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Changing Criteria for Internal Legitimacy and the Internationalization Process of Telecom Finland 1987–1998

ABSTRACT

We study the dynamics of internal legitimacy within a multinational corporation (MNC). Particularly, how changing criteria for internal legitimacy affect the internationalization process of a state-owned multinational company (SOMNC). As both shift in criteria for internal legitimacy and internationalization are time-consuming processes, we explore this with a historically embedded case study that spans over ten years. Based on extensive archival material we conduct an in-depth study of Telecom Finland undergoing both privatization and internationalization during the period of interest. We show that Telecom Finland's criteria for internal legitimacy for its international ventures gradually changed from emphasizing national to multinational legitimacy. This shift had implications on both geographical market and partner preferences. Additionally, we uncover path dependent implications, as ventures established under national legitimacy continues to impact internationalization strategy under multinational legitimacy. Our study contributes to the discussion on legitimacy in MNC by looking at the dynamics of internal legitimacy from the parent's perspective. We also extend the SOMNC literature by showing how rationales to internationalize can change as state influence decreases and how it impacts the internationalization process. Finally, we answer multiple calls in international business research to uncover complex, path dependent, and contextually embedded relationships using historical methods.

Keywords:
legitimacy in MNC; multinational corporations (MNC); state-owned enterprises (SOE); historical methods

INTRODUCTION

Some of the world's largest multinational corporations (MNC) have emerged from the telecommunications industry (Clifton, Comín, & Díaz-Fuentes, 2011). The internationalization of telecommunications firms has been a gradual process in which institutional factors have played a major role. From the 1980s onwards the telecommunications market underwent major regulatory, organizational and technological transformation globally including deregulation, privatization of former national monopolies, and emergence of new mobile and digital technology (Graack, 1996). These gradually changed the market structure from detached national markets controlled by a single state-owned monopoly to a global market by the end of the 1990s.

MNCs' international subunits are exposed to multiple institutional demands from both the host market and their corporate parent (Kostova, 1999; Kostova & Roth, 2002; Kostova & Zaheer, 1999a). They need to balance the conflicting demands to attain both external (i.e. in the host context) and internal (i.e. within the MNC) legitimacy (Kostova & Zaheer, 1999b; Meyer, Mudambi, & Narula, 2011; Narula, 2014/2). The relationship between internal and external legitimacy have been studied extensively especially under various combination of MNC and host contexts such as in the state-owned MNC context (Meyer, Ding, Li, & Zhang, 2014). Also, the dynamics of the institutional demands for external legitimacy have received significant attention (Cantwell, Dunning, & Lundan, 2010; Regnér & Edman, 2014a). However, the dynamic aspect of internal legitimacy has received less attention, even though it has significant implications on the development process of a MNC affecting its portfolio of ventures, geographical markets, and partners.

The state-owned multinational company (SOMNC) context have the potential to reveal new understanding of the dynamics of internal legitimacy within the internationalization process (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). Although, Estrin, Meyer, Nielsen, and Nielsen (2016) found that with strong institutions SOMNCs pursue internationalization to the same extent as their privately-owned counterparts, the underlying mechanisms of internationalization of state-owned companies still remain underexplored (Liang, Ren, & Sun, 2015). Additionally, most SOMNC studies are conducted in the Chinese context (e.g. Cui & Jiang, 2012; Duanmu, 2014; Liang et al., 2015; Meyer et al., 2014), which might have different implications compared to SOMNCs from Western countries (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015) due to e.g. national security concerns.

In this paper we focus on the dynamics of criteria for internal legitimacy and ask how changing criteria for internal legitimacy affect the internationalization process of a state-owned enterprise. We conducted an in-depth historical case study of Telecom Finland (TF) from 1987 to 1998, when it evolved from a state department to a publicly listed SOMNC. During this period TF's institutional environment changed significantly affecting the institutional pressures to internationalize. The historical approach allow us to study changes that occur over extended period of time and be mindful of the contextual embeddedness of the change process (Vaara & Lamberg, 2016a).

We found that as government influence over TF decreased gradually during the period of interest, the rationales for internationalization TF used to evaluate potential ventures changed. In the beginning, when state influence was still strong, TF emphasized the benefits of international ventures to the Finnish society and industry reflecting national legitimacy. As TF became more independent, TF started to increasingly emphasize ventures' potential for growth and fit to their strategy and venture portfolio, which reflected multional legitimacy. This shift in internal legitimacy criteria impacted geographical market and partner preferences. Further, there was path dependent effects from the existing ventures established under national legitimacy that affected further internationalization under multinational legitimacy that created conflicts of interests between old partners and new ventures, and required relegitimation of old ventures.

We contribute to the institutional theory literature on MNCs by extending our understanding of the dynamics between internal and external legitimacy by focusing on changing criteria for internal legitimacy, and reveal historical path dependent implications to choice of geographical markets and partners (Kostova & Zaheer, 1999b). Also, we contribute to SOMNC literature by showing that, although, SOMNC can internationalize to the same extent or even more than their private counterparts, they have different rationales for internationalization and they might even change significantly during long internationalization processes resulting in different paths (Bruton et al., 2015; Cuervo-Cazurra et al., 2014; Estrin et al., 2016). Finally, we answer the multiple calls in international business literature for more historical research that can uncover complex, path dependent and contextually embedded relationships in internationalization (Buckley, 2016; Burgelman, 2011; Jones & Khanna, 2006).

THEORETICAL BACKGROUND

Institutional theory has gained increasing significance among MNC scholars (Kostova, Roth, & Dacin, 2008a; Saka-Helmhout, Deeg, & Greenwood, 2016). Extant research using institutional perspective on studying MNCs has used understanding from neoinstitutionalism - adaptation and selection in organizational field - together with "old" institutionalism that stresses social constructive nature of institutions (Kostova et al., 2008a). This have yielded interesting theorizing that not only see institutions as constraints but also as enablers for competence development (Cantwell et al., 2010; Meyer et al., 2011) and source of competitive advantage (Regnér & Edman, 2014a). However, institutionalized structures also actively orient decisions towards some option sets over others (Cardinale, 2017). In an internationalization process this could mean that institutions steer managers to evaluate certain geographical markets against others with certain criteria, whereas some markets are not considered.

Institutional analysis of MNCs has long been aware of the importance of managing differences between the MNC global network and subsidiaries in various local contexts with contradictory institutional demands (Kostova & Roth, 2002; Kostova & Zaheer, 1999a; Meyer et al., 2011). In this line of research scholars have extended our understanding of both home country institutions (Meyer & Thein, 2014/1) and host country institutions (Kostova, 1999) affecting MNCs - these have been analyzed from both MNC parent firm and subsidiary perspectives (Meyer et al., 2011). Together the research has generated discussion on the complexity of the pressure of multiple embeddedness (Meyer et al., 2011), dual pressure affecting MNC (Kostova et al., 2008a), and to some lesser extent institutional complexity arising from multiple competing institutional logics (Marano & Kostova, 2016; Newenham-Kahindi & Stevens, 2017; Saka-Helmhout et al., 2016).

