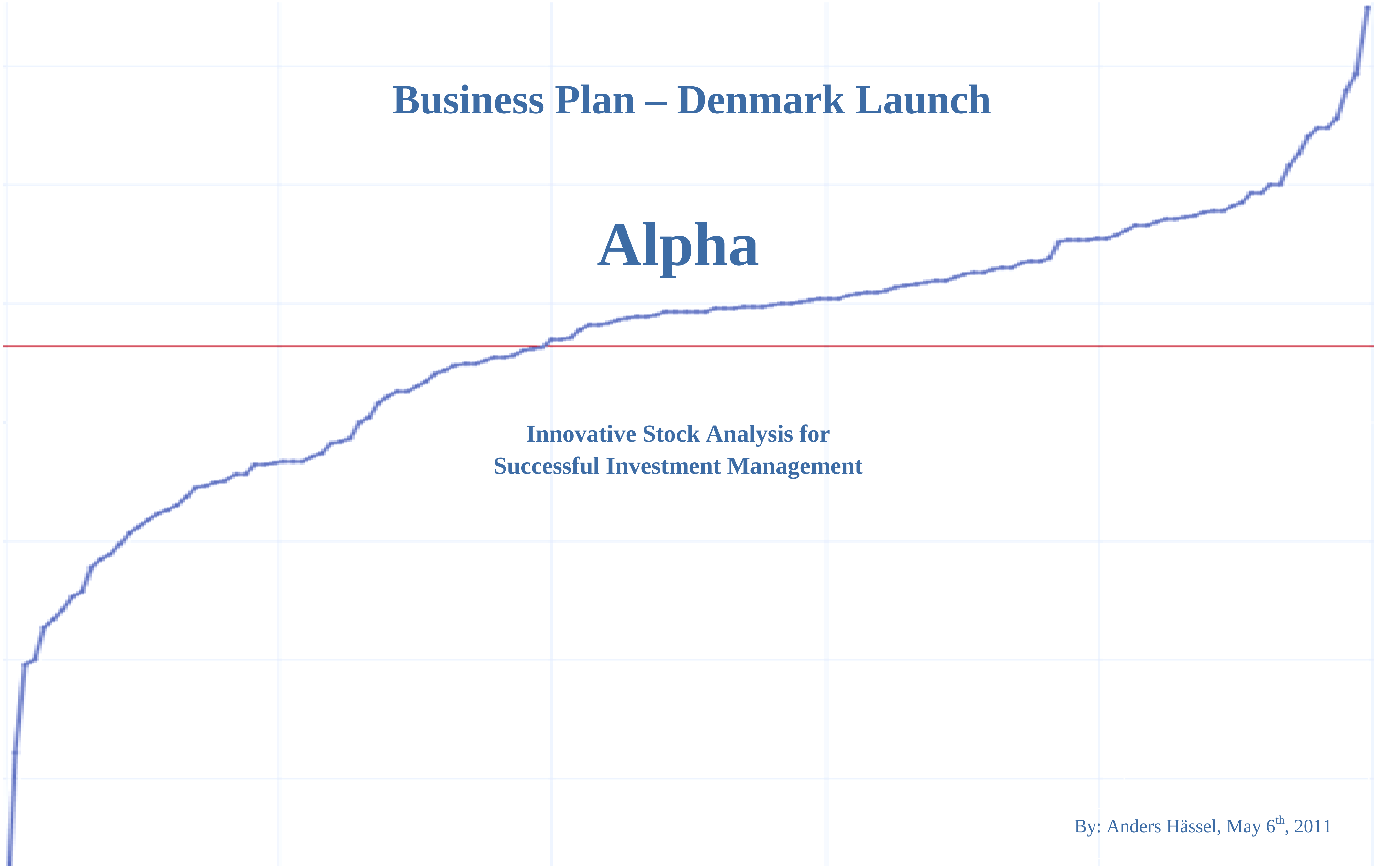

Business Plan – Denmark Launch

Alpha

Innovative Stock Analysis for
Successful Investment Management

By: Anders Hässel, May 6th, 2011

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Executive Summary

In 2006, the international entrepreneur Delta found a great gap in the growing Nordic stock market, where discount brokers, such as Nordnet, were expanding at great rate and grew increasingly competitive at the expense of capital funds, banks etc. In this environment, where private investors were increasingly managing their own investments (and performing lower ROI than index), there was a need for valuable, objective, easy-to-understand information.

By integrating the advantages of the three leading investment theories and forming Alpha, Leif laid the first brick of what was about to become a new asset management methodology - Coherence Investment Management (GAMMA Methodology). The USPTO-patented GAMMA Methodology enables full objective comparison of stocks, sectors and markets – globally. The methodology has been incorporated into two easy-to-use software products (with more to come) and launched in Sweden – Beta and Beta Mobile, which includes 300 stocks on the Swedish, Norwegian, Finnish and Danish markets. The user can him-/herself find good stocks and avoid bad stocks, in combination with buying cheap and disregard expensive ones. In addition, the methodology has been proven extremely valuable. Alpha has introduced a Swedish market index, based on the 30 best stocks, according to the GAMMA methodology. The Alpha index (TSVS30) has been outperforming the market growth (OMXS30) with +9,33% per annum, since 2000.

Alpha is in the process to expand globally, and to leverage the great advantage of the fully scalable product platform. The first market to enter and to reaping economies of scale from is Denmark.

Alpha consists of a highly skilled IT team and an operations team located in Lund, with the highly experienced international entrepreneur Delta as CEO.

Alpha – Our story

In 2006, the international entrepreneur Delta recognized a need for a new integrative stock investment methodology, based on strengths of existing leading investment theories. He was puzzled about the outcome of the leading investment methodologies were highly dependent of the skills and mindset of the analyst, and that no methodology could enable comparison between different stocks.

He also found a gap in the market of the growing stock market. The discount brokers growth had contributed to more active private investors, but they still had not access to easy-to-understand, comparable and objective analyses. Leif started to vision an objective methodology, which enable comparison of stocks, sectors and markets – globally. As a consequence, Leif laid the first brick of what was about to become a new asset management methodology - Coherence Investment Management (GAMMA Methodology), which today is patent pending.

During 2008 and 2009, a team of seven skilled individuals were formed and located in Lund. The GAMMA Methodology was further developed into a set of analytical tools and models for stock valuation and portfolio management.

The first product was called Beta 1.0 and included 155 Swedish stocks. Its potential was recognized by many as extremely valuable for private investors and in October 2010, Beta 1.0 was launched in collaboration with NasdaqOMX and Avanza Bank.

Milestones

- *(Sept. 10)* Launch of www.Alpha.com
- *(Sept. 10)* Launch of Beta 1.0 (analyze 145 Swedish stocks)
- *(Sept. 10)* Partnership with Avanza/Placera.nu
- *(Oct. 10)* Affärsvärlden interviews the CEO and founder – Leif G Bohman
- *(Oct. 10)* Launch of CIMnews – free analysis letters for customers and members
- *(Oct. 10)* Participating on Avanza Forum in Malmoe & Gothenburg
- *(Nov. 10)* Launch of TSVS30 Index
- *(Nov. 10)* E24.se/SVD Näringsliv highlights Alpha and the TSVS30 Index
- *(Nov. 10)* Participating at Aktiespararnas Stora Aktie- Fonddagar in Gothenburg & Stockholm
- *(Dec. 10)* Launch of Beta Mobile – For iPhone and Android
- *(Jan. 11)* Launch of Beta 1.6 – 300 Nordic

Figure 1: Alpha - Milestones

Since then, Alpha has established a customer base, have had publicity in media three times, and attended investment fairs in Stockholm, Gothenburg, and Malmoe. The product has been further developed into version; Beta 1.6, which includes markets, sectors and stocks in Sweden, Norway, Denmark, and Finland. At the moment Alpha is planning for an expansion to new markets. The first to enter is Denmark, because it has similarities with the Swedish market and existing partnerships are helpful.

PART 1:

BUSINESS IDEA

Core Idea

Alpha is a research company, performing state of the art financial and investment portfolio research, which is integrated in a set of computer software for private, professional and other investors, funds, analysts, brokers etc.

By including strengths and disregarding weaknesses of existing leading investment theories (Value Investing, Technical and Fundamental Analysis), create an integrative methodology (see Methodology - GAMMA) which is incorporated in easy-to-use software. The computer software, (See Product – Beta 1.6) Beta, value all stocks in the same way and the analyses are therefore objective. In its turn, objective analyses of all stocks, sectors and markets enable comparison, helps the investor to find good and to disregard bad stocks, get better buy and sell timing, which all together helps the investor to get better return on investment.

The expansion to Denmark is a sales growth decision, but also a strategic decision to gain legitimacy by becoming international and by building collaborations with more key players, which can open up new strategic options.

$$r_w = e^{\frac{r_y}{52}} - 1$$

Methodology - GAMMA

The GAMMA Methodology gives valuable information about which stocks are *good* or *bad*, and which stocks are *over-priced* (Premium) or *under-priced* (Discount). It is based on historical data, and by analyzing all stocks sectors and markets with the same algorithms, the methodology is both objective and enables comparison. The GAMMA methodology also solves the problem of too much subjective information available, and sorts out the most relevant information in terms of three key figures; Total Shareholder Value (TSV), Long Term Value Trend (LTV), and the quota between Price and the Long Term Value Trend (P/LTV).The GAMMA Methodology can be illustrated as a *three step process*.

