way to limit costs when setting up a first office abroad; it also provides firms with a good location, and access to information on doing business in a particular market. This enables firms to learn from other firms. How do they approach the market? What causes their success? What went wrong? This is learning not from the firm's earlier internationalization experience, but from peers. FIT's service centers can be a way to develop this way of interaction between firm and reduce barriers when first entering a market. Another way to mitigate some of the investment risk is choosing a location where other Belgian firms are present.

In some countries, a joint venture may be the best way to do business. Especially for SMEs, a joint venture has significant benefits. However, finding a reliable partner is crucial for the success or failure of a joint venture. Helping firms to find a reliable partner remains an important service FIT can offer SMEs.

No firm can enter a market without information on legislation and local customs. Since SMEs are often reluctant to hire consultants, it is important that these firms know that organizations such as FIT can also provide valuable information about foreign markets.

Joining forces can increase legitimacy spillovers (e.g. Belgian Sports Technology Club and Olympic Business Club). Other firms can learn and benefit from Alfacam's experience in dealing with the IOC. This can increase the legitimacy of other Belgian firms.

Finally, we conclude that one way to help SMEs internationalize through establishing themselves in foreign locations may be to begin to understand their embeddedness in home country networks. Rather than focus on particular firms, FIT may focus its support for internationalization at the level of the home country network of firms. The support that firms need is contingent upon their degree of internationalization relative to those in their network of interacting others. A corollary is that assisting one or two lead firms to internationalize may spur rivals to increase their extent and pace of internationalization. All SMEs need, in addition, to achieve alignment, or legitimacy. This means that they will need to demonstrate their rights and qualifications to participate in the host country market, to recruit effectively, to be a worthy partner, to conform to societal rules and expectations, to be a worthy investment partner, and to be a show the legitimacy of the organizational form that they adopt at entry and as they expand.

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Introduction

Alfacam provides television (TV) facilities and services to broadcasters and production houses. It was established when Angel Video and E&E Audiovisuals merged in 1987. Angel Video was a television production company owned by Gabriel Fehervari and Karin Stoop, E&E Audiovisuals was a television services company. Initially, Alfacam provided single camera services for the corporate movie market, but diversified into providing multi-camera systems to record events. Its first multi-camera project was to record the first edition of The Night of the Proms in Antwerp's Sportpaleis in 1985.

Following the decline of the corporate movie market, Alfacam started to diversify, taking advantage of the strategy of the Flemish public broadcaster VRT (previously BRTN) to outsource some of its recording work. Alfacam supplied programme recordings including for Samson & Gert and Panorama. In a second major shift in its strategy, price erosion in this market pushed Alfacam towards developing its current niche of special events. In 1997, it started to look outside Belgium, to focus on larger international events on which it could earn a higher margin. The success of this diversification has resulted in Alfacam's current configuration of five different business units, with 150 employees located in Belgium, Germany, France, Italy, Switzerland and South Africa. Alfacam is listed on Euronext Brussels following its successful initial public offering (IPO) of shares in May 2007.

Strategy: Advantage and Scope

Having exited the declining corporate movie market, Alfacam initially focused on the domestic TV programme recording market. However, increasing rivalry in this segment focused on price led Alfacam to reposition into higher-margin businesses, outside Belgium. This led to its current focus, which is as a leading international supplier to the HDTV recording market. Alfacam is a focused differentiator (Porter, 1980) through its provision of high reliability and performance programming to international clients who are willing to pay more for its services than the additional costs incurred by Alfacam. Alfacam focuses on large international clients and/or events, in relation to both multi-camera and wireless TV services and the rental of studios and equipment. Alfacam benefits from being able to achieve economies of scale and scope across its different group businesses.

Many large international events covered by Alfacam, such as the Olympics, are cyclical. In order to achieve a steadier flow of business, Alfacam has sought to diversify its services and look for a broader geographical spread for is businesses. In the past operating revenues in even years have been significantly higher than in odd years for the reason that large projects, such as the Olympic Games and the European Championship and World Cup Football, follow cycles of even years. The success of this diversification strategy to break the cycle is evinced by the fact that Alfacam managed achieved increasing operating income in both 2007 and in 2006, the year of the FIFA World Cup in Germany.