Subsidiaries of MNC need to be responsive to the institutions of a subsidiary's host context, but also integrate globally to the MNC structure - this is usually referred as 'multiple embeddedness' (Meyer et al., 2011). Thus, subsidiaries have to balance between internal and external legitimacy with the former referring to how the subsidiary's actions are perceived and accepted by the other units of the MNC and especially by the corporate parent and the latter to the perception and acceptance in the host environment (Kostova & Zaheer, 1999b). For instance, effective competence-creation in the network of subsidiaries requires balancing between internal and external legitimacy (Narula, 2014/2), and these two are interdependent rather than independent factors affecting subsidiaries of MNCs (Lu & Xu, 2006).

Dynamics between parent company and various host contexts have been studied extensively, and especially external legitimacy has received much attention among institutional MNC scholars (Cantwell et al., 2010; Regnér & Edman, 2014a). For example, MNCs are found to exchange ownership for external legitimacy (Chan & Makino, 2007) seeing institutions as constraint that require adaptation and, on the other hand, MNC subsidiaries can leverage their MNC status to impact host country institutions (Regnér & Edman, 2014b). Furthermore, the conceptualization of external legitimacy itself refers to multiple institutional demands from different host country subsidiaries vis-a-vis to the MNC parent company, thus incorporating dynamics in the conceptualization and in the balancing aspect of multiple embeddedness.

However, internal legitimacy has received less attention among scholars focusing on institutional analysis of MNCs, even though home country institutions (Meyer & Thein, 2014/1) and effect of institutional field to organizational responses (Saka-Helmhout et al., 2016) have been acknowledged. Balogun, Fahy, and Vaara (2017) provides an exception with a novel perspective focusing on the need for MNC parent decisions to be legitimated by subsidiaries in addition to the perspective on how subsidiaries can gain internal legitimacy (Kostova & Zaheer, 1999b). Despite recognizing the home country institutional environment and the effects of institutions on firm international activities, there has been more limited attention on societal logic pressure to organizations (Saka-Helmhout et al., 2016) and especially on the dynamics of internal legitimacy, i.e. interplay between home country institutions and criteria for internal legitimacy over time, such as accounting change in the home country institutions together with change in the criteria for internal legitimacy. Consequently, extant research - while acknowledging the dynamics in terms of balancing multiple embeddedness - still views internal legitimacy as a rather static construct. However, the internationalization process of a firm lasts several or even tens of years during which the home environment of the MNC parent can change significantly having consequential implications on internationalization rationales and strategy of a firm.

State-owned enterprise (SOE) going through an internationalization and privatization process provides an excellent context to study the dynamics of criteria for internal legitimacy. There has recently been a growing interest in state-owned multinational companies (SOMNC) in the international business literature (Cuervo-Cazurra et al., 2014). State ownership has been found to be both a constraining and enabling factor on firm internationalization (Estrin et al., 2016). For example, SOMNCs face stronger institutional pressure in host countries e.g. by raising national security concerns and adapt by taking lower equity stakes to enhance external legitimacy (Meyer et al., 2014), and stronger institutional pressure from the home country due to resource dependence on the government (Cui & Jiang, 2012). On the other hand, a strong diplomatic relationship between home and host government can mitigate political risks in a host country (Duanmu, 2012, 2014; García-Canal & Guillén, 2008), and enhance external legitimacy and alleviate liability of foreignness (Li, Meyer, Zhang, & Ding, 2017).

Overall, SOMNCs might be able to benefit more from internationalization compared to private firms due to specific assets available to SOEs (Benito, Rygh, & Lunnan, 2016), and pursue internationalization to the same extent as their privately-owned counterparts (Estrin et al., 2016). However, the underlying mechanisms of internationalization of state-owned companies still remain underexplored (Liang et al., 2015), and the studies are conducted mostly in the Chinese context (Bruton et al., 2015). Variation in type and level of state control creates different kinds of institutional pressures for internationalization (Wang, Hong, Kafouros, & Wright, 2012) and government reforms can impact why and how a SOE internationalize before and after the reform (Liang et al., 2015). As the state decreases influence over the SOE, social and political objectives for internationalization decreases and focus shifts to financial performance (Cuervo-Cazurra et al., 2014). Thus, this context has excellent fit to reveal new understanding of changing criteria for internal legitimacy and rationales for internationalization within an internationalization process.

METHODOLOGY

In order to answer the question of changing criteria for internal legitimacy of MNC, we chose to apply grounded historical case study that is suitable for both revealing temporal variance, path dependency, and the effect of context and contingencies over time (Buckley, 2016; Jones & Khanna, 2006; Vaara & Lamberg, 2016b). This enables us to study internationalization and change in internal legitimacy on intermediate level of analysis, i.e. providing "--deeper understanding of micro-processes and of the interplay between culture and context in the collaboration and integration of activities" (Birkinshaw, Brannen, & Tung, 2011). Furthermore, we take grounded theory approach answering for a call of research utilizing historical longitudinal qualitative studies that build a link between narrative and reductionist approach in qualitative IB research (Burgelman, 2011).

Research Setting

The highly technology-oriented telecommunications market experienced unprecedented growth based on the breakthrough in digital technology at the end of 20th century (cf. Millward, 2005: 180). This enabled new services, but also different forms of competition in a market previously considered as a natural monopoly. Particularly important was the breakthrough in the second generation mobile systems in the 1990s. Wireless technology could quickly be extended to new areas and in many countries mobile phones spread faster than any estimation. However, construction of mobile infrastructure slowed down as the basic infrastructures of the most attractive regions were largely built by the mid-1990s. As a result, many operators began to look for growth in value-added services.

Operators had to adapt to the change from building and operating network infrastructure to providing services. In the 1980s, European telecoms were generally state-owned monopolies. This was because earlier phone technology favored "natural monopolies", and in the context of the Cold War, telecommunications was to seen to have a strategic value (Millward, 2005). However, the anti-competitive telecommunications policies changed dramatically since the mid-1980s. The development is considered to have started in the United States (the breakup of the AT&T's private monopoly in 1984) and United Kingdoms (privatization of the British Telecom in 1984), from where it spread to continental Europe (Hulsink, 1999).

The opening up of competition, “deregulation” is most often associated with two major phenomena; technological development (that broke the old “natural monopolies”) and neoliberal economic policy (e.g. Parker, 2009: 19–22). In the European Economic Area deregulation was driven by the EU, the role of which gradually increased during 1980s and 1990s, and which important contribution was to open competition in member states by 1998 (Thatcher, 2001). At the same time as the states dismantled their monopoly protection, the regulation of telecommunications market shifted to supranational bodies. As governments previously set their own standards for even the smallest details, an increasing part of the regulation was transferred to supranational bodies such as the European Standards Organization (ETSI) that seek to harmonize regulations (Thatcher, 2004). Thus, the incumbent operators lost their protected status and encountered a world where borders could be crossed more easily than before.

At the national level, telecommunications liberalization measures progressed at different speeds (Thatcher, 2004). In Finland the liberalization of trade took place since 1987, and in the early 1990s, the Finnish telecommunications market was found to be one of Europe’s most competitive (e.g. Graack & Elixman, 1999). All major product groups had been liberalized by 1994, after which the government promoted competition within the existing networks. For example since August 1996, network operators were required to open their connections to “virtual operators”, for sale to end-users.

The unique market structure in Finland – in addition to state-owned TF, a group of privately owned operators operated regional local telephone monopolies – contributed to the quick emergence of a competitive market. Such an arrangement, also classified as a “mixed regulatory system” (Braithwaite & Drahos, 2000), guaranteed that the set up for competition was already in place (Graack & Elixman, 1999). Early exposure to liberalization has often thought to have benefitted incumbent operators, giving them the advantage over others in the internationalization process (Clifton et al., 2011). This encouraged the state-owned operator to develop its own organization proactively (Nevalainen, 2017) and, in the second stage, to seek new markets to replace the lost monopoly profits. Coincidentally, neighboring markets opened up opportunities.