Step 1: Calculating the TSV

The value of a stock is, according to the GAMMA Methodology, the average yearly return a stockholder receives over time. This return is depicted in percentage as Total Stockholder Value (TSV), and includes both *price changes* and *dividends*.

$$CAGR(i,n)[\%] = \left(\frac{end\ value}{begin\ value}\right)^{\frac{1}{n}} = \left[\left(\frac{share\ price(n) + \sum_{i}^{n} dividend\,(i)}{share\ price(i)}\right)^{\frac{1}{n}} - 1\right] * 100$$

Figure 2: TSV – Compounded Average Growth Formula

Step 2: From TSV to LTV

TSV is valuable to compare stocks, but gives insufficient information to a stockholder how his/her stocks' are valued in relation to the current price of the stocks. The GAMMA Methodology solves this problem by transforming the TSV into a value trend (LTV). The LTV curve is much more stabile, and eliminates all price deviations at the same time it includes dividends in the trend. The greater dividends, the greater shift upwards of the LTV curve.

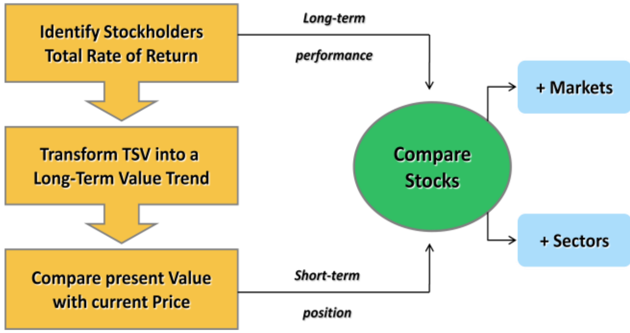


Figure 3: CIM Methodology – The Three Step Process

Step 3: Is the stock Cheap or Expensive?

The bases to achieve return on incremental price changes of a stock is buy and sell timing. With access to stocks' value trends (LTV curves), the investor can identify stocks that are priced above (Premium) or below (Discount) their value trends. The Price divided by the LTV (P/LTV), indicates the level of Premium or Discount valuation. When P/LTV is greater than one the stock is valued at Premium, and when P/LTV is less than one the stock is valued at Discount.

For further explanation about the GAMMA Methodology, please see our Swedish education video GAMMA Video 1.

Product - Beta 1.6

Beta is software, which is fully based on the GAMMA methodology. It is very easy to use, and almost none previous knowledge about stocks are needed. Beta illustrates all information in terms of figures, but also in charts, matrixes and lists. There are *five main analytical models* in Beta; *Stocks, Stock Comparator, Markets, Sectors* and *Listings.*

Stocks: Stock specific information about price/value relations in figures and graph

Stocks is the basis of all analysis in the Beta Products. This model gives information about the stock's TSV, LTV, P/LTV, and other relevant key figures, both in numbers and in an easy-to-understand graph. The dark blue line in the graph is the value trend, and the more instable curve is the price curve. When the stock is priced above its value trend (pink areas) it is priced at Premium, and when priced below (grey areas) it is priced at Discount.

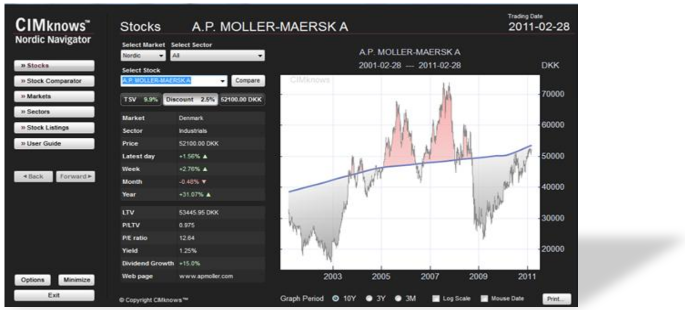


Figure 4: Beta - Stocks

Stock Comparator: Innovative Stock Comparison

Stock Comparator is a model and graphical tool which illustrate two stocks price (P) and value trend (LTV) relations, to see which one is the cheapest. At the same time, price levels are shown where the two stocks have equal deviations from their value trends. The dark blue line in Stock Comparator is the value trend (LTV). In the pink area above to the right of the value trend, the stocks are over-priced (Premium), and under the dark blue line in the grey area down to the left, are they under-priced (Discount). The red lines are respective stock's price at present day.

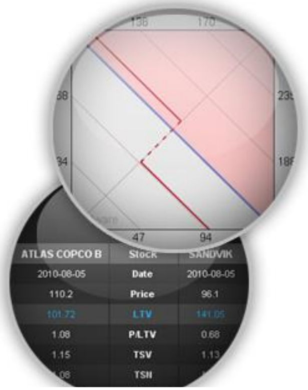


Figure 5: Beta – Stock Comparator

Markets: Identify Market Trend and Avoid Price Bubbles

Markets included two models; Market index and Market Distribution. Market index is an average of all stocks' TSV in a specific market – the Total Stockholder Norm (TSN). The TSN is then transformed into a value trend, which can be compared with the index price – if it is traded at Discount or Premium. Market Distribution is a tool where all stocks on a specific market is depicted, in a so called S-Curve, after the stocks' TSV – from the highest to the lowest.

Sectors: Innovative Analyses Between and Within Sectors on Different Markets

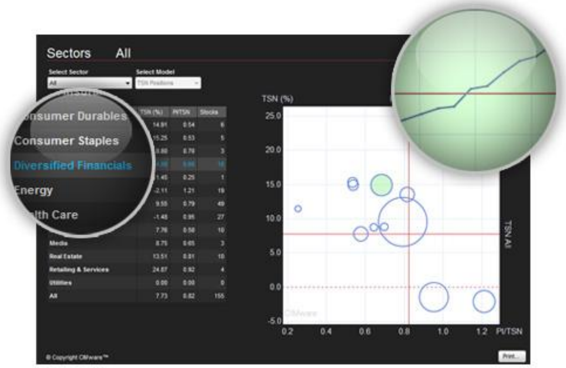


Figure 6: Beta - Sectors

Sectors is a model illustrated as a matrix with two variables; Total Stockholder Norm (TSN) for stocks in the sector on the Y-axis, and the relation between all stocks prices and the specific sector's TSN (Pi/TSN). With this model, better performing sectors can be identified, but also in combination with its price/value trend relationship. Furthermore, when choosing a specific sector, all stocks included will be illustrated, from the best performing to the least performing, in an easy-to-understand S-curve distribution.

Listings: Sort Out the Winners From the Losers

Each listing is a form of ranking by different criteria – the best or worst TSV stocks, or the cheapest or most expensive stocks (P/LTV). Each ranking also includes other key figures. The listings can be made for all Nordic countries, by market or sector.

For further explanation of Beta, please see our Swedish education video GAMMA Video 2

Product – Beta Mobile

Beta Mobile is an on-the go free complement to Beta customers, and also includes all five analytical models. The application is Web-based and is applicable for both iPhone and Android 1.6 or later. Wi-Fi or 2.5/3G internet connectivity is required.

Stocks

Direct access to TSV, LTV, and P/LTV information in key figures and graph.

Stock Comparator

On Demand comparison of price/value relations between two stocks

Markets & Sectors

Indexes, market and sector analyses, and TSV distribution models with rankings

Listings

Rankings by market, sector, or after your selected preferences

Support

Education videos, FAQs, and contact form to our support

Value Proposition

Thanks to Beta and the GAMMA Methodology's USPTO patent-pending automated algorithms, customers can easily get in control of their own investments, even though they possess little knowledge about the financial market. By doing so, high fees and other costs that come with investments by intermediates (banks, capital funds, private banking etc.), can be avoided every year. Capital Funds for example, charge their customers in three ways. By fixed fees of the initial investment (usually1-3 %), performance based on the annual return (usually 20 %), or a combination of the two. These fees and costs have a huge negative effect on investors´ long term performances, which can be avoided at a competitive cost with Beta.

The Beta solves the problem of too much subjective information, and provides the user with objective and relevant information. Since the GAMMA Methodology value all stocks in the same way, by the same algorithm, the methodology is unique. There seems to be no other methodology which is objective and enables full comparison of stocks, markets or sectors - globally. What is important to understand is: buying a stock is also a decision not to buy another one. And when comparison is possible, the user can perform efficient stock picking – find good and avoid bad stocks in combination of buying cheap and disregard expensive ones.

What also is important is the need for a benchmark when investing. The value trend identified and illustrated in the Beta products, gives the user valuable short term information about how the market has priced a stock in relation to its inherent value trend, which gives the user better sell or buy timing.

The GAMMA Methodology has also been proven extremely valuable in terms of return. The TSVS30 index includes the thirty stocks with highest TSV of all Swedish stocks in Beta. When comparing TSVS30 to OMX30, which includes the thirty most traded stocks on the Stockholm Exchange, the difference in return is striking. During a period of ten years, OMX30 has had a total return of -4,8 %, and TSVS30 +161,9 %. TSVS30 has outperformed OMX30 with 9,33 % in annual average (See Appendix 1 – GAMMA Index).

Figure 7: TSVS30 & OMX30 – 10 years performance

Revenue Model

In order to reach a desired level of revenue growth, on the fairly narrow-minded and conservative financial market, legitimacy must be gained. The value creation of the GAMMA Methodology and Beta need to be communicated to both potential customers and potential collaborators. If value is recognized, many different revenue models are possible and can exist simultaneously. Similar prices have been tested on the Swedish market and customers have considered it cheap in comparison to benefit and amount of information provided.

PART 2:

THE TEAM

PART 3:

MARKETING PLAN

Industry Analysis – Stock Analysis & Information

The industry for advices, analysis, information and tools of stocks is huge for all stock markets, which also is the case in Denmark. It is not really measurable in terms of market size, because of its many different forms, for example: financial advisories, private banking, articles in journals, analytical tools, stock analysts etc. Although, what is known is that all trades are based or influenced by information provided to the private investor. The huge amount of information and alternatives of investments are therefore a problem in itself, and private investors have problems knowing what information to trust, which is an increasing problem because of the internet. Therefore legitimacy is a key success factor in the stock analysis and information industry, but also acknowledged distribution channels with access to the target customers are important. The need for legitimacy is also important to justify charging private investors for information, since much information is provided for free. There are a few competitors in the software analysis industry with similar value chains (See Appendix 2 – Value Chain).