In its **multi-camera business**, Alfacam wants to expand its market leading position. Alfacam is involved in the majority of special top events, which have all been recorded in HDTV since 2004. Alfacam's technological advancement and know-how, its reputation and credentials play a key role in winning these special event commissions. To make available the resources needed to cover these top events, Alfacam has tended to avoid recurring contracts for other work, as this would tie up its production capacity. Furthermore, these recurring contracts have lower margins. However, the significant investments required in leading-edge, advanced technological equipment has forced many of Alfacam's competitors to take on these fixed contracts for recurring recordings.

Alfacam focuses on technological leadership in high-definition, with the largest fleet of HDTV outside broadcasting (OB) vans operated by a highly trained, multilingual staff. Since most of the multi-camera recording work is done abroad, the language skills of Alfacam's technicians and engineers, especially in English, are a major source of Alfacam's advantage relative to its foreign competitors from countries other than Belgium. Additionally, the co-operation with the Multimedia & Communication Technology department of the Karel de Grote College in Antwerp, with its co-located campus at Alfacam's headquarters, has a positive effect on the inflow of new, skilled employees.

Consistent with its differentiation strategy, Alfacam emphasizes innovation and uses the most advanced equipment available on the market. Once a technology becomes mainstream, Alfacam sells this equipment, providing funds for further investment in newer technologies and products.

For its **wireless business**, Alfacam created a separate company, EuroLinx, since some of Alfacam's competitors are major customers of EuroLinx. Whereas it has mainly focused on wireless transmission over short and medium distances, EuroLinX wants to profile itself as the first company to offer long-distance transmission in HDTV quality on a large scale.

Alfacam's **Eurocam Media Cente**r aims to be the preferred partner for broadcasters and production companies seeking to hire studios and equipment. Alfacam can achieve synergies here with its other businesses by combining studio rentals with multi-camera TV services or using the studios for the creation of own content. Alfacam invested a total of €4.8 million in 2008 in expanding the Eurocam Media Center. The Eurocam Media Center is a modern multifunctional complex with 12 television production studios. These studios can also be used for corporate events. The complex covers more than 60,000 m² and has one of the country's largest solar power plants (14,000 m²) on its roofs. The complex hosts three TV channels: Euro1080, MTV Networks and Life!TV. This expansion of the Eurocam Media Center was supported by Generali Belgium through name sponsoring. The Generali Dome has a surface area of 3,300 m², with Europe's largest indoor water reservoir (1,000 m²).

Alfacam's **content business Euro1080** was the first television company in Europe to broadcast in HDTV, on 1 January 2004. Euro1080 has played a pioneering role in the promotion and development of HDTV projects in Europe, working together with partners in consumer electronics, satellite providers and commercial partners. Euro1080 focuses on broadcasting sports, music and culture in high definition. By exporting its HD1 and EXQI models and launching various sports, lifestyle and culture channels, Euro1080 can realize substantial economies of scale. More than 70% of the content can be nearly identical for all the various regions.

The following interviewee responses to questions on corporate scope describe Alfacam's diversification into new markets and countries :

1. Multicamera services

"We supply television trucks all over the world to cover mega events such as the Olympics and the World Cup football. 98% of our business here is abroad and roughly 50% outside of Europe. For these events, we ship fully equipped TV trucks around the world to cover 2,400 productions per year. We now have two TV trucks in South Africa and there were 19 television trucks at the Beijing Olympics. The customers for these services are broadcasters (e.g. BBC or Sky), federations (e.g. sport federations) and production companies."

2. Wireless

"Our wireless business is similar. Again, 98% of our business is abroad, for the same types of clients. We have our own airplanes, bikes and helicopters for the production of sports events such as triathlon games or cycling."

3. The Media Center

"This business is totally different. We have 12 studios, located in Belgium. The core of the media centre is provision of studios; we rent the studios. Different Belgian producing companies and broadcasters are clients here. Even here, we have some foreign customers, such as Franco Dragone. We also cooperate with the Karel de Grote Hogeschool to shape their Multimedia and Communication Technology course. More than 300 students are based here to learn the technical part of making television." To accommodate these clients and the students, Alfacam included 54 guest rooms, two large auditoria (up to 300 persons) and six media labs in its Eurocam Media Center. For its employees, there is a gym and a childcare center."