The collapse of the Soviet Union in the early 1990s created a vacuum in Eastern Europe, which offered huge potential for internationalizing telecoms (Martin, 2002). Over the decade, the market area turned out to be challenging. For TF, the area was especially important at the beginning of its internationalization process. Finns had established trade relations with the area already in the Soviet Union and geographically the area was just next door. TF established its operations in Estonia and Northwest Russia even before the Soviet Union formally ceased to exist. Soon the company was oriented to several market areas, most often as part of various alliances.

Data collection

This study is based on extensive archival data. We were granted full access to the Telecom Finland (TF) archival material from 1981–1998 in the National Archives of Finland and Telia

Finland (previously TeliaSonera Finland, Sonera, and Telecom Finland), the Finnish subsidiary of Telia Company. This archival material mainly consisting of board minutes, management minutes, strategy documents, correspondence, and regulatory documents combined with annual reports, internal magazines from several libraries formed the basis of our data (Table 1).

Table 1. List of archival sources

Archive	Digitized sources	Time period	Quantity
National archive and Telia Finland archive	Top management team meeting minutes and attachements of PTL	1981-1998	36 archive folders, 764 minutes, 21 000+ pages
Library of the Parliament	Annual reports of PTL	1983-2002	20 reports
FINLEX, EDILEX and Library of the Parliament	Various governmental and regulatory documentation	1981-1998	100+ documents
National archive and Telia Finland archive	Various lower management team minutes and attachements of PTL	1982-1989, 1994-1998	5 archival folders, 3000+ pages
Telia Finland archive	Board meeting minutes and attachements	1994-1998	12 archival folders, 6 000+ pages
National library	Internal magazine of PTL	1980-1997	284 issues
National archive	PTL reform documentation	1981-1993	19 archive folders, 11 000+ pages
National archive	State's public corporation committee archive	1983-1985	9 archive folders, 5000+ pages
National archive	Correspondence between PTL and the Ministry	1984-1993	113 documents
National archive	TELE. PTL's customer magazine	1988-1992	30 issues

All archival material were originally in paper format and they were gradually digitized by us over a period of two years. We employed an iterative approach through which sources led to new sources, and we collected an extensive archival set consisting of over 54,000 pages from 95 archive folders. With the help of four research assistants all original sources (not sampling) were first photographed and then digitized into machine readable documents using optical character recognition software (OCR). Then two researchers from our author team and with the help from research assistants added the documents to our relational database (Murmann, 2010) and coded them with relational data regarding individuals, organizations, times, and international ventures. Through this digital history method, we were able to examine a state owned company's internationalization process starting from the first international venture in 1987 to 1998, which allowed us to gain new understanding of the contextual embeddedness and path-dependent nature of the internationalization process (Vaara & Lamberg, 2016a). This approach acknowledges the social scientific chronological order of events in processual explanations and offers a historical comprehension of events in their specific context, which "matters" to explanations (Rowlinson, Hassard, & Decker, 2014).

Analytical process

We conducted our analysis in three distinct phases following process study methods - temporal bracketing, timelines and sequence of decisions (Langley, 1999) - and digital history approach including digitized archival data in a relational database and source criticism of primary archival sources (Buckley, 2016; Kipping, Wadhwani, Bucheli, Bucheli, & Wadhwani, 2014a). In the first phase, two of the authors separated each management team meeting minute issues between 1981-1998 through the relational database, and inductively coded each meeting issue related to internationalisation. This yielded total 357 meeting minute issues broadly related to internationalional activities of the case organization out of 1,900 issues in the database. Then, we interpreted each identified management team meeting document and their relevant attachments, and coded the issues with empirical codes such as international cooperation, joint venture, venture capital, foreign currency loan, and international traffic. At this point, the prominent role of international ventures emerged from the data. We chose to focus on the 199 minutes issues related to international ventures, the first one appearing in 1987, resulting in 69 identified ventures including ventures that went to operation, in which TF decided not to participate, and that lost the license bid and were consequently shut down.

In phase 2, we coded separately each venture to the database, and searched all the documents in the database - 54,000 pages from 95 archive folders - with the particular venture keywords. All the identified archival sources related to a particular venture were then coded in relation to the venture. These sources included various types of documents such as management team meeting minutes and their attachments, annual reports, draft decisions, venture business plans, venture contracts, strategy documents, board minutes, correspondence and internal magazines. The coded relations enable us to increase transparency in the analysis process using qualitative historical data, and trace back our theorizing to the original primary archival sources. There were on average 10 sources per venture, with a median of 7.5 sources, maximum of 39 sources, and minimum of 1 source. Then, we interpreted all the archival sources that were related to each venture and gradually formed an understanding of the development of the ventures, and decision-making rationales to establish each venture. Furthermore, the rationales to participate in a particular venture were coded to each of the source. This analysis pointed us to the importance of rationales reflecting parent company's criteria for internal legitimacy, in which we noticed a change during the focal period.

In the last phase of the analysis, we conducted temporal and cross-case comparison of all the ventures. We separated each venture by their business type, entry mode, geographical location, entry and exit rationale, and partners, and drew timelines in order to temporal bracket the ventures and the decisions in relation to the contextual development. This enabled us to form preliminary list of temporally bracketed rationales of each source in the database, and produced our initial findings of change in internal legitimacy from national legitimacy to multinational legitimacy. Then, we engaged in case narrative writing using the initial findings that produced contextually embedded and temporally cognizant internationalization process of the case organization. Finally, going back and forth between the original primary sources, our cross-venture comparison, extant theory and written case narratives, we gradually formed substantive grounded theory (Burgelman, 2011), in which key concepts where rooted to data, but were constructed theoretically by positioning our inductive initial concepts to the theory. This produced our findings of changing rationales for internationalization, and implications of the change in internal legitimacy to geographic market and partner preferences.

FINDINGS

With the assumption that international ventures of an MNC have to obtain both internal and external legitimacy (Kostova & Zaheer, 1999b), we assume that when an MNC parent decide to establish a venture, the venture fulfils the parent's internal legitimacy criteria at an adequate level. Thus, rationales given during the decision process to establish a new subunit reflects the internal legitimacy criteria of the parent. Therefore, we focus on the rationales that the parent considers in the internationalization process and how these rationales change over time. We acknowledge that the rationales are to some extent constructed for a certain audience such as the government or board of directors. This is mitigated by comparing rationalization of internationalization across different types of sources produced for different audiences and we found that the findings are coherent across source types. Next, we will first present our findings on how TF's increasing decision-making independence from the state affected the rationales to establish and participate in international ventures. Second, we show how the changing rationales impacted the choice of geographical markets and existing markets. Third, we show how the changing rationales impacted the choice of partners and existing partner relationships.