Methodological Differentiation

Compare..	Fundamental Analysis	CIM Methodology	Technical Analysis
Focus	Company Analysis	Shareholder Analysis	Price Analysis
Key figures	Wide Range (P/E, EPS, P/S, etc.)	Three (TSV, LTV, P/LTV)	Two (Price, Volume)
Analysis type	Subjective Analyst Dependent	Objective Methodology based	Subjective Analyst Dependent
Output	Result Forecasts Target Prices	Price-Value Development + Stock Comparison	Price Forecasts

Figure 8: Methodological Differentiation - Methodology Comparison

Analyst	Target Price
JP Morgan 1	145
JP Morgan 2	135
Swedbank	125
Goldman Sachs	106
Baird	105
SEB	103
Nordea	100
Credit Suisse	84
Citigroup	80

Current price: 96 SEK

Which bank do you have?

Figure 9: Fundamental Analysis – Example of Subjectivity (10th of Nov. -10)

There are significant differences between fundamental analysis, GAMMA Methodology and technical analysis. Fundamental analysis underestimates the trading perspective and only focusing on the company behind the stock. In its turn, technical analysis underestimates the stock as an asset, only focusing on price changes of a stock. GAMMA Methodology incorporates both the trading and the asset perspective.

Another difference is that fundamental and technical analysis gives buy and sell recommendations, which is the basis of subjectivity. They are also subjective because of different people uses respective methodology in different ways and therefore get wide ranges of outcomes. GAMMA Methodology in its turn uses the same in-data and the same algorithms to analyze all stocks – enabling objectivity and comparison of stocks.

Finally, GAMMA Methodology, in contrast to fundamental and technical analysis, is providing a benchmark. Different stocks' value trends can be compared to find good and to disregard bad, and the value trend of one stock is to be compared with its current price to recognize price bubbles, or if a stock is traded at discount or premium.

Competition – Software Analysis

Competition exit in other competition categories, which acts as substituting products or services to Alpha and Beta, such as: analysts, private banking, capital funds etc, where the private investor do not make his/her own analyses. Although in the product category of software analysis, there is little competition.

investtech.com Investtech was established in Norway 1997. Investech's product is based on technical analysis. Just like the Beta, their analyses are objective, since they use the same methodology and algorithms for all stocks and they can be ranked and arranged after different criteria. Investtech offers four different modifications of the product to reach everyone from private investors to institutional investors. The price range is 1499 – 8999 DKK. They are present on 13 markets, and their biggest is by far Sweden.

AVANZA VIKINGEN Avanza Vikingen is a sort able fundamental database and provides tools for the user to make his/her own technical analyses. It is therefore subjective and it is not possible to rank or compare stocks. Avanza Vikingen is owned by Avanza Bank and was very popular 2002-2005. At its peak, it had 11 000 paying users.

Dansk Aktionærforening Dansk Aktionærførening is an association ensuring the interest of Danish shareholders. There are approximately 15 000 members. All are offered a free fundamental software analysis tool called "Aktieanalys". The program gives the user forecasts of stocks' prices by analyzing key figures, and it can make sorted lists after preferred key figure.

Market Strategy

The global marketing plan of Alpha is based on three fundamental strategies – (i) internationalization through selective new market entries via a (ii) multi-channel distributor strategy and (iii) supported by social media based marketing. This strategy is also the basis for Denmark.

Beta should be distributed through channels where information is related, regarded as qualitative and objective to gain legitimacy. Discount brokers are therefore potential distributors but also important to gain legitimacy. Therefore, at least one should be signed as a distributor when entering.

To change industry norms, customers need to be further educated to understand the value of managing their own investments and the benefits of Beta.

PART 4:
ORGANIZATION & LEGAL STRUCTURE

Organization Structure

The company structure is a flat network organization where interactions between the organizational parts are interacting on daily bases. All individuals have key tasks, but since the organization is small and all team member´s competencies should be leveraged in the most effective way, all are involved in each other's key tasks and together responsible for customer support. By doing so, all can help one and each other and add expertise and value to all tasks (See Appendix 3 - Business System).

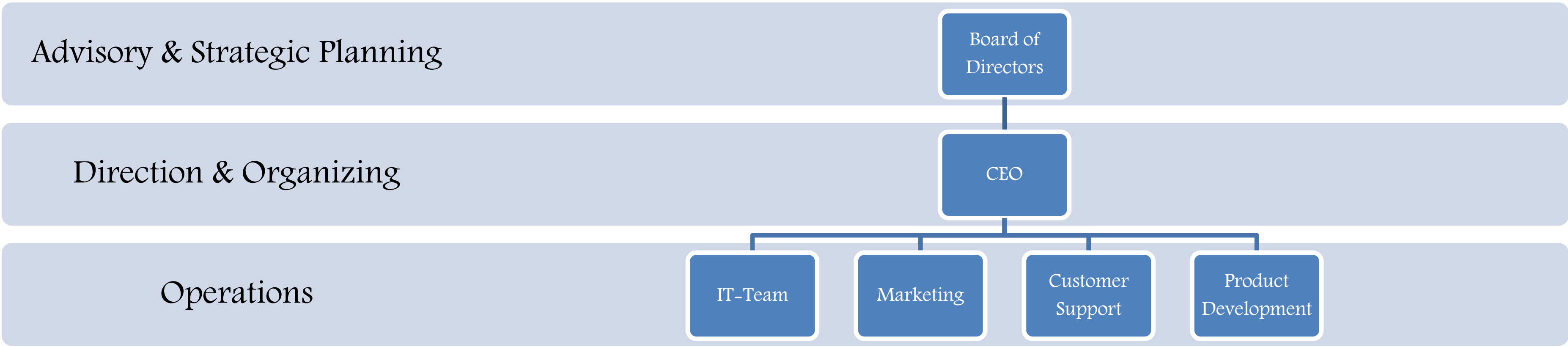


Figure 11: Organization Structure – Flat Network Organization

PART 5:
APPENDIX

Appendix 1 – GAMMA Index

TSVS30 VS. OMXS30

Alpha customized index for private stock investors TSVS30 shows the result of having a portfolio of the 30 best stocks according to TSV over time. TSVS30 can be compared with OMXS30, which is the index of the 30 most traded stocks on the Stockholm Stock Exchange.

Prerequisites for TSVS30 and all other CIM Indexes:

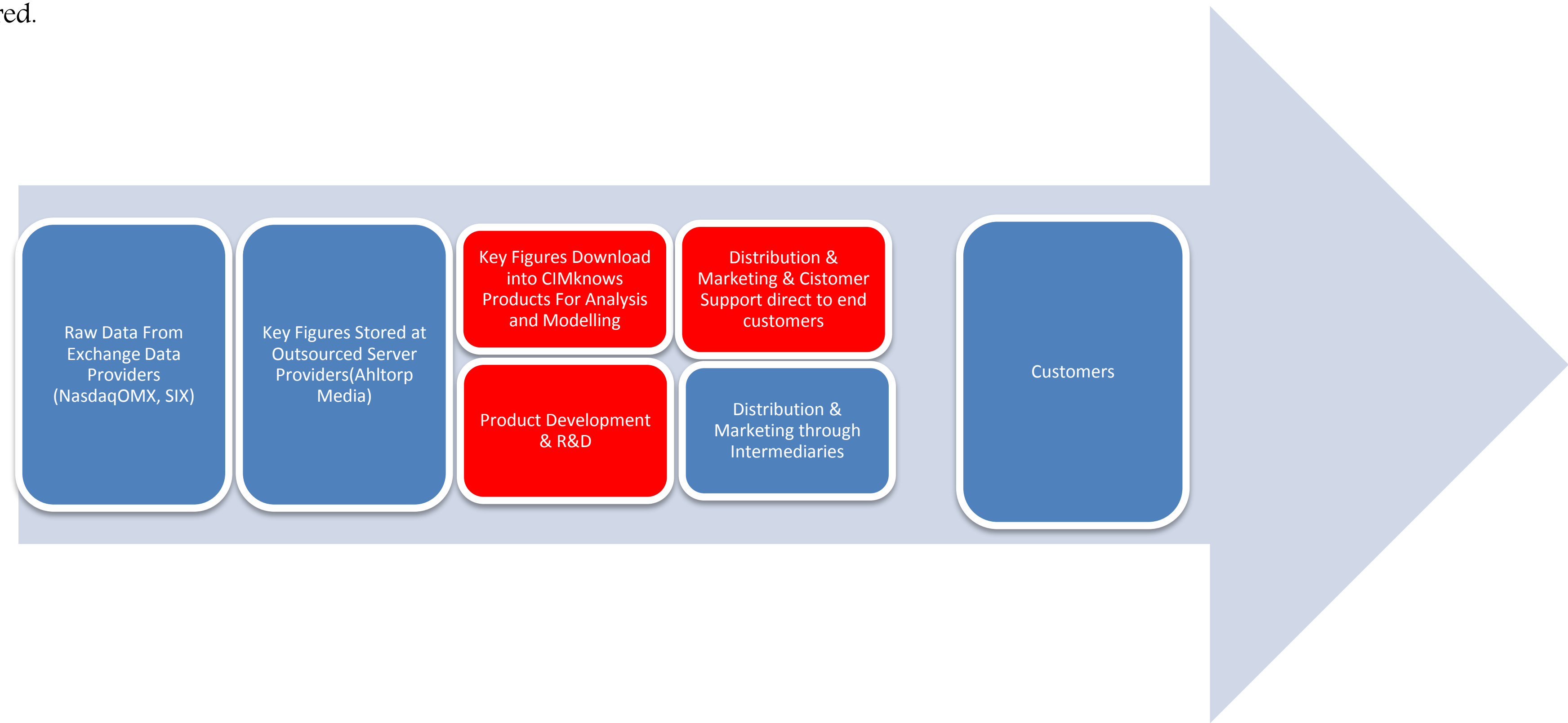
- ✓ Buy and hold top 30 TSV stocks according to Beta.
- ✓ Every quarter, new top 30 TSV stocks are bought and stocks which aren´t top 30 are sold. Rebalancing pro rata.
- ✓ No dividends or transaction costs included.