4. Production companies

"We have our own two production companies, Elisabeth (100% Belgian) and Big Little One (BiLi1, 100% outside of Belgium) for big projects. Clients are for example the World Handball Federation, who asked us to produce the World Cup. We provide everything, even the commentators. Or we record a classical concert in St-Petersburg for Japanese television. We do everything and just send them the tape."

5. Content

"The fifth block is our own channels: Euro1080. Our international channels HD1 and HD3 are up and running for seven years on satellite. In Belgium we have Exqi Sport and Exqi Culture. We also sell the programs we make for Exqi abroad."

Alliances

Although HDTV was gaining market share in Japan and the US, European viewers had to wait until 1 January 2004 for the first HDTV broadcast, when Euro1080 launched its HD1 channel with the traditional Vienna New Year's concert. Until then, HDTV could not break through in Europe, since there were no HDTV broadcasts. As a result, consumers would not buy high-definition televisions, which in turn meant that broadcasters would not switch to HDTV, since viewers in Europe did not own HDTVs. Alfacam was the first company to break this stalemate. However, with a limited audience at the start, it had to look for partners to cofinance its expensive broadcasts.

Broadcasting four hours per day in HD costs about €30 million, or as much as Alfacam's total turnover in 2007. Therefore, Alfacam had to look for partners to invest in Euro1080. In 2003, five companies decided to invest €12 million in Euro1080, the content part of Alfacam Group. These companies would all benefit from the breakthrough of HDTV in Europe. Japanese groups Pioneer and Panasonic and French Thomson sell high definition televisions. Next to these foreign partners, two Belgian firms are involved: Barco makes projectors and EVS produces the servers to store the digital images. Together, these firms will invest €12 million over two years. In 2005, Sony also started a strategic partnership with Alfacam to promote HDTV in Europe. Sony also bought 100.000 access cards.

As well as revenue streams from its technological partners, Alfacam also generates income from end users. Euronics, a European chain of consumer electronics retailers (e.g. Selexion and Expert in Belgium) will sell the decoders and access cards to consumers. The retailers also benefit from the HDTV broadcast of Euro1080 to sell their high definition televisions to consumers. Alfacam sources these decoders from Taiwan and Korea and sells them to retailers. Consumers pay €500 for a decoder and €100 for an access card. This should generate an income of €10 million for Euro1080.

Cinemas also finance part of Euro1080's operations. Alfacam has a strategic alliance with Kinepolis, a Belgian group with movie theaters in Belgium, France and Spain, Poland and Switzerland. Live broadcasting of important sports events and pop concerts in HDTV can become an important source of income for cinemas. Alfacam estimated the potential contribution of this channel to its income at €12 million.

More recently, Alfacam signed partnership agreements with Canon, JVC, Carlsberg, Nuon, Sharp, Volvo Trucks, Tektronix, ING and KBC. Alfacam offers airtime on the Euro1080 HDTV channels in return for a total value of €5.5 million over three years.

Another alliance was formed when Euro1080 acquired exclusive TV rights to broadcast Belgium's second football division. Whereas Belgacom paid €44.7 million for the rights of the first division, Alfacam closed a commercial partnership deal and paid €0. With this deal, the football clubs hope to boost revenues as the increased visibility of the league will entice more fans to come to the stadium and advertising income will go up. Alfacam will broadcast the matches on its sports channel Exqi Sport, and the league will be called Exqi League. It will be the second football league (after the English Premier League) that will be fully broadcast in high definition.

Although HDTV is successful in the US, Japan, Canada and Australia, it is still far from reaching its full potential in Europe. Nevertheless, Alfacam felt confident that there is potential in this market in Europe and started Euro1080. The technological partners are important to develop this market, but for HDTV to break through cable satellite networks are another indispensable link to bring this technology into European living rooms. In Belgium, Euro1080's channels can be viewed via Telenet, Belgacom and Indi.

Activities

Alfacam has played a pioneering role in Europe, investing in the newest technologies. On 1 January 2004 Alfacam was the first company to broadcast in HDTV in Europe. Before that, Alfacam was the first European market player to invest in the 16:9 digital screen format in 1993. It became the first to use the latest super slow motion technology in Europe in 1998. In 2000, Alfacam was the first in Europe to switch to HDTV. In 2004 it was the first company in the world to to use the latest generation of high definition (HD) super slow motion cameras and in 2007, Alfacam was the first to record a live concert in 3D HD.