Changing Rationales for Internationalization

We found that, during the 11-year period of internationalization, the strategic rationales used by TF to justify participation in international ventures shifted from emphasizing rationales that reflected national legitimacy to multinational legitimacy (Cuervo-Cazurra et al., 2014; Kostova & Zaheer, 1999b; Perlmutter, 1969). By national legitimacy we refer to internal legitimacy criteria that were rooted in the MNC parent's home country ranging from wider social and political objectives to how international ventures can benefit the home market in Finland. We identified three types of rationales reflecting national legitimacy: defensive, home industry, and national champion rationales (Table 2). By multinational legitimacy we refer to internal legitimacy criteria in which benefits of ventures to the home market is not central, but emphasis is on individual venture's ability to create value to the MNC as a whole. We identified growth and portfolio strategy rationales as reflecting multinational legitimacy (Table 2). Additionally, baseline financial rationales such profitability are present throughout the focal period, i.e. ventures have to be profitable even though they have strong defensives rationales supporting national legitimacy or growth rationales supporting multinational legitimacy.

> *"The activities by the Swedes [Televerket] and the Finns [TF] in Estonia Telephone are not development aid. It is not the American way of expecting payback in six months either, but maybe in ten years."*
>
> - Interview of Estonia Telephone's CEO in TF's internal magazine 'Tietolinja' 15/1993

Table 2: Rationale types reflecting national and multinational legitimacy and archival quote examples

National legitimacy
Defensive rationales
"Maintaining Finland's and especially TF's national and international post and telecom service level and selection at the level of other leading industrialized countries can be considered a general strategic goal of TF." - Memo on Post and Telecom Finland's strategies for international activities, 1989 "TF's goal is to get telecommunications licenses in other regions outside Finland. This is due to the collapse of monoplies and the resulting increased competition both in Finland and abroad." - Annex to management team meeting, Estonian mobile telephone venture, 1991
National champion rationales
"As there are increasing amount of information and goods moving between the East and West, Finland have to make sure that it positions itself as a broker. Our activities and range of services have to be adapted to this development to maintain the Finnish industry's export ability." - Memo on Post and Telecom Finland's strategies for international activities, 1989 "The project in Latvia open ups new export opportunities for the Finnish Industry." - Internal magazine 'Tietolinja' 2/1994
Home market rationales
"The mobile network project in Poland also promotes TF's efforts to make the neighboring areas telecommunications network as similar as possible as in Finland, thereby indirectly supporting TF's business in the home market." - Memo on the mobile network offer in Poland, 1991 "a) Overseas activities must be limited to businesses that TF already provide successfully. b) Oversears activities must support TF's businesses in Finland by, for example, increasing sales volume, margin, or quality." - The organization of TF's ovearseas business, 1991

Multinatinational legitimacy
Growth rationales
"Rationales: We require 17 per cent return on investment from the project. Additionally, the project offers an opportunity to enter the fast growing mobile telephone market in Czech Republic." - CEO's draft decision for the Board: LevTel consortium bid for a Czech GSM license, 1996 "The market is growing at a very fast pace, and experience from NWGSM in St. Petersburg shows that difficulties stemming from imperfect legal environment can be overcome." - Memo on Russia GSM-1800 Moscow, St. Petersburg, 1998
Portfolio strategy rationales
"The company would will be the reprensetative of TF and search for new business opportunities in Southeast Asia and especially China." - Decision draft for the Board: Establishing a subsidiary in Hong Kong, 1995 "This case fits Tele's strategy and gives a possibility to strengthen our position in Sweden and enhances the co-operation with Tele Danmark and Telenor." - Memo on InformationsMäklarna i Sverige AB, 1997

Although the shift from national to multinational legitimacy was gradual, 1994 was a significant turning point with the incorporation of TF. Before 1994 TF clearly emphasized national legitimacy criteria, when deciding on participation in international ventures. First, strategic rationales to internationalize were defensive in nature, i.e. internationalization was seen as a way to prevent foreign companies from penetrating the Finnish market by catering to all telecommunications service needs of Finnish companies. TF's first and short lived international venture, Scantel, was initiated in 1987 by the Swedish state telecommunications corporation Televerket bringing together all Nordic state telecommunications agencies to provide customized international telecom solutions for demanding large customers. Participation in Scantel was justified by the competitive threat post by market liberalization and technological development in the telecommunications industry in Europe. TF realized that something has to be done to counter the threat posed by the changes in the market environment and individual Nordic telecoms are alone too small internationally.

> *"Traditional telecoms are in danger to end up in an unfavorable position, if we don't start to actively compete for new markets"*
>
> - Memo on joining a common Nordic telecommunications venture Scantel, 1987

TF's 1st generation mobile telephone (Nordic Mobile Telephony – NMT) venture in Estonia (EMT) in 1991 is another example of the use of defensive rationales. Unlike Scantel, this venture have remained part of Telia until today through multiple successive mobile network generations and mergers. By 1991 internationalization was already part of TF's strategy due to the end of the telecommunications monopoly era.

> "[A]t the same time we gain a foothold in neighboring areas and prevent other international operators from penetrating these markets."
>
> \- Memo on mobile network project in Estonia, 1991

TF participated in multiple ventures similar to EMT between 1990–92. This includes the BMTS NMT license bid consortium established in 1990, which they lost, Latvian mobile network venture established in 1991, in which Telia is still the majority owner, and multiple ventures in the Northwest region of Russia, of which North-West GSM (since 2002 known as MegaFon) is currently the second largest mobile operator in Russia.

The second type of strategic rationales reflecting national legitimacy judgements we identified is national champion rationales, which were especially important in justifying participation in these ventures. National champion rationales refer to TF's ambition in taking the spearhead role as a Finnish technology exporter and how international ventures were required to benefit the broader Finnish society especially by supporting the Finnish export industry.

> *"The importance of telecommunications in the next century will be similar to electricity and road network in this century. Post and Telecom Finland has only two options: either be part of the development, or give up on being part of the development of new technology, which would be a loss for the entire Finnish economy."*
>
> \- Memo on Post and Telecom Finland's strategies for international activities, 1989

Such rationales were especially important in international ventures that started in the late 80s and early 90s, but continued to played a role until 1994. For example, the participation in modernization of telecommunications infrastructure projects in Estonia and Latvia shortly after the fall of the Soviet Union was partly justified by the increasing telecommunications needs of the Finnish export industry already active in these countries and also making entry to these markets easier for Finnish companies.

Parallel to defensive and national champion rationales that focused more on broader societal issues there were the third type of strategic rationales that have a narrower focus on customers and service level in the home market. These home market rationales reflect the requirement for international ventures to support business in the home market and focus on business areas that were already successful in Finland. For example, in the 1991 memo on organization of TF's businesses abroad criteria for international ventures were clearly stated: international ventures have to 1) be in a business that is already proven successful in Finland, 2) support TF's Finnish operations by e.g. increased volume, profit margins, or quality, 3) profitable without accounting for the benefits to TF's Finnish business, and 4) the required level of investments have to be reasonable compared to investments in the home market. Criteria 1), 2), 4) have a clear home market focus and 3) serves as the baseline requirement for ventures to be profitable. The mobile network ventures in the baltic countries serve as good examples of these criteria in practice.