Change last:	TSVS30	OMXS30
Week	+ 0,54%	+ 1 %
Month	+ 2,82 %	+ 3,09 %
Year	+ 15,23 %	+ 8,5 %

Growth:	TSVS30	OMXS30
Total Growth	+ 161,9 %	– 4,8 %
Annual Growth	+ 8,89 %	– 0,44 %
Months of Higher Growth	84	51

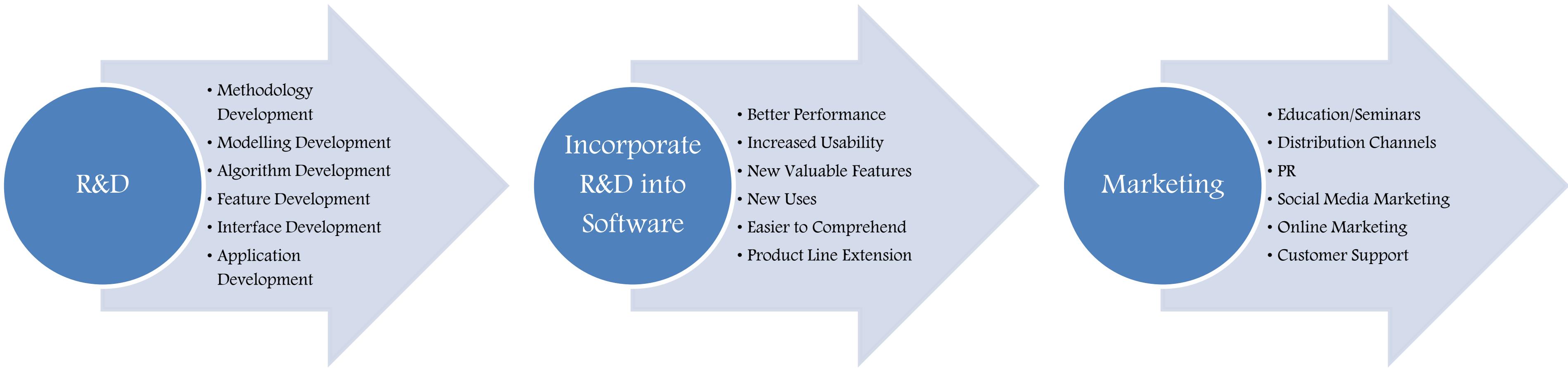
Appendix 2 – The Value Chain

The software analysis industry value chain starts with raw data from providers, which then is stored at server companies. These companies are required for product security and stability. In its turn, data from server providers are downloaded through the customers' software when logging in. Software analysis companies are mostly performing R&D and customer support, but also the most marketing and also distribution via their websites. The other marketing and distribution activities to end customers are performed by distributors or collaborators of different kinds. Alpha parts are colored red.



Appendix 3 - Business System

The business system of Alpha can be divided into three separate main activities: *R & D, Incorporating R & D into software*, and to *market the product to customers.*



R & D is performed both by the IT-team and the operations team to create customer value. The IT-team is focused on product and technology development, and the operations team is focused on usability, new areas of use, new customer groups, and methodology development.

When incorporating R & D into software products or features, IT and operations are working closely together for optimal design.

Marketing is performed in-house, but also from distributors and other collaborators. The collaborations are designed and implemented by the operations team, and so are the internal marketing activities. Both the IT and operations team are responsible for customer support

Effects of Being New and Legitimacy

An integrative study of the impact, sources and how to manage legitimacy when being new or a new entrant

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1. Introduction

New entry and being new has often been a topic of scholars within different research fields, and so has legitimacy. There are many theories which address implications and advantages of being new or engaging in new entry. For example, Barney (1991) argue for the importance of the resource based view, Freeman (1983) highlights the correlation between age and death rate of new firms and Besanko et al. (2007) writes about advantages and disadvantages of being the first-mover. In its turn, legitimacy has also been a hot topic and caught the attention of many researchers and its importance to acquire resources has been widely highlighted. Delmar & Shane (2004) state that obtaining legitimacy is necessary to obtain resources and Zimmerman & Zeitz (2002) argue legitimacy helps overcoming liabilities of newness. Thereby, different theories have identified interrelations between being new and legitimacy, but there are little integrative research performed between the two fields.

One example of integrative research is performed by Lieberman & Montgomery (1998), in which they integrate the resource based view and theories about first-mover-advantages. As an outcome, the two different theories have been recognized as interrelated and by combining them, valuable insights have been gained.

In the same manner of integration as Lieberman & Montgomery, my purpose is to reach a deeper understanding of legitimacy's relation and importance when being new and engaging in new entry. By applying autoethnography, I will produce results from my experiences and observations from Alpha (May 2010 – June 2011) and compare them with existing theories and my results. I will both question theory by comparing them to my results, but also question my own actions and practices by comparing them with theory. By doing so, I intend to produce insights of what *effect* legitimacy has and how important it is for ventures being new or engaging in new entry, what *sources* and different types of legitimacy there is and how new ventures or new entrants can *manage* and acquire legitimacy.

I will first present the theoretical framework and methodology, followed by results and analysis, which is structured in four parts: (5.1) being new and new entry, (5.2) the role, impact and sources of legitimacy, (5.3) strategies to acquire, gain or manage legitimacy, and at last (5.4) summarized critic towards theory but also the empirics from Alpha. I will thereafter summarize the paper in a conclusion and suggest future research.

2. Problem

(i)What effects have legitimacy when being new or/and engaging in new entry? (ii) What sources and categories of legitimacy are there? (iii) How can ventures being new or/and engaging in entry, gain legitimacy?

3. Theoretical Framework

3.1 New entry

A key act of entrepreneurs to successfully grow is new entry. New entry refers to (i) offer a new product to an existing or new market (ii), offering an existing product to a new market, or (iii) creating a new organization. Since a new entry involves offering or being something new, there are both a positive and a negative side of new entry. This can be illustrated as a "double-edged sword" (Hisrich et al, 2010, p. 66).

When engaging in a new entry, the entrepreneur should engage in an entrepreneurial strategy which maximizes the benefits and minimizes the costs of being new, i.e. leveraging the positive side of the double-edged sword and reducing the impact of the negative (Hisrich et al, 2010, p. 67).

According to Ahlström Söderling et al, the growth process of a new venture can be seen from a system theory view, including *reinforcing loops* and *balancing loops*. Reinforcing loops are interactions that add to another and balancing loops are counteracting changes and deviations in a system (Ahlström Söderling et al., 2007, p. B14-B15). In other words, if a new venture bring something new to a market, there might be a positive word of mouth creating growth, but in the other hand, the old structure of the market counteracts the growth.

3.1.1 Liabilities of Newness

New organizations can have negative implications arising from their own newness, so called liabilities of newness. According to Freeman et al., there is a correlation between age and size of organizations and their death rate (Freeman et al., 1983, p. 16-19). According to Hisrich et al., liabilities of newness arise from three conditions: (i) new organizations face costs in learning new tasks, (ii) when a new organization is formed, there will be overlaps or gaps in tasks and responsibilities, and (iii) a new organization has not yet been able to form an efficient organizational culture. These three conditions need to overcome (Hisrich et al, 2010, p. 84-85).

3.1.2 Resource Based View

When entering a new market, the entrepreneur must have competitive advantages (preferably sustainable competitive advantages) to build a high performing growth firm. According to Barney and the resource based view (RBV), these competitive advantages can stem from many different resources (Barney, 1991, p.14-17).The resource based view has had great impact within strategic management scholars, but has also been criticized for its lack of empirical base. Although, combining RBV with other theories makes it useful as an analytical tool (Liebermann & Montgomery, 1998, p. 1113).

3.1.3First-Mover-(Dis)Advantage Theory

Another research stream is the first-mover-advantage (or disadvantage) theory (FMA theory). The FMA theory points out the positive and negative aspects of being the first entrant, which therefore can be associated with the “double-edged sword” mentioned earlier.

The advantages of being first stem from four main categories; (i) a better and more developed *learning curve* than later entrants, creating lower unit cost and more accumulated knowledge, (ii) a development of *positive reputation*, (iii) creation of *switching costs* for both suppliers and customers to create a lock in effect, and finally (iiii) *network effects* and network externalities, which means customers place higher value in a product if other customers also use it, and there is also a possibility to set industry standard (Besanko et al, 2007, p. 415-418).

Although the advantages can seem promising, there are also disadvantages of being the first mover. When being a new entrant, there are uncertainties about what are the key success factors and the entrepreneur has problems knowing those in advance.

This is especially evident in emerging industries which are growing and where the structure is not completely formed. It is also difficult for the first mover to estimate the *attractiveness of the industry*, how fast it will grow and which are the key dimensions of growth. This can lead to complications in both cases of underestimating and overestimating the demand.

The first mover might also need to make a commitment to a specific technology, even though there are many *uncertainties about new technologies*.