> *"We want to be innovative. You want to give the best and want to stay ahead of your competitors. We started High Definition in 2001, our German competitors followed in 2005. We now have the largest pool of HDTV recording and editing material in Europe. This ranges from high definition and super slow motion cameras to 35 mm film transfer equipment. To keep innovating, we need to invest in equipment, but this investment pays off. For the superslomo, we only have two competitors. This means we can set our price in this market."*

Multicamera services remain a small niche, but competition is fierce and incumbents have to invest heavily in equipment and keep innovating. In 2007, Alfacam invested €23 million in four new OB vans, with seven OB vans completed in 2008. The number of cameras needed to report a football game keeps increasing. In the 1980s, you needed eight cameras, for Euro 2000 Alfacam used 18 cameras. For the 2010 World Cup in South Africa, Alfacam will send a team of 120 technicians, 130 cameras and eight OB vans.

When Alfacam started with high definition, the market did not exist. In its first year, HD was limited to eight events in Japan. Even though HD has become the standard in the US and Japan, the market remains limited in Europe. Nevertheless, Alfacam is convinced this will change, thanks to its superior image quality. Organizers of mega events such as the Olympics demand that everything is recorded in HD. The acceptance of HDTV as the standard in the US and Japan, means that Alfacam can also sell what it is recording in Europe in these markets.

A furher advantage of investing in the newest technologies is that Alfacam can buy this equipment relatively cheaply, since suppliers see this as an ideal promotion tool for their newest innovations. When Alfacam switches to even more advanced technology, it can still sell the “old” equipment for a high price. After five years, the residual value can sometimes still be 60% of the original value.

> *“Technological innovation is important in our business, but we go even further. Business models and market mechanisms can also be improved. We also create new markets. Alfacam invested heavily in OB vans and trucks and we have become the prefered partner for top events. We were also the first European TV facilities and services provider to switch to high definition and try to develop this market in Europe.”*

Alfacam has played a pioneering role in Europe, investing in the newest technologies. Alfacam was the first European market player to invest in the 16:9 digital screen format in 1993, and it became the first to use the latest super slow motion technology in Europe in 1998. On 1 January 2004 Alfacam was the first company to broadcast in high-definition television (HDTV) in Europe, and in 2000, Alfacam was the first in Europe to switch to HDTV. In 2004 it was the first company in the world to use the latest generation of high-definition super slow motion cameras and in 2007, Alfacam was the first to record a live concert in 3D high definition. The following interviewee comments show the importance of innovation to Alfacam’s success:

> *“We want to be innovative. You want to give the best and want to stay ahead of your competitors. We started high definition in 2001, our German competitors followed in 2005. We now have the largest pool of HDTV recording and editing material in Europe. This ranges from high definition and super slow motion cameras to 35 mm film transfer equipment. To keep innovating, we need to invest in equipment, but this investment pays off. For the superslomo, we only have two competitors. This means we can set our price in this market.”*

> *“Multicamera services remain a small niche, but competition is fierce. You need to invest heavily in equipment and keep innovating. In 2007, Alfacam invested €23 million in four new outside broadcasting vans. Seven outside broadcasting vans were completed in 2008. The number of cameras needed to report a football game keeps increasing. In the 1980s, you needed eight cameras, for Euro 2000 we already used 18 cameras. For the 2010 World Cup in South Africa, we will send a team of 120 technicians, 130 cameras and eight outside broadcasting vans.“*

> *“When Alfacam started with high definition, the market did not exist. In our first year, we limited high definition to eight events in Japan. Even though high definition has become the standard in the US and Japan, the market remains limited in Europe. Nevertheless, Alfacam is convinced this will change, thanks to a superior image quality. Organizers of mega events such as the Olympics demand that everything is recorded in high definition. The acceptance of HDTV as the standard in the US and Japan, means that Alfacam can also sell what it is recording in Europe in these markets.”*

A further advantage of investing in the newest technologies is that Alfacam can buy this equipment relatively cheaply, since suppliers see Alfacam as a customer as a lead user that can showcase innovative technologies. When Alfacam switches to even more advanced technology, it can still sell the “old” equipment for a high price, with customers including national television stations. After five years, the residual value can be as much as 60% of the original value. Its outside broadcasting vans are regularly sold after between three and eight years, often provide significant capital gains.