> *"The possibility to use NMT-450 phones also in Latvia adds value to our NMT-450 service and its customers. However, this added value is not accounted for in the financial calculations."*
>
> - Memo on TF as a shareholder in Latvian Mobile Telephone Company, 1991

The incorporation of TF in 1994 had a significant impact on government control over TF. For example, requirements for ministry and governmental approval for allocation of investment funds and establishment of international ventures were removed. As government influence over TF decreases, the focus shifts more to financial performance over social or political objectives (Cuervo-Cazurra et al., 2014). First, although the aim to growth was present in earlier ventures, we found that in the latter half of the 1990s growth become a taken-for-granted rationale for internationalization and a legitimate measure of success of a MNC (Table 2). For example, TF participated in a mobile network venture in Hong Kong in 1994 as a first step to participate in the growing Southeast Asian market and the emerging market in China. There were limited rationalization that reflect national legitimacy. Instead of leveraging capabilities proven in Finland, the Hong Kong project is justified as an opportunity to gain experience in new technology, Asian markets, and competitive markets.

> *"The objective of the project is to gain access in the growing Southeast Asian market and through that make contacts to the emerging Chinese market."*
>
> - Memo on the PCN project in Hong Kong, 1994

Another example of employing growth rationales is the different service ventures in developed Western European countries such as operating as a virtual network operator (e.g. Talkline and Hansenet in Germany) or even offering network independent value-added services (SmartRing in Germany). In a decision memo to increase investments in Sweden it was stated that a major reason to internationalize is the limited growth opportunities in the home market, which shows the importance of growth itself.

The second type of rationales reflecting multinational legitimacy is portfolio strategy rationales We define this as the evaluation of fit of ventures in the portfolio of businesses of the MNC and the organization of the venture portfolio. Multiple projects were evaluated against the fit to the overall venture portfolio such as the SmartRing venture in 1997 in Germany that offers e.g. banking services solution licensing business between the bank and telecommunications service layer, in which the fit of such a service to the overall service portfolio was questioned by a top management team member. Further, traditional talk services in the Central European market does not fit TF's strategy and was aggregated centralized to a venture called Axxess with the aim to exit the business entirely.

> *"The planned talk business of Axxess is outside TF's strategic focus"*
>
> - Top management team meeting minutes 39/1997
>
> *"Tele should exit the current talk business in Central Europe in a controlled manner."*
>
> - Top management team meeting minutes 42/1997

Additionally, TF employed a more strategic way to enter geographical markets that were decided to be central to the overall strategy of the MNC. For example, this was done by establishing subsidiaries to strategically develop access to target markets, e.g. in Hong Kong, Sweden, and Germany. Also by participating in ventures that were not TF's core business, but might provide further access in the market such as the WIN project in Belgium. For this projects, national legitimacy requirements were mostly replaced by multinational legitimacy.

Although not the focus on this paper we found multiple channels through which the shift from national to multinational legitimacy takes place in our case. First, TF gained significant independence in decision-making from government influence with the 1990 public corporation reform and 1994 incorporation. This decreased national legitimacy pressure from the government. Second, the management of international ventures shifted to a centralized unit in Belgium already in 1991 with professional managers and even non-Finns. However, top management approval was still required and they were still mostly politically nominated and from the state department era. Third, professional managers gained significant presence also in the top management and especially in managing international ventures in the focal period, which affected the evaluation of potential ventures. Finally, we found increasing use of management consultants especially global firms and subsequent increase in the usage of contemporary management concepts, which could indicate that global management trends diffused to the top management level in a faster pace than before.

Choice of Geographical Markets

We find that different strategic rationales to internationalize influenced which geographical markets TF considered, pursued, and entered. The rationales steered the decision-making toward some possibilities over others (Cardinale, 2017) that was evident as the criteria for internal legitimacy changed between 1987-1998 (See Table 3). This was due to the different set of criteria, which ventures have to fulfill to be legitimate from the MNC parent's perspective: National legitimacy ventures have to offer services that are proven in the Finnish market and serve the national interest, such as infrastructure projects and these were only available in less developed countries, or geographically proximate countries where Finnish firms had a significant presence. Multinational legitimacy ventures have to offer significant growth potential, and fit TF's portfolio of ventures based on the international strategy of the MNC parent, such as entering new market segments to acquire foreign customers or capabilities. Thus, the set of criteria for foreign market evaluation, and subsequently rationales for market entry influenced the geographical market choice of TF. Moreover, the change in the rationales affected how the market presence - the existing ventures of TF - was re-evaluated.

Table 3. Geographical market entry choice and change in internal legitimacy 1987-1998

Internal legitimacy	**National legitimacy 1987-1994**			**Multinational legitimacy 1994-1998**	
Strategic rationales	National champion	Defensive	Home market	Growth	Portfolio strategy
Geographical markets	Russia, Estonia, Poland, Latvia	Estonia, Latvia, Hungary, Western Europe	Russia, Estonia	Hong Kong, Germany, Sweden, Lebanon, USA, Israel, Turkey, Hungary, Russia, Latvia, Austria	Hong Kong, Germany, Israel, USA, Netherlands, Belgium, Russia, Austria, Denmark, Sweden, Luxenbourg
Ventures	Tele Nord, BMTS, Infocom, Lenfincom, EMT, LMT, Tele Nord, Baltic Mobitel, ZAO Fintelecom	EMT, LMT, Lenfincom, Scantel, Mitos B.V., Imsveto Oy, EasyCall ERMES Hungary, Estonian Paging Ltd, Telecom Finland International N.V./S.A., Ionica Plc	Infocom, Lenfincom, BMTS, EMT, LMT, Eesti Telefon, ZAO Fintelecom	North-West GSM, Fintelecom, Baltic Mobitel, Russian Directories, Turkcell, Libancell, P Plus Communications, Israel Mobile Telecom Consortium, Project Tortoise, TelAdvent, Pannon GSM, Lattelekom SIA, Hansapost, SmartRing	SmartRing, Axxon, Arkanglesk, Telecom Finland (Hong Kong) Limited, Israel Mobile Telecom Consortium, Spectrum Wireless, TelAdvent, Hansapost, Belgium Trunking Network, Talkline, Casema, Telecom Finland Ab, Pegasus Mobil, Telecom Finland B.V., Telecom Finland GmbH, WIN Project, Smartring
Evaluation criteria	Boosting trade and exports, developing Finnish economy with new telco technology	First mover advantage, prevent competitor's entry, exporting technological standard	Serving Finnish customers, increasing profits in the home market	Market potential, customer demand, market size, market segment	Acquire capabilities, technology or customers, market access, synergies with partners, governance of international business
Implications to market entry	Markets important for Finnish export sector and businesses	Nearby Finland	Nearby Finland	Distance less relevant, most lucrative markets	Fit to strategy

We found that under national legitimacy international ventures were established in countries closest to Finland, and with which Finnish firms had significant trade relations. These included Russia and Baltics (former Soviet Union), Eastern Europe, and to much lesser extent Western Europe. The rationales for market entry reflecting national legitimacy directed decision-making towards specific geographic areas. First, TF's rationale to enter nearby countries reflected defensive rationales to prevent foreign telecommunications competitors entering Finland, and that TF would survive in the increasing international competitive landscape. As the countries nearby TF's home market had underdeveloped telecommunications infrastructure, building and exporting the Finnish standards, such as NMT network, was a strategic tool to hinder other players from entering the market, and simultaneously enhance TF's competitive position. For instance, the joint ventures launched in the former Soviet Union highlight the rationale that, in order to survive in the emerging international competition, TF must internationalize proactively and seize the market opportunities in order to compete with other major players projected to enterer their home and nearby markets.