Another first-mover-disadvantage is the *uncertainty of customers*. The greater introduction of something new, the greater is the uncertainty. Uncertainty of customers means that customers may have problems assessing the product and its value creation – the perceived value is unclear. When there are uncertainties, customers tend to be averse, even though the actual value creation of the product is superior.

There is also a need for new entrants to create entry barriers to prevent competitors entering the market eroding the entrepreneurs competitive advantages. The first mover has limited time of limited competition before competitive entry, which also is referred to as *lead time* (Hisrich et al., 2010, p. 74-79).

3.1.4 Integration of the RBV and FMA Theory

Liebermann & Montgomery argues for an integration of FMA theory and the RBV. They also state that *"faced with a decision about when to enter a new market, the optimal timing often depends upon the strengths and weaknesses of the firm's existing resource base"*. In other words, first-mover-advantages are dependent on the quantity and quality of recourses available (Liebermann & Montgomery, 1998, p. 1113-1114).

They also investigate if early entrance has a positive effect on accumulating and building resources. It is stated that the pioneering company has the possibility to mold the cost structure of customers. Even though competitive advantages might be developed, there is no guarantee for the pioneer that those will be sufficient to keep a strong position as the market evolves. At the end, the sustainability of a first-mover-advantage is dependent on how well the resources and capabilities have been developed and how qualitative and strong resources later entrants have (Liebermann & Montgomery, 1998, p. 1112-1113)They also conclude that first-mover-disadvantages and advantages for later entrants deserves more attention (Liebermann & Montgomery, 1998, p. 1122).

3.2 Legitimacy

Zimmerman & Zeitz view legitimacy as: "a social judgment of acceptance, appropriateness, and/or desirability" (Zimmerman & Zeitz, 2002, p. 416), and Ashforth & Gibbs says that legitimacy also is defined as congruency between the values, norms and expectations of society and the activities and outcomes of the organizations (Ashforth & Gibbs, 1990, p. 177) Suchman has a clear but wide definition of legitimacy (Suchman, 1995, p. 574):

*"**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"*

The key aspect of this definition is that organizations are in relationships with the social system. Actions, practices and statements from the organizations will have an impact on stakeholders and the organization is in need to satisfy their needs and wants. A new venture is in need for resources from its environment and to get these resources from stakeholders, the new venture has to be convincing and make the stakeholders believe the venture is competent, efficient, effective, worthy, appropriate and/or needed. *"Legitimacy ultimately exists in the eye of the beholder"* (Zimmerman & Zeitz, 2002, p. 416).

3.2.1Impact of Legitimacy for New Ventures

Formal organizations are usually seen as economical and rational, which makes decisions on basis of appropriate information. In reality, there is no full rationality because there is uncertainty involved when making decisions. There is no clear evidence that one action is better than the other and that one goal is better than another. Under such uncertainty, actions are affected by values, norms, prescript rules and models, which are reinforced by the social environment and in it turn makes one action more legit than another. Therefore, the need of legitimacy is important when it comes to decisions under uncertainty. Especially for new ventures, since they typically have little or no economical performance history. Legitimacy is a resource which is helpful to acquire important resources, and resources are positively related to new venture survival and growth. Legitimacy also helps overcoming liabilities of newness (Zimmerman & Zeitz, 2002, p. 416-418).

According to Delmar & Shane, there are three different arguments in prior research of organizing activities' effects on the survival of new ventures: (i) new venture survival is enhanced by activities to make new ventures appear trustworthy, i.e increasing legitimacy, (ii) survival of new firms are enhanced by activities to establish relationships with external stakeholders, and by doing so overcoming liabilities of underdeveloped social ties, and (iii) by obtaining control over resources, enabling recombination of resources in an effective way. All three are indirect or direct linked to legitimacy. Delmar & Shane also say that firm founders will not be able to focus on all three organizing activities at the same time. Therefore the legitimating activities should be the first to engage in the organizing process because; *"obtaining legitimacy is a necessary precondition to initiating social ties with stakeholders and obtaining and recombining resources"* (Delmar & Shane, 2004, p. 386).

3.2.2 Sources and Categories of Legitimacy Affecting New Ventures

Legitimacy is not directly observable and therefore hard to measure. Although, scholars has been made on indirect or proxy effects of sources of legitimacy (Zimmerman & Zeitz, 2002, p. 418).

Regulative, Normative, Cognitive and Industry Legitimacy

As mentioned earlier, Zimmerman & Zeitz argue that there is a process of building legitimacy, including three steps to build growth and achieve survival of the firm. To start with, there are strategies to build legitimacy and secondly, legitimacy is important to gain and acquire resources. In its turn, resources are important for a firm's survival and growth (See: Figure 1 – Legitimacy Process Model). They define four types of legitimacy: **Regulative**, **Normative**, **Cognitive**, and **Industry**. These different types of legitimacy can be acquired and gained by implementing different strategies (Zimmerman & Zeitz, 2002, p. 414), which will be described later in this paper.

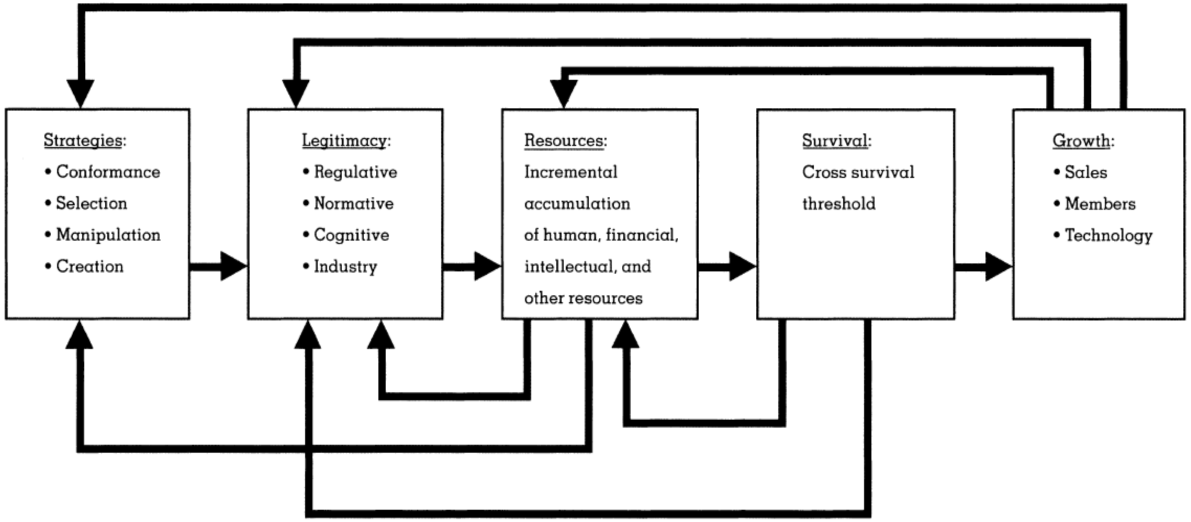

Figure 1 – Legitimacy Process Model (Zimmerman & Zeitz, 2002, p. 415)

Regulative legitimacy, which also is called sociopolitical regulatory legitimacy, *"is derived from regulations, rules, standards and expectations created by governments, credentialing associations, professional bodies, and even powerful organizations"*. Regulative legitimacy often involves sanctions which can be used if an organization is not addressing regulations, rules, standards and expectations. If these are followed, legitimacy will be provided to the organization by a variety of stakeholders in the organizations environment. Regulative legitimacy is not only about responding to sanctions though. The organization need to act according "to the book" and should be a "good citizen".

Failure of building regulative legitimacy may prevent the new venture to operate legally and to acquire needed resources (Zimmerman & Zeitz, 2002, p. 418-419).

Normative legitimacy, which also is called sociopolitical normative legitimacy, *"is derived from the norms and values of society or from a level of the societal environment relevant to the new venture"*. An organization which addresses values form the societal environment, that it is desirable and appropriate, by being profitable, treating employees fairly, endorsements and networks, the organization will acquire or gain normative legitimacy.

Normative legitimacy can be divided into different levels, such as societal, or industry level etc. Although, the key of gaining normative legitimacy to acquire needed resources, is to address norms of those who control the resources needed.

One sources of normative legitimacy is endorsements, which is a favorable opinion given from one organization to another. The favorable opinion acts as a vote of confidence in the endorsed organization which gives a positive spillover effect.

Another source of normative legitimacy is networks. Networks consist of ties with stakeholders, organizations and individuals outside the firm. These networks help the new firm to overcome the liabilities of newness by providing credibility, contact and support, a positive image and access to resources. The new venture will be associated with the organizations within the network, providing and contributing to the new venture's legitimacy. (Zimmerman & Zeitz, 2002, p. 419-420).

Cognitive legitimacy can be gained by addressing *"widely held beliefs and taken-for-granted assumptions that provide a framework for everyday routines, as well as the more specialized, explicit and codified knowledge and belief systems promulgated by various professional and scientific bodies"*. This cognitive view of the social system includes rules of actions that constitute what the system is and what it means to be part of the system. Participants in a social system learn about their identities and what is expected from them by being in contact with the system. These identities and roles determine what actions are appropriate.

The new venture can demonstrate its desirability and acceptance by acting after its identity and role, and thereby acquire legitimacy. The new venture can acquire legitimacy by practicing widely held believes that are visible, for example having a strong management team (Zimmerman & Zeitz, 2002, p. 420).

Industry legitimacy has its source of legitimacy in the industry which is the basis for a company's operations. It seems that the legitimacy of an industry affects the legitimacy of all companies within them. New ventures can acquire legitimacy by using industry standards, norms, values, believes about the industry and past actions taken from other industry members. Although, industry legitimacy can be positive, it can also affect the new venture negatively and decrease its legitimacy.