> *“Technological innovation is important in our business, but we go even further. Business models and market mechanisms can also be improved. We also create new markets. Alfacam invested heavily in OB vans and trucks and we have become the prefered partner for top events. We were also the first European TV facilities and services provider to switch to high definition and try to develop this market in Europe.”*

Introduction

Vyncke is a nearly 100-year old family firm specializing in clean energy technologies and products, with manufacturing plants in Belgium, the Czech Republic and China, and with non-manufacturing subsidiaries in Brazil, Germany, Thailand, Malaysia and Singapore.

Four generations of Vyncke family leaders

- Louis Vyncke: founded the company in 1912
- Michel Vyncke: the heart of the company until 1972
- Dirk Vyncke: driver of internationalization from 1972; chairman since 2002
- Peter and Dieter Vyncke: took over in 2002

Vyncke in a nutshell

- We are a global local family company
- We turn biomass into green energy
- We have smart, innovative solutions
- We offer a total service

Family business values of the global Vyncke family

- Tradition and innovation
- Oneness, tolerance, trust and respect
- Authenticity, integrity and responsibility
- Dealing for the long term: an infinite time horizon

CEO Peter Vyncke's great grandfather Louis Vyncke, a blacksmith, started the company in 1912. Early in the 20th century, flax was a major crop in Flanders since it provided the raw material for making textiles. Textile preparation involved separating the fibre from the husk by a rotting process. Flax farmers around Harelbeke, home town of the Vyncke family, used the River Leie to provide the water for this process, but the rotting was accelerated by using hot water and steam. It was to improve this process that Louis Vyncke started importing boilers that could provide hot water and steam for the flax processors from Lancaster in the UK. The husk from the flax itself could provide the fuel for the textile production process. Alongside the flax industry, a particleboard industry became established, again using husks to fuel the boilers. Louis Vyncke adapted these boilers to burn the husk waste, since the price of coal had risen. This was a very early example of a biomass energy system that used the by-product, husk, to fuel the boilers that created the steam for the production of textiles.

Around the time of the first oil crisis, when there was again increased demand for energy systems using alternative fuels, Vyncke developed and patented its Dynamic Watercooled Stepgrate (DWS), which from the 1980s has remained a core technology in its current product range. Since that time, Vyncke's identity has changed from that of a steam boiler manufacturer to a manufacturer of energy systems integrating combustion, engineering, and boiler systems. A Vyncke sales manager explained the advantages of this system as follows:

"Because of the water cooling of our combination systems, we had better control of combustion quality because we didn't need air for cooling but used water. Therefore we could regulate the combustion air to the optimum. You have to understand that combustion is a chemical process and, as with every chemical reaction, it needs the right temperature, time, turbulence and the reaction components delivered in the right amounts. It is important to have the right amount of air for combustion without being driven by the need for air for cooling as well."

The company does not itself supply exhaust gas cleaners for its energy plants, but tries to modify the combustion process to avoid the necessity for filter installations as much as possible. The principle of the DWS is that the grate itself is rather like a staircase in appearance. Each step or tread of the 'staircase' is a water-filled tube which is part of a closed circuit. The water is forced around the tubes to keep the temperature of the grate stable. The combustible material burns on this water-cooled step grate, while between every step is a 'pusher' made of a special cast iron, which moves back and forth sending the combustible material down the steps at a regulated speed. The grate itself is divided into zones where the speed of progress of the combustible material and the amount of combustion air are regulated. Combustible material is fed into the top of the grate via a hopper and screw transporters. The screws provide a relatively consistent and constant feed. Heat energy is recovered from the cooling water via a heat exchanger and used to pre-heat the incoming combustion air.

The sales manager continued:

"Water cooling has several advantages. You don't need air for cooling so the air is regulated solely for combustion quality and capacity. Also, water cooling controls the expansion of the grate and this results in better air distribution because you do not need to allow for expansion gaps on the grate parts. You can burn fuels of high calorific values such as very dry material. Finally, water cooling avoids clinker build-up because the clinker crystallises on the grate in small particles and is thus easier to evacuate."