> *"Opening of East-Europe has given an unique opportunity to expand TF's operations to nearby regions, such as Murmansk, Karelia, Leningrad, and small Baltic countries[...] [...] Simultaneously, we get foothold to the nearby countries and prevent other international operators' entry to these areas."*
>
> - Annex to management team meeting, Estonian mobile telephone venture, 1991

Second, national champion rationales for TF to internationalize highlights broader societal goals of TF as a leading Finnish technology exporter and modern communications provider. The underlying goal was to advance trade and exports of the Finnish firms, which influenced geographic market entry choice towards markets that were important for the Finnish export industry. For instance, the choice to enter markets such as Russia was seen necessary to advance the trade of Finnish firms to the East. This is evident for example with the case of Tele Nord, which was a joint venture building communications between Eastern part of Finland and Northwest -regions of Russia.

> *"We strive to launch more joint ventures in the Soviet Union in order to advance Finnish trade to the East. These ventures should be launched only if the invested capital is returned in approximately three years"*
>
> - International strategy of Post and Telecom Finland, 1989

Third, the home market rationale, to support business in the home market and focus on successful business in Finland, directed TF to the nearby countries in which TF could leverage their core businesses already established at home, and to serve their existing customer base better. Opening of Eastern Europe offered TF possibility to modernize telecommunications infrastructure in Russia and Baltics. TF aimed to leverage their already proven competencies in the home market, increase the volume and profits in home market, and serve the Finnish corporate customers better by offering either expanding geographical telecommunications links or wider use of technological standards used in Finland (e.g. NMT mobile standard). For example, as TF was launching a joint venture Lenfincom in Leningrad (St.Petersburg) in 1990, the strategic rationale of TF was that the joint venture enables automatic telephone traffic to the region from Finland, and thus increase the profits in Finland. Moreover, when constructing and operating NMT-mobile network in Estonia, TF utilized their existing NMT base station in Finland to operate the network.

> *"Geographically closest regions, for example Leningrad, are most interesting. We want to offer our Finnish customers expanding access [to services]. The aim of the different foreign projects is to offer our own customers better services"*
>
> - Internal Magazine 'Tietolinja' on joint ventures in Russia, 9/1991

We find that under multinational legitimacy the criteria for market entry and evaluation of markets shifted to stress growth potential of the ventures and the particular markets, and fit of a venture to the portfolio of businesses of TF as taken-for-granted rationales. Based on our analysis of the rationales and geographic locations of the ventures, we are able to detect a notable change in 1994 in terms of which markets TF entered and the criteria for market entry. TF established ventures or participated in license bids in Western Europe, such as Germany, Belgium, and Netherlands, as well as in more distant countries, such as Hong Kong, Turkey, Lebanon, Israel and the USA. Furthermore, after 1994 internationalization of TF was being increasingly guided by strategic planning and professional business management practices stressing growth as a rationale of itself and fit of particular venture to the parent company corporate international strategy, rather than more state department bureaucratic planning process, and national legitimacy criteria found before 1994.

> *"The strategy of Telecom Finland is to expand to international markets and make a significant part of its revenue and shareholder value from businesses abroad. Telecom Finland will focus on niche markets where Telecom Finland has strengths and customers are willing to pay premium for the offered solutions. The most attractive markets for Telecom Finland are advanced countries like West-European countries."*
>
> -The establishment of a Joint Venture Company with Hansenet Telekommunication GmbH in Hamburg, Germany, 1997

First, our analysis shows that the ventures launched by TF after 1994 reflected growth rationales - such as market potential, customer demand and market size - in the criteria to establish a venture and in evaluation of market locations. Furthermore, we noted a shift in the weight and scale of the international activities of TF compared to the home market business. The strategic goal of the TF parent firm was to gain significant amount of their total revenue and new growth from the business abroad, rather than focus on their existing customers that was evident before 1994. The seek for growth as a taken-for-granted assumption directed TF to niche markets in Western Europe, in which deregulation was opening the telecommunications service markets by 1998, and distant areas that had promising market potential especially in the mobile communications market. A mobile network venture in Hong Kong exemplifies rationales to seek growth and internationalize: The venture was launched to gain access to the growing Asian markets and develop capabilities in order to compete in the market.

"With entering the market by bringing in the proven and more international GSM technology, the joint venture plans to achieve relatively large market share in the rapidly growing market in a fairly short period"
-CEO draft resolution to Board: On participating bid for Israel mobile telephone license, 1997

Second, the evaluation criteria of ventures began in 1994 to stress fit of particular venture in the portfolio of business of the MNC and the organization of the venture portfolio. This meant that the rationales to launch or participate in ventures were evaluated against the internationalization strategy and strategy of parent company, including reasons such as to acquire capabilities, customers and technology, enter new business segments, gain market access, and have synergies with the partners of the venture. The evaluation of ventures was guided increasingly by contemporary management practices. These directed the market entry choice to developed economies that had niche markets and fitting role for TF as complementing partner defined in the corporate strategy. For example, TF launched multiple ventures in Germany in order to acquire new customers and to enter the deregulated telecommunication service business segments with value-added service platforms. The aim to utilize TF's capabilities in service platforms and to enter niche markets were outlined in TF's international strategy.

> *"SmartRing - business is based on the aim defined in the corporate strategy: Telecom Finland as international specialist partner."*
> -CEO's draft decision to the Board: Establishing a subsidiary in Germany (SmartRing GmbH), 1997

Lastly, our analysis shows that the change in internal legitimacy criteria, from national legitimacy to multinational legitimacy, resulted in re-evaluation of the ventures launched in the past with the new set of criteria. Even though the rationales for establishing ventures changed, the ventures established under national legitimacy remained. TF began to evaluate the established ventures and the markets with rationales reflecting multinational legitimacy instead of national legitimacy. This was evident with the ventures in Russia and the Baltics, such as the GSM mobile network venture in St. Petersburg that TF launched in 1993, or when establishing device sales and marketing offices in Baltics. These ventures and markets were evaluated solely on market potential criteria rather than in terms of Finnish trade relations or serving Finnish corporate customers. The new investments into the existing markets were complementary in nature and helped old ventures in gaining multinational legitimacy perceived by the parent.

> *"This is a significant opening for Tele as an international mobile operator. GSM is a massive challenge and St. Petersburg is the most attractive target nearby, because of the large population and growth potential."*
> - Internal magazine 'Tietolinja', 2/1993

Furthermore, the decisions made under national legitimacy had path dependent implications for geographic entry and internationalization. Even though the rationales of the MNC parent began to change, the existing presence in the markets guided TF to invest more, launch new ventures and defend the existing business in those market. But the rationales of the activities regarding the established ventures, such as investing more in the venture, were based on the new legitimacy criteria and the activities were evaluated accordingly, such as when investing in GSM-1800 network license bid in Russia in order to defend TF's market position as a GSM operator in Russia.

> *"This opportunity is for building and operating a GSM-1800 cellular Network in Moscow and North-West Russia. The population of Moscow is 6,5 million, and it is estimated that out of this some ten per cent are of the upper middle class. Moscow is the center of economic activity in Russia, and between 70 and 80 per cent of new economic activity in Russia takes place in Moscow."*
>
> - Memo on bid for GSM-1800 license in Moscow, 1998

Choice of Partners in International Ventures

We found when defensive, national champion, and home market rationales reflecting national legitimacy were prevalent, similar partners were preferred. For example, all three types of rationales steered TF to partner with other Nordic state telecommunications agencies especially their Swedish counterpart Televerket (Table 4). First, there was a shared defensive regional interest. In a memo regarding TF's first international venture Scantel with all the Nordic state telecommunications agencies, they state that due to their relatively small size they can be more competitive together as partners. Second, reflecting national champion rationales the need to make NMT the dominant mobile technology in the Baltic rim region was shared especially with Televerket. All NMT projects (BMTS, EMT, LMT) were partnerships with Televerket. Additionally, this allowed the partners to share the financial risk of investing in countries that only recently became market economies. Third, the home market rationales of leveraging services that are proven in the home market did not required complementary capabilities from partners and both Finnish and Swedish export industries have similar telecommunications needs and business interest in the same regions.