A new industry can also have a negative effect on the firms' legitimacy since it has no or little history, no standards, unproven and strange norms, and new practices. A new venture, entering a new market, will therefore have to work even harder to build its own legitimacy since there is increased uncertainty about the industry's survival (Zimmerman & Zeitz, 2002, p. 420-421).

Pragmatic, Moral and Cognitive Legitimacy

Suchman's definition of legitimacy has been mentioned earlier in this paper. Though, Suchman has categorized legitimacy in different terms than Zimmerman & Zeitz. His analysis identifies three primary forms of legitimacy: **Pragmatic**, **Moral**, and **Cognitive** legitimacy (Suchman, 1995, p. 571). All three of them co-exist and they can both reinforce and come in conflict with each other. Legitimacy can transform from pragmatic to moral and then cognitive. As it transforms the stronger, more sustainable and harder to change it becomes (Suchman, 1995, p. 584-585).

Pragmatic legitimacy is based on the self interest of the surrounding audience, which on calculative basis assess the benefits of giving support to the specific organization. It can therefore be seen as a sort of *exchange legitimacy*.

A related but in some ways different and more social type of pragmatic legitimacy is *influence legitimacy*. In this case, support is not necessarily given from constituents because they believe they will receive a favorable exchange, but because it is in line with their own larger interests. Showing this kind of mutual interest is often more important and easier than producing immediate results.

A third kind of pragmatic legitimacy is *dispositional legitimacy,* which is a product of the increasing personification of organizations. Organizations are increasingly treated as individuals and therefore they are seen as "autonomous, coherent, and morally responsible actors". Thus, constituents are perceiving organizations that share their values or norms, are trustworthy, honest, decent and wise, as more legitimate. This kind of legitimacy, stemming from the organizations best intentions, can dampen negative effects on the firm's legitimacy from other failures (Suchman, 1995, p. 577-579).

Moral legitimacy is different from pragmatic legitimacy. It is based on how the audience perceives and evaluate the organization and its activities. The audience question is rather: is the organizations activities the right things to do? An organization gain moral legitimacy if their presence and activities are seen by the audience as positive for the societal welfare, based on their societal values and beliefs.

According to Suchman, moral legitimacy can take four forms: *Consequential*, *Procedural*, *Structural*, and *Personal* legitimacy.

Consequential legitimacy is legitimacy which stems from what an organization has performed or their accomplishments. It is also important to consider that benefit and value is judged and assessed by the customer. If customers have positive experience from a product, this will be given back as reward in consequential legitimacy.

Procedural legitimacy can be described as moral legitimacy, which is based on the acceptance from the environment and the audience of an organization's methodology or way of conduct. Some methodologies are often seen as science and others are seen as quackery, even though the produce the same results. When outcomes and performance is hard to measure, this effect is even more evident. Organizations can gain moral legitimacy by embracing procedures that are socially accepted.

Structural legitimacy is based on an organization's structure. Some structures are more accepted and associated with performance than others, and if the structure is socially accepted, the organization will gain moral legitimacy. Structural legitimacy refers to organization as a whole.

Personal legitimacy is the fourth and final form of moral legitimacy. It rests on the charisma of an organization's leaders, perceived by the social environment and audience (Suchman, 1995, p. 579-582).

Cognitive Legitimacy quite different from pragmatic and moral legitimacy. The difference is based on the discussion about active versus passive support. A support could both be a consequence of evaluating the option to support or not to support, but also an acceptance or support based on some taken for granted assumptions. There are two forms of cognitive legitimacy based on *comprehensibility* and *taken-for-grantedness*.

Comprehensibility is important in a chaotic social world where participants need to arrange and portrait themselves in a coherent and comprehensive way in terms of cultural models. An organization can gain legitimacy when the organizations mesh with participants of the social environments general beliefs and their experienced reality in their everyday life.

Taken-for-grantedness is, according to Suchman, the most powerful source of legitimacy. Taken-for-grantedness refers to when one alternative becomes the only cognitive thinkable option (Suchman, 1995, p. 582-583).

Institutional and Innovative Legitimacy

According to De Clercq & Voronov, there are two concepts of legitimacy needed to consider for ventures being new. **Institutional** legitimacy represents the conformance of newcomers to the established power arrangements to "fit in". **Innovative** legitimacy, in its turn, is associated with newcomers challenging these arrangements to "stand out" (De Clercq & Voronov, 2009, p. 799).

Institutional legitimacy is granted when a newcomer has complied with existing field specific norms, actions and behaviors within a specific field. The newcomer has to become validated as a participant in the eyes of the field's other actors and stakeholders – it is a question of fitting in.

According to De Clercq and Voronov, the field´s so called *doxa* is an important factor for newcomers. Doxa refers to "right, correct, dominant vision which has more often than not been imposed through struggles against competing visions". The dominant logic of a field has not been fixed forever, but has been incrementally developed into its present shape. A field's doxa has been created and incrementally developed by influential participants who indirect or direct have a dominant position. Therefore, the doxa of a field reflects these influential participants' viewpoint, and newcomers are expected to comply. By making newcomers comply, dominant incumbents are changing newcomers' identity. Furthermore, related to the field´s doxa is the *illusio*, which refers to the stake of potential conflict if not complying with the doxa. Illusio has therefore a tendency of increasing the degree of newcomer compliance since newcomers usually have little resources and understands their current dominated position. As a consequence, dominating incumbents are strengthening their dominant positions (De Clercq & Voronov, 2009, p. 806-810).

Innovative legitimacy is in fact the opposite of institutional legitimacy. Innovative legitimacy is granted to the newcomer when bringing something new or being different from incumbents. This is associated with the widely held believe that newcomers are entrepreneurs, challenging incumbents and therefore is bringing something new to the field (De Clercq & Voronov, 2009, p.810).

3.2.3 Managing Legitimacy in New Ventures

As described in previous subchapters, legitimacy is needed for the survival and growth of a new venture (Zimmerman & Zeitz, 2002, p. 416-418). Although, different scholars somewhat agree about the need for legitimacy, there are different views of sources and categories of legitimacy. Therefore, there are also different views of how to gain and build legitimacy. In this subchapter, different strategies are presented.

As described in subchapter 3.2.2, about sources and categories of legitimacy, Zimmerman & Zeitz have categorized legitimacy somewhat different than Suchman. Though, when it comes to strategies to acquire or gain legitimacy, Suchman's work is the basis of Zimmerman & Zeitz four strategies described earlier. Suchman argue that there are three strategies: **conform to environments**, **select among environments** and **manipulate environments** (Suchman, 1995, p. 587-591). These three strategies are also suggested strategies from Zimmerman & Zeitz, but they have also included **creation of environments** as the fourth. Although Suchman has not defined creation as a strategy, he describes the need of creation when being new. Suchman state: *"…when new operations are technically problematic or poorly institutionalized, early entrants must devote a substantial amount of energy to sector building"* (Suchman, 1995, p. 586).

Zimmerman & Zeitzs' four strategies to acquire legitimacy: **Conformance, Selection, Manipulation,** and **Creation.** All four strategies can be implemented to gain all three types of legitimacy, according to their categorization: *regulative*, *normative* and *cognitive.* Examples of all strategies are shown in Figure 2 – Legitimation Strategies (Zimmerman & Zeitz, 2002, p. 423).

Strategies	Type of Legitimacy	Examples of Legitimation Strategies
Conformance	Sociopolitical regulatory	Adhering to government rules and regulations, such as registering with the SEC to publicly sell stock.
	Sociopolitical normative	Following societal norms, such as operating profitably; adhering to values, such as treating employees fairly; and adopting professional norms, such as those pertaining to personal behavior of the members.
	Cognitive	Complying with ideas, models, practices, etc. assumed to be correct, such as hiring top managers with desirable experience and education credentials.
Selection	Sociopolitical regulatory	Selecting a geographic location based on favorable regulations for new ventures, such as when a new venture expands its sales into additional states to benefit from interstate sales tax exemption.
	Sociopolitical normative	Selecting domains in which the norms and values are more accepting of the venture's products/services and/or vision. For instance, Apple Computer initially selected the home and school markets because they valued playfulness and widespread accessibility.
	Cognitive	Selecting domains in which the ideas, models, practices, etc. are more accepting of the venture. For example, software ventures developing new and unfamiliar technology often locate in Silicon Valley to be near ventures using related technology or engaging in related activities.
Manipulation	Sociopolitical regulatory	Lobbying for changes in existing regulations to which the new venture is subject.
	Sociopolitical normative	Changing existing norms and values. For example, biotech new ventures manipulated the norm that a good investment generates profit by refocusing investors' attention to the value of potential scientific breakthroughs.
	Cognitive	Altering existing ideas, models, practices, etc., such as Napster's changing the distribution practices of recorded music.
Creation	Sociopolitical regulatory	Creating rules and regulations that benefit the new venture. For example, Internet retailers created federal legislation suspending interstate sales tax on internet sales.
	Sociopolitical normative	Developing norms and values, such as internet companies' creating value for "eyeballs" or hits.
	Cognitive	Creating new operating practices, models, and ideas, such as Amazon's retail sales of merchandise via the internet to the mass market.

Figure 1 – Examples of Legitimation Strategies (Zimmerman & Zeitz, 2002, p. 423)

Conformance involves conforming to industry structure, values, norms and behaviors. By doing so, the venture is gaining legitimacy by following expectations and act as the social environment expect.

Selection is a strategy which means that the organization choose the environment where it operates. With selection as a strategy, the new venture can choose the most advantagous environment which is consistent with itself and thereby gain legitimacy. Selection as a strategy can be effective.

Manipulation as a stretegy is different from conformance and selection because it involves changing the environment to be consistent with the organization. New ventures often do not have the resources needed to engage in a maniupulation strategy on its own, but could team up with others to increase its chances of changing the environment.