Vyncke thus entered the biomass-to-energy market. 98 years later, Vyncke employs 260 employees, who are known as "Vynckeneers."

Strategy: Advantage and Scope

Vyncke is a focused differentiator (Porter, 1980) that has remained relatively undiversified in products and businesses, but that has expanded its scope primarily along the geographic dimension by serving customers from similar industries in different countries.

Vyncke supplies its products to four different industries. The first of these is wood-based panels (50-60% of turnover), with one of its largest energy systems supplied being an 80 MW system at Classen's MDF factory in Baruth, in eastern Germany. Vyncke has a technological capability in providing so-called multimedia plants, capable of handling diverse energy needs, such as simultaneously from thermal oil, steam, hot water, hot gases, and electricity. Its strong presence as a supplier to the rapidly expanding wood panel industry has led to growth opportunities globally.

The second business areas is to supply the wood processing industry, including furniture and flooring, that are principally the users of wood-based panels. These are generally smaller systems, up to 20 MW. Vyncke does not supply massive projects, such as would be required by main electricity grid generating companies, such as taking raw material (wood) required by particleboard mills to burn in their plants.

Third, Vyncke sells into the agricultural industry, such as rice, palm oil, coconut, and sunflowers. These generally require installations to provide high-pressure steam in combination with electrical power. They are usually 50-60MW capacity thermal power and up to 11.5MW electrical power. The above two business areas account for around 10-15% of turnover at Vyncke.

Fourth, around 20% of Vyncke's turnover comes from supplying systems to the power industry, where it often works with partners or in consortia, rather than as the main contractor. The sales manager explained:

> *"These are not electricity generators as such. We limit ourselves to combination plants for energy and steam generation and work with partners who provide electricity generating expertise and act as the main contractor. We also sometimes set up 'temporary consortia' for some larger projects, such as one with ERDA of Belgium where we worked with AMEC SPIE. In this particular project, bark from sawmills is used to generate steam and the steam is used primarily to produce electricity, while steam from after the turbine is used to dry sawdust. This dry sawdust is then made into fuel pellets, while any excess electricity is sold to the grid."*

In recent years, Vyncke has expanded its geographic scope. Vyncke's factory in Harelbeke was formerly a railway station and still displays some old steam engines and boilers as reminders of both the site's and the company's history. The key components of the energy plants for world markets – Vyncke's combustion and control systems – are always made and assembled at Harelbeke.

Key dates in relation to Vycke's internationalization are as follows:

1912-1970: Vyncke sells its products locally, i.e. in south west Flanders and across the border in the North of France.

1971: Dirk Vyncke takes over; he had a vision for internationalization.

1975/1979: Vyncke's first office abroad was in Singapore. LVD, a company from the South-West-Flanders region (and friends of Dirk Vyncke) already had a presence in Singapore and Vyncke started office sharing with them. It started with one man, one desk and they borrowed a table, a chair, a telex, etc.

1976: First joint venture: with Steelcraft-Vcorporation (US). This was the start of Vyncke's rapid expansion in the US. This joint venture ended in 1981, as a result of external factors; mainly the USD/BEF exchange rate.

1978: Around the same time, Vyncke started a 50/50 joint venture in Canada. Imitation of Vyncke's technology by its joint venture partner ended this joint venture.

"Small scale multinational"

In the 1980s, foreign sales represent about 80% of Vyncke's sales.

1988: Vyncke opens an office in Jakarta.

By the end of the 1980s, Vyncke exports about 60% of its sales, down from 80% at the start of the decennium. Vyncke aims at an equal distribution of sales among Belgium, Europe and the rest of the world to spread its risk.

1990: Vyncke's sales rep in Prague wins a big contract in Czech Republic, beating German and Swedish competitors. The contract value (€1.5 millon) represents 20% of total turnover at that time. Vyncke collaborates with Slatina and Ingstav in this market. Vyncke starts a joint venture in Jakarta. However, the Indonesian market is a difficult one, with a high level of corruption. Furthermore, Vyncke employees start selling copies of its boilers. Vyncke will later decide to leave the Indonesian market and focus on other markets in South East Asia.