> *"Considering the the Nordic telecommunications agencies limited size in the international market, we can state that being together gives us an significant competitive boost."*
>
> - Memo on joining a common Nordic telecommunications venture Scantel, 1987

Table 4: Partner types in Telecom Finland's ventures 1987-1998

Partner(s)	**National legitimacy (1987-1994 H1)**	**Multinational legitimacy (1994 H1-1998)**
Televerket	Scantel (Nordic) 1987 BMTS (Poland) 1990 EMT (Estonia) 1991 LMT (Latvia) 1991 Eesti Telefon (Estonia) 1992 North-West (Russia) 1992 Pannon (Hungary) 1993	None
Other Nordic telecoms	Scantel (Nordic) 1987 Mitos (Europe) 1988 North-West (Russia) 1992 Pannon (Hungary) 1993	BelCell (Belgium) 1995 Interinfo (Baltics) 1995 Belarussian (Belarus) 1997 InformationsMäklarna (Sweden) 1997
Other state telecoms	Mitos (Europe) 1988 BMTS (Poland) 1990 Lattelekom (Latvia) 1994	Dutch GSM 1994 P Plus (Hong Kong) 1994 Pegasus (Austria) 1995 LevTel (Czech) 1995 Israel GSM 1997 Axxon (C. Europe) 1997
Only locals	Infocom (USSR) 1988 Lenfincom (USSR) 1990 EasyCall (Hungary) 1991 TELE NORD (Russia) 1991 Turkcell (Turkey) 1993 Ionica (UK) 1993 Estonian Paging 1993 Baltic Mobitel (Russia) (1993)	Libancell (Lebanon) 1994 Petersburg Directories (Russia) 1994 Arkangelsk (Russia) 1995 Poland GSM 1995 Talkline (Germany) 1995 Slovenia GSM 1996 Casema (The Netherlands) 1997 Hansenet (Germany) 1997 WIN (Belgium) 1997 Tortoise (US) 1997
Note: Does not include fully-owned ventures, holding companies, venture funds, and venture plans that did not continue to partner choice stage. Includes lost license bids and unrealized ventures		

As growth and strategic portfolio rationales reflecting multinational legitimacy gradually became more dominant, partners in different projects became more diverse with emphasis on building alliances and especially for ventures related to value-added services complementary capabilities became more important. For example, the P Plus GSM project in Hong Kong was planned as the first step to enter the opening China and growing Southeast Asian market. In the project they partnered with Chinese and Taiwanese firms to gain regional knowledge that could help them further penetrate the market. The German virtual network operator venture with Talkline and Hansenet represent complementary partnerships that are closely linked to TF's strategy to build a service portfolio in addition to know-how in telecommunications infrastructure.

> *"TALKLINE GMBH [...] possesses marketing, tariffing, sales billing and customer care experience of GSM Mobile telephone card in Germany in other countries of Europe"*
> - Letter of Intent between Talkline GmbH and Telecom Finland LTD, 1995

However, the transition was gradual and coexistence of rationales meant the need for ventures to satisfy rationales reflecting both national and multinational legitimacy and in some cases causing conflicts in the venture partner evaluation process. The Nordic alliance with the Danish and Norwegian telecoms in 1997 was criticized as a partnership of *"homogenic and equally strong"*[1] *that does not generate any possibility to develop capabilities.* The decision on not to participate in a consortium to operate a trunking network in Belgium in 1995 is an example of national legitimacy criteria rolling over partner fit. The main argument against the venture was TF's lack of successful experience in such business in Finland – clearly a home market type of rationale reflecting national legitimacy, whereas the excellent track record and experience of partners and possibility to further penetrate the strategically important market – both arguments reflecting multinational legitimacy – combined with the baseline requirement of profitability were used to support the venture. The decision triggered strong criticism from TF's international business unit against the decision-making process regarding new ventures.

> *"Looking at the decision-making process I have to wonder how TF's internationalization strategy is being followed [...] the most successful trunking network operator in Europe [as a partner]"*
> *- Fax to the top management team from the head of the international business unit, 1995*

The change in strategic rationales for internationalization from reflecting national to multinational legitimacy also has historical path dependent implications to partner relationships. Ventures created in different periods have different partners due to different selection criteria such as similarity or complementary. However, many ventures from the earlier period continue to exists in the latter period and therefore conflicts emerge from important partners being major competitors at the same time. TF's relationship with Swedish Televerket provides an example of this.

Televerket was the partner of choice for TF in all mobile network ventures until 1993, after which there were not any new ventures between the two firms (Table 4). Further, they were often in competing consortiums, both aimed at penetrating in each other's home market, and TF had multiple alliance considerations with other Nordic telecommunications agencies to enter the Swedish market labeling Televerket as a *"common enemy"*[2]*.* In 1995 the CEO of Televerket visited TF and expressed his disappointment in losing the modernization of Latvia's telecommunications infrastructure deal to TF and threatened that unless there would be closer collaboration between the two that limits competition, Televerket would consider dissolving the

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[1] Memo on moving forward in the Pan-Nordic market – a SWOT-analysis, Feb 2nd 1997
[2] Memo on collaboration between TeleDenmark, TeleNor, and Telecom Finland, Aug 15th 1997

joint ventures in Russia and the Baltic states. However, the collaboration and competition status remained until the merger of Televerket (by then called Telia) and TF (by then called Sonera) in 2002.

DISCUSSION AND CONCLUSION

This paper extends our understanding of the dynamics of internal legitimacy and its implications to the internationalization process. To address this aim, we have studied the internationalization process of Telecom Finland during an 11-year period, during which the organization, the telecommunications technology and regulation changed significantly. Changing from governmental department to publicly listed SOMNC, from fixed to mobile telephony, and from highly regulated detached monopoly to liberalized competitive markets. This historical case study revealed the change in strategic rationales for internationalization that reflected criteria for internal legitimacy; mainly from national to multinational legitimacy criteria.

With this approach, we make three contributions to existing research. First, by revealing how changing internal legitimacy criteria can impact the internationalization process of a firm, we contribute to research on legitimacy in MNCs (Kostova, Roth, & Dacin, 2008b; Kostova & Zaheer, 1999b). Second, by showing that SOMNC can internationalize for different reasons, how these reasons can change over time having path dependent implications, and the is deeply embedded to the institutional environment, we contribute to research on state-owned multinational companies (Bruton et al., 2015; Cuervo-Cazurra et al., 2014; Estrin et al., 2016). Finally, our rigorous historical approach using a relational database enabled us to systematically analyze large amount of archival data and, thus, answer multiple calls in international business research to apply historical methods that can strengthen the longitudinal dimension of IB research (Buckley, 2016; Burgelman, 2011; Jones & Khanna, 2006).