Creation involves building an environment which has not existed before. New ventures are in need for legitimacy, but their sources of legitimacy may not be established. New ventures might be operating differently from incumbents and their operations may involve having different beliefs, values, rules and norms. A creative new venture, can be pioneering and establish a new environment which can be a source to derive legitimacy from. Creation involves the most change from the new venture of its environment (Zimmerman & Zeitz, 2002, p. 422-426).

According to Zimmerman & Zeitz, a new venture should limit its efforts of manipulation and creation to one or a few areas which are central to the new ventures' competitive advantages. Zimmerman & Zeitz also argue that legitimacy is not a something organizations have or don´t have – legitimacy can be ranged from low to high and everything in between. They also argue that there is a certain level of legitimacy needed for an organization to survive. This level is called the "legitimacy threshold". Under the threshold, the organization has problem surviving and above, it can use its legitimacy to further gain legitimacy and to acquire resources (Zimmerman & Zeitz, 2002, p. 426-428).

De Clercq & Voronov contribute to the field of strategies to acquire and gain legitimacy, by focusing on how to manage the balance between **innovative** and **institutional legitimacy**. Both may be acquired simultaneously, but they can also be contradictive. Entrepreneurs must both try to fit in and stand out to successfully build legitimacy and at the same time differentiate the new venture from incumbents. De Clercq & Voronov suggest that new ventures can accomplish this balance through *management of meaning*. Instead of focusing on what the new venture ought to do, they focus on how the new venture can manage the impression of itself by communication and symbolism. The ventures operations can be innovative, but to its external stakeholders it might portrait itself as beneficial, understandable and necessary within its field. With this view, the new venture could reduce the amount of actions taken to gain institutional legitimacy and focus more on actions to differentiate and build competitive advantages. Management of meaning enables, instead of focusing on actions to gain legitimacy, sending different messages to different stakeholders (De Clercq & Voronov, 2009, p. 813-815).

4. Method

This paper is written as an *autoethnography*, i.e. a self observation where the data is collected from my experiences and observations.

Autoethnography is a qualitative research method which has grown popular during the latest two decades (Anderson, 2006, p. 373) and researchers, such as Duncan, highlights the interrelation between perception and reality for better performance in qualitative research, where autoethnography is a helpful method (Duncan, 2004, p. 1). Anderson argues that autoethnography is an important tool of questioning widely held and generalized beliefs, and that knowledge can be subjective. Autoethnography has its roots back in the early 20th century and has been used for various purposes (Anderson, 2006, p. 373).

According to Anderson, there are five key features of autoethnography: (1) complete member researcher (CMR) status, (2) analytic reflexivity, (3) narrative visibility of the researcher’s self, (4) dialogue with informants beyond the self, and (5) commitment to theoretical analysis”(Anderson, 2006, p. 378). These can be seen as guidelines which can improve the quality of analyses. I will keep those in mind to produce an as accurate and unbiased analysis of the need and impact of legitimacy for new entrants and ventures. In focus for my data collection and analysis will be my experiences from working within Alpha, entering both the Swedish and Danish market from May 2010 to June 2011. The data collection will be based on both internal and external events, such as: meetings, campaigns, collaborations, trade shows, financing etc. Favorable to my data collection and analysis is my experiences from launching both in Sweden and Denmark, enabling comparison of experiences and observations from two different but similar markets.

My intention is to identify key aspects of legitimacy by comparing my own data with previous scholars and by doing so, better understand the relation between new entry and legitimacy. I will provide examples of observations and experiences related to theory of use to criticize both theory and Alphas' actions.

5. Analysis

In this chapter, I will analyze my experiences and observations from Alpha by comparing them with theory. At the end, there will be a summary of critique towards both theory and Alpha practices.

5.1 Being New and New Entry

As described and illustrated as the "double-edged sword" in chapter 3.1, there are both negative and positive aspects of being new and engaging in new entry. The negative aspects are evident, as in Alpha's case, if it is a new venture, introducing a new product on a new market. Being new in so many ways at the same time has been a struggle for Alpha and there has been a need to educate both customers and potential partners and collaborators. As I have stated in my learning journal (Learning journal 11, 2011-03-04):

"Our product has huge relative advantage, but the problem has not been (or won´t be) the product – it is the marketing aspect of how to inform potential customers. The more complex product, the more information the customer need."

This insight was gained already when launching in Sweden, but became even more evident after meeting Beta in Copenhagen. Even though he had knowledge in finance, he had problems understanding the product from the beginning. Although, when he understood it, he also understood the product's high value. Newness can therefore be associated with costs since the need to educate both customers and collaborators requires financial resources for marketing. Thereby, new entry is closely related to the resource based view (RBV) and if there are not resources available, the value of the product will not be recognized by customers and potential collaborators. I therefore suggest that there is a connection between FMA theory and the RBV. This is also suggested by Liebermann & Montgomery. Although, our opinions concur about the linkage, I do not agree that first-movers have an advantage in acquisition of needed resources. In Alpha's case, as a new company, with a new product, in a new market, there has been great amount of uncertainties, categorized in FMA theory as attractiveness of the industry and attractiveness of customers.

My opinion, based on the insights gained from meeting Beta, is that the link between the two concepts is: if you are a new entrant, you might gain first-mover-advantages if you have the resources needed. If lacking resources needed, the new entrant cannot exploit its potential first-mover-advantages.

I do agree with Liebermann & Montgomery, that first-mover-disadvantages and liabilities of newness deserve more attention. In case of my reasoning above, that resources are needed to exploit potential first-mover-advantages, the importance of being first is reduced since first-mover-advantages only exist if the first-mover has access to resources needed. At the same time, the first-mover-disadvantages still affects the new entrant. Liabilities of newness stem from not being organized efficiently and the first-mover-disadvantages described earlier and exemplified earlier, stem from uncertainty. These uncertainties have been evident for Alpha, when launching the product in Sweden (2010-09-08). Our estimated sales were way too high and this was due to the customer uncertainty – customers had problems assessing our product's value, which we were not properly prepared for. All our great PR exposure in could not make up for the fact that customers did not fully understand our product. In retrospect, we should have been doing more customer research and offered a Beta-version to gain better knowledge about customer needs and wants. In fact, this is knowledge we have learned is, according to FMA, a source of competitive advantage since we have moved along the learning curve. One can also flip the coin and argue that this knowledge could have been given at no cost by observing someone else engaging in new entry first. I find this viewpoint interesting, and I welcome more research in this field.

I would also highlight Ahlström et al's view of growth as a system, constituting of reinforcing and balancing loops. A great example of this is the positive word-of-mouth we managed to build during the launch in Sweden, which was evident during Delta, when customers said they had been recommended the product from friends (Learning Journal 1, 2010-12-03), which had a positive impact in sales during December. Though, the uncertainties about customers somewhat counteracted the positive effect from word-of-mouth, acting as a balancing loop. This was evident because the positive word-of-mouth gradually lost its power as time passed since participating at Delta, even though the release and marketing of the mobile version (2010-12-17) and the full Nordic version (2011-01-10) of the product. The direct sales were therefore, according to my experience, was effective to overcome the uncertainty of customers, and to reinforce growth in sales. This reasoning is also related to theory about the "double-edged-sword". By engaging in direct sales, Alpha managed to reduce the negative aspect of being new and increased the positive word-of-mouth. But again, to engage in direct sales, resources are needed and during this period of time, they were somewhat limited. With this knowledge about reinforcing and balancing loops and the "double edged sword", Alpha could have reduced the balancing loop effect, creating a stronger reinforcing effect even more effectively.

5.2 The Role, Impact and Sources of Legitimacy

With the reasoning of previous chapter in mind, new entry can be problematic. There are first-mover-disadvantages, which can be problematic, but the advantages of being the first-mover might not be possible to utilize if the resources needed are not available. Furthermore, from a system theory view of growth, which I find related to theory about the "double-edged-sword", the management of reinforcing loops and balancing loops described above, also dependent on resources available. Put another way, acquiring and gaining resources are key for a successful new entry.

In theory, legitimacy has been pointed out as a key factor of acquiring resources and Delmar & Shane says: *"obtaining legitimacy is a necessary precondition to initiating social ties with stakeholders and obtaining and recombining resources"*. I fully agree upon this statement, but it does not describe what legitimacy really does. To clarify why legitimacy is important, I find it important to understand legitimacy's impact on a specific individual. Decisions are not very often fully rational because there are always uncertainties. Individuals are usually risk averse and the greater uncertainty the greater risk. This is where legitimacy comes in to reduce the uncertainties and thereby the risk. One observation from working for Alpha at trade shows, potential customers and other stakeholders often ask who the founder of Alpha is and who has developed the methodology.

Legitimacy has been defined in many different ways over the years but, I find Suchman's definition of legitimacy, stated in chapter 3.2, the most appropriate because it is wide and includes the important aspect that legitimacy is about perception, i.e. "it ultimately exists in the eye of the beholder" as stated by Zimmerman & Zeitz. Though, I do not fully agree that "legitimacy is a generalized perception or assumption", because different stakeholders do not have the same perceptions or assumptions. A potential collaborator might have different perception of an entity than a potential customer. This can be due to different interests between the two, which also is recognized by the entity which will customize its communication. For example, when presenting the first time for Zeta, we communicated the potential profit for Zeta if collaborating. This is different from the communication to customers during Zeta in Malmö, where we pinpointed the products user-friendliness and its objective analyses. In addition, some might respond positively to an action from the entity, and some might respond negatively to the same action. I therefore suggest that: "*legitimacy is the sum of all perceptions and assumptions"* – including both positive and negative. This change in definition creates room for a slightly different view on how to manage legitimacy, described in the next subchapter.

Put together, my suggested definition is as follows:

*"**Legitimacy** is the sum of all perceptions or assumptions that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions"*

When defining legitimacy widely as above, legitimacy can stem from many different sources and be categorized in many different ways. Suchmans' three categories and Zimmerman & Zeitzs' four, compliment one and each other as a tool to identify and reach deeper understanding of Alphas' sources of legitimacy. DeClerq and Voronov have only two categories with a slightly different approach and perspective compared to Suchman and Zimmerman & Zeitz.

Pragmatic, Moral and Cognitive Legitimacy Applied on Alpha

Suchmans' three categories as mentioned earlier in this paper: *pragmatic, moral* and *cognitive* legitimacy. With these categories, some sources of Alpha legitimacy can be identified.

Our collaboration partners a source of *pragmatic legitimacy*. Since the first contact, they have all assessed their potential benefits of giving us support by assessing their potential commission in sales (exchange legitimacy), and/or how well Alpha as a collaborator could benefit their larger interests (influence legitimacy). The partnership with gamma (May 2010) was established because Alpha benefit the trend of private investors increasingly trading stocks, which is in their interest and thereby subject to *influence legitimacy*. The collaborations with Zeta is also a product of influence legitimacy because of the very same trend of interest as Gamma, but Alpha also gained *exchange legitimacy* by offering commissions of sales.

Alpha have had the opportunity to differentiate ourselves from the incumbents of the financial market and thereby act as an antagonist to the old and (from by many) distrusted financial system. Alpha have therefore gained *moral legitimacy* from some. Although, this differentiation has also a negative effect on legitimacy from incumbents and other stakeholder which prefer Alpha to conform to the existing social environment (innovative legitimacy will be discussed later). These stakeholders might influence Alpha negatively, which have been a concern when forming our strategy for the launch in Sweden and therefore have we not made too many provocative statements in the press.

Cognitive legitimacy in its turn, have we not been able to acquire. We have not built comprehensibility, which is evident because neither potential customers nor collaborators have a transparent image of us, or our product, due to the fact we have not access to the resources needed to educate them. Cognitive legitimacy has not been our focus at Alpha and therefore might have to reconsider our focus. By referring to stakeholders' every-day-life, we might be able to build an easier-to-understand image, thus gain cognitive legitimacy.

According to Suchman, the different categories can coexist and reinforce each other, but also transform from one into another. By analyzing Alpha through Suchmans' three categories, I concur that different categories can exist simultaneously (evidences for legitimacy's ability to reinforce and transform will be presented later).

Regulative, Normative, Cognitive and Industry Legitimacy Applied on Alpha

Zimmerman & Zeitz have defined four sources of legitimacy: regulative, normative, cognitive and industry legitimacy. Eventhough there are similarities in the categorization to Suchmans' three sources, there are also differences.

Regulative legitimacy for me is almost taken for granted and a prerequisite of operating as a new venture or engaging in new entry and I therefore view regulative legitimacy as the most basic source and easy to acquire legitimacy.

Normative legitimacy is a very wide category. It is somewhat a combination of suchman´s pragmatic and moral legitimacy, because it addresses both exchange/influence legitimacy as described earlier, but also being "a good citizen". Although widely defined with many levels, normative legitimacy helps me identify more sources of Alpha's legitimacy.

Endorsements as a source of normative legitimacy have been effective for Alpha. Alpha have had positive attention from the press. The spillover effect, described by Zimmerman & Zeitz has been visible, and we have experienced great increase in sales and increase of visitors at the homepage after a published article.

Networks have also been effective sources of normative legitimacy for Alpha. Our collaborations have made us credible, especially towards customers on trade shows. When mentioning that we launched in collaboration with Zeta and Gamma, even though not specifying the collaborations, customers have been positively affected and shown increased interest. Another important aspect of networks was evident during the launch in Sweden. When we signed Zeta as a collaborator, other potential collaborators were much more interested and approachable. This was even more evident when trying to sign the first collaborator in Denmark. In my learning journal I wrote:

"*…it is obvious that legitimacy is a must for collaboration and sales. As a start-up in a very conservative industry (which finance/investment is), makes it hard to be the pioneering company. Our collaboration with Zeta in Sweden helped us gain legitimacy as a first reference. Before the first reference in Denmark, it will be hard*"

A related insight from the process of finding the first collaborator was gained when meeting Beta and Epsilon for a potential collaboration with Sigma. When I highlighted the upcoming collaboration with gamma in Sweden, they became much more positive to a potential collaboration. Collaborators in other markets can therefore be sources of legitimacy as effective as collaborators in the new market. I suggest it is a matter of interconnectedness and perception of existing collaborations and the new potential ones, rather than which market they operate in. In Alpha's case, networks have been and still are important to gain legitimacy.

Cognitive legitimacy is somewhat defined differently by Zimmerman & Zeitz and Suchman. Zimmerman & Zeitz are focusing on the widely held beliefs and taken-for-granted assumptions. These are in its turn providing routines for the everyday operations and the roles of participants in the social system. These roles constitute what is expected from every entity. Alpha has gained legitimacy by having an experienced and authoritative CEO, but also owners, but also by creating a proof of concept. The index has been performing very well and

Industry legitimacy has affected Alpha in both positive and negative ways. My experiences therefore support Zimmerman & Zeitz's arguments of industry legitimacy's impact. After the financial crisis, stock trading from private investors has not yet recovered and the financial market has suffered from decreasing legitimacy. But the decreasing legitimacy of the financial market has also been an advantage for Alpha. By communicating our differences from incumbents of the financial market, we have gained legitimacy from both collaborators and customers. Zimmerman & Zeitz also highlight the problems of being new on new market. The uncertainties of the new market are high and the new entrant need to build it's of legitimacy. This argument is in inline with my reasoning about new entry in chapter 5.1.

Institutional and Innovative Legitimacy Applied on Alpha

De Clercq and Voronov have a different view on sources of legitimacy than Zimmerman & Zeitz and Suchman with only two categories: *institutional* and *innovative legitimacy*. Since Suchman and Zimmerman & Zeitz have similar perspectives of sources of legitimacy, I find the perspective of institutional and innovative legitimacy as a great compliment which deepen the understanding and importance of legitimacy when being new. I will also argue that this view helps understanding the links and interrelations between being new and legitimacy.

Institutional legitimacy is about conforming to "fit it", which means that legitimacy is stem from becoming accepted by being perceived as all other participants in a social system. I am supporting their definition and impact of the so called *doxa* and the effect of not complying with the social environment, defined as *illusio*. I believe that doxa and illusion can have different effects in different socially environments, but according to my experiences, the financial sector is heavily influenced by doxa and illusio. As mentioned before, we have taken in concern, not to be too aggressive in our marketing on behalf of incumbents such as banks, capital funds et. We would like to be more aggressive, but they have more power and they have created the dominant vision on the financial market and have great amount of resources. If Alpha engages in a war with dominant incumbents, we have little chance of winning. Well put by Suchman, we might end up as a new venture with procedures that are not accepted and are seen as quackery.

Innovative legitimacy as a source of legitimacy, as not received too much attention from Zimmerman & Zeitz, nor from Suchman. I think defining this source of legitimacy is De Clercq & Voronov's greatest contribution to fill in the holes in earlier scholars and to better understand legitimacy in new ventures.

An example is, when Zimmerman & Zeitz are discussing endorsements as a source of legitimacy. They answer the question of how legitimacy is gained when endorsed, but not why the endorsements occur in the first place. Put in context with Alpha and being published; Alpha had never had coverage in a magazine before and we were much different from incumbents. What made us legitimate and interesting? One source was Kappa and his personal legitimacy, but the main reason was of course that we offered something new and therefore were interesting, i.e. we leveraged our innovative legitimacy.

5.3 Strategies to Acquire, Gain or Manage Legitimacy

There are two perspectives of strategies of acquiring legitimacy presented in this paper: Zimmerman & Zeitz's and De Clercq & Voronov's perspectives. Suchman's three strategies to acquire different sources of legitimacy have further developed into four by Zimmerman and Zeitz; *conformance*, *selection*, *manipulation* and *creation*, and De Clercq & Voronov instead focus on how to manage *institutional* and *innovative legitimacy* by *management of meaning*.

Alpha has consciously and unconsciously engaged in strategies to acquire legitimacy. By constructing the proof of concept is an example of conformance (2010-11-17). Even though we knew the methodology was valuable, we were pressured from different entities in the social environment to conform to praxis of the industry and show its value in form of an index.

We have obviously also used *selection* as a strategy by starting in Sweden. The Swedish market is one of the most developed in the world, but still a fairly small potential in sales due to the little population.

Manipulation as a strategy has also been implemented by Alpha, by trying to change private investors' behavior from investing through intermediates to investing through online discount brokers. We have built marketing material in form of education videos (August 2010), and it is an important part in sales material to highlight the high costs of intermediates.

Creation is a strategy which is related to manipulation, since they both involve something new instead of conforming. Creation is the hardest strategy, which requires the most resources. Alpha has been involved in creation through highlighting the need for objective analyses and comparability, which has not existed before. This is the most important competitive advantage for Alpha, but also the hardest to communicate to stakeholders (Learning Journal 11, 2011-03-04).

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From Zimmerman & Zeitz perspective, conforming and selection are the easiest ways of acquiring legitimacy. Manipulation and creation is associated with high costs and these strategies should therefore only be applied on one or a few fields at the same time, which can sound reasonable, based on their discussion, but also based on the financial struggles for Alpha. Being a new venture, on a new market with a new product has been a struggle. As mentioned in subchapter 5.1, Alpha has struggled with lack of needed resources to successfully exploit the first-mover-advantages (Learning Journal 14, 2011-03-25). It is not clear that the lack of resources is due to lack of legitimacy.

De Clercq and Voronov argue differently how legitimacy should