1992: Export represents two thirds of Vyncke's sales. Half of this export is within Europe, the other half mainly in South East Asia. Two contracts in Germany. Vyncke needs to comply with the strict Germand TA Luft emission standards.

1993: 31% of turnover is in Europe, 36% in (South East) Asia, with Malaysia, Indonesia, Thailand and the Philippines as the most important markets.

1994: Office in Kuala Lumpur. This will evolve to become the core of Vyncke's operations in South East Asia. AMC has license to build Vyncke boilers in Malaysia and copies its technology.

2000: Vyncke enters China and opens an office in Beijing. Most of its products were delivered to German machine producers. Vyncke's breakthrough in China was driven by deliveries to German contractors in China. Three years later, on third of Vyncke's orders come from China.

2001: Vyncke starts a joint venture with Becker in Brazil. Both partners have 49% of the capital (€171,000) and will build a new plant in San Antonio. The first contract is worth €3.17 million. Vyncke will later acquire Becker's share in the joint venture.

2002: Vyncke obtains China Boiler Licence, followed by two big contracts in China (€2.1 and €2.5 million). Its main competitor, Geka Thermal Systems (market leader in the US) did not have this licence. GTS went bankrupt in 2007. Its former Chinese JV partner is now a strong competitor in China.

2000-2006: Distribution of sales: 13% Americas, 32% Asia, 55% EMEA. Vyncke's employees: 80 in Belgium, 80 in Czech Rep, 5 in Germany, 30 in China, 4 in Bangkok, 15 in Kuala-Lumpur and 8 in Brazil.

2007: Dieter Vyncke starts up a new plant in Shuzou (100% Vyncke). Once this plant is up and running, the aim is to have a Chinese director. €5.76 million order in Brazil, €13.4 million order in Scotland, €6 million order in Malaysia (ZDR).

2008: €4.2 million order in China (JJJC), €3 million euro order in Dubai. Vyncke builds a new plant in Czech Republic, 5 km from the old one. Vyncke now employs 90 vynckeneers in Czech Republic.

2009: Vyncke starts a 50/50 joint venture with Forbes Marshall in India. Vyncke currently has three 50/50 joint ventures: Getabec (Thailand), Arautherm (Brazil) and Forbes (India).

"Global company"

Activities

Vyncke does not rely on patents to protect its intellectual property, though it holds a worldwide patent on its Dynamic Watercooled Stepgrate. Patents are less attractive in practice:

> *"Competitors can copy Vyncke's technology. We don't take patents. It's impossible or too expensive. We are copied multiple times, but recently, I won an order against a copy. We won because the copy was three years old. It wasn't as good as the new one Vyncke developed. When you talk with a customer, you already know what is wrong with the copy."*

Vyncke's technology has been copied multiple times, by (former) employees or joint venture partners. Examples include imitation of technology resulting from a 50/50 joint venture in Canada, in the wood industry. In Malaysia, a salesperson left Vyncke and started his own firm with Vyncke's technology. Also in Indonesia (1998), a local salesperson started his own firm and developed products that he branded as "real Vyncke copy." Vyncke tries to stay ahead of the competition and imitators by continuing to invest in technologies – always seeking the next generation technologies – rather than in fighting battles to protect intellectual property, much of which it can render obsolete by its own investments. It was explained:

> *"Competitors can easily copy, since reverse engineering is easy for this type of product. For security reasons, the full design of an installation needs to be specified in a boiler dossier, with all the drawings, schematics and technical information. One way to prevent copying by joint venture partners is using a bank guarantee (surety). This gives the firm some leverage to prevent its joint venture partner from copying the technology. Vyncke uses this in its joint venture with Getabec in Thailand."*

Vyncke's investment in technologies also leads to its installations have a lifespan of 25 years. It guarantees its customers that the installations will last a long time and that Vyncke can provide adequate service and maintenance. Recently established competitors cannot demonstrate a similar track record, making their installations a more risky investment. There are also strong pressures to innovate from the institutional environment:

“Emission standards also oblige us to innovate. Pollution control forces us to update our technology. We do this here, not because we are more clever or better than our Malaysian colleagues. Flanders, not Belgium, has the strictest emission standards on the planet. Once it meets the Flanders’ standard, it will meet every other standard in the world. And every year, it becomes more strict.”

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