(CONTRIBUTION 1) Extant MNC research on legitimacy has mainly focused on external legitimacy (Kostova et al., 2008b; Kostova & Zaheer, 1999b). Thus, we have good understanding of constraining (e.g. Chan & Makino, 2007) and enabling (e.g. Regnér & Edman, 2014b) effects of host institutions on MNCs, and the dynamics of external legitimacy (Cantwell et al., 2010). The study by Balogun et al. (2017) provides a notable exception by focusing on internal legitimacy from the perspective of subsidiaries. However, we still lack understanding of the dynamics of internal legitimacy. In particular, our study takes the perspective of the MNC parent in analyzing changing internal legitimacy criteria during an MNCs internationalization process and, thus, uncovering some implications of such change.

We found that the gradual shift in internal legitimacy criteria changed the MNC parent’s perception on what constitutes an acceptable international venture; what kind of geographical markets and partners are legitimate, and how ventures should contribute to the MNC as a whole. For example, in 1987, with national legitimacy criteria, Nordic partners were seen as a possibility to gain a competitive boost in the global market. In 1997, with multinational legitimacy criteria, the same Nordic partnership was criticized as an alliance that does not provide any capability development opportunities.

Further, we found that change in internal legitimacy criteria have historical path dependent implications (Buckley, 2016; Jones & Khanna, 2006). As ventures established under the old internal legitimacy criteria continue to exist under the new criteria, these ventures can lose their legitimacy in the MNC parent's perspective. This can create conflicts such as old partners also becoming competitors in the case of Televerket. MNC parents can also make additional investments to relegitimate old ventures such as the complementary investments in the Baltics that help existing ventures grow.

We also aimed to move beyond the dichotomy of restricting and enabling nature of institutions in IB research to how institutions actively orient decision-making in the internationalization process to a certain set of option over others (Cardinale, 2017). Thus, we do not view the internal legitimacy criteria as structures that constraint a MNC parent's decision-making regarding internationalization, but steering the parent to certain option set that are further evaluated by some baseline criteria such as the profitability requirement. Additionally, the orienting effect is based on both the actor's current and historical positions (Cardinale, 2017). For example, under the new internal legitimacy criteria TF geographical market preferences gravitated towards growth markets, but the existing ventures as embodiments of the historical positions steered the focus to existing geographical markets.

Although, there has recently been a growing interest in SOMNCs (Cuervo-Cazurra et al., 2014), we still have limited understanding of the mechanisms of how state control impact internationalization of SOMNCs (Liang et al., 2015). State ownership has been found to be both a constraining and enabling factor on firm internationalization, and with strong home country institutions that enable effective control SOMNCs internationalize to the same extent as their privately owned counterparts (Estrin et al., 2016). We also know that variation in type and level of state control creates different kinds of institutional pressures for internationalization (Wang et al., 2012) and government reforms can impact why and how a SOE internationalize before and after the reform (Liang et al., 2015). As the state decreases influence over the SOE, social and political objectives for internationalization decreases and focus shifts to financial performance (Cuervo-Cazurra et al., 2014). However, we still lack understanding of how the gradual process of change in state influence that can take a decade impact the internationalization process of SOMNC.

With this study we add to this research by conducting an in-depth historical analysis on a single case to uncover the historically embedded process of privatization and internationalization. By looking at a period that is over a decade we were able to observe the gradual change in rationales to internationalize within one SOMNC. We found that the changing rationales had implications to geographical market and partner choices. Further, the old rationales continue to impact new decisions, i.e. it is path dependent, as old rationales remain imprinted to existing ventures. Therefore state influence can have far-reaching implications on internationalization after privatization.

Lastly, our study utilizing historical approach (Burgelman, 2011; Jones & Khanna, 2006) and relational database method (Murmann, 2010) to study rationales to internationalize uncovers previously unattended relationships in the internationalization process (Buckley, 2016; Burgelman, 2011; Jones & Khanna, 2006)**.** Our findings show the gradual shift in the criteria to evaluate ventures and internationalization of parent company in relation to the internal legitimacy that is contextually embedded and contingent on the economic, political and social environment (Jones & Khanna, 2006). Our approach allows us to view the internationalization of a firm as sequence set of decisions contingent in time and place (Buckley, 2016). This path dependency is both critical to internationalization of firms and central to historical research (Buckley, 2016): To understand particular firm strategy, it is necessary to uncover the previous choices and their historical conditions leading to the current outcomes (Jones & Khanna, 2006).

Furthermore, we are able to move beyond constraining and enabling view of institutions, showing more nuanced understanding of institutions as opportunity sets orienting action (Cardinale, 2017). By bringing temporal variance, path dependency and contextual embeddedness in analyzing internationalization, we find novel variations in both internal legitimacy of MNC, and in understanding of SOMNC internationalization process. Moreover, as noted by (Buckley, 2016) that internationalization of firm possible leads to vicious circles and virtuous circles in the internationalisation processes, our findings imply that these circles are related to the legitimacy criteria (both external and internal) of the firm that might have lock-in mechanisms that orients action on how to evaluate foreign markets, market entry and partner choice.

We also advance rigor in conducting longitudinal qualitative study (Birkinshaw et al., 2011) with historical archival data in the IB field. Our approach grounds the analysis in sequenced set of decisions (Buckley, 2016) by issues that are coded as verbatim documented descriptions (textual), which are directly linked to historical data sources. We code data in the relational database ensuring a link between evidence and interpretation that is consistently grounded in a strong source criticism (Kipping et al., 2014a), and historical comprehension of events (Rowlinson et al., 2014). Our approach reduces source interpretation biases, as every source is interpreted and then imputed as data and meaning, which can be easily retrieved and provided as evidence to other researchers at any time. This type of theory development resonates with the calls for grounded theorizing and historical analysis in IB field (Birkinshaw et al., 2011; Burgelman, 2011; Jones & Khanna, 2006) by enabling researcher to connect rudimentary concepts rooted in the data to theoretical conceptualization. Also, we are able to reduce the aggregation biases and errors of previous studies, which arise from stressing the effect of one element more than others in the historical reinterpretations of researchers and informants(Kipping, Wadhwani, Bucheli, Bucheli, & Wadhwani, 2014b). Overall, this approach enables us to conduct rigorous longitudinal qualitative research on areas of study in IB that are complex, nonlinear and require ecological view of the reality (Burgelman, 2011).

As the phenomenon we are studying is complex, we acknowledge that there are significant historical macro- and micro-contextual factors that impacted TF's internationalization process in addition to those presented in the findings. First, the fall of the Soviet Union opened up opportunities for telecommunications operators to internationalize, whereas at the same time the Western European telecommunications market consisted of highly regulated monopoly markets that did not allow foreign entry. This represents a macro-contextual factor that impacted geographical market choice. Second, network infrastructure project have very restricted market entry windows in the form of license bids. If a bid is not successful, then opportunities to enter a market becomes very limited. Introducing a somewhat arbitrary geographical presence. Therefore, it was essential to also analyze ventures that were not successful. Third, many network infrastructure projects had strict partner requirements for local partners, e.g. local actors have to own majority stake of the venture. Thus, the discretion to select partners was in many case limited. Finally, we did not theorize how changing criteria for internal legitimacy affected the products and services offered due the strong influence of contextual factors. In the early 90s due to the fall of Soviet Union and breakthrough of mobile systems created opportunities in network infrastructure project, whereas by the mid-1990 the networks were largely built and regulations started to allow service projects.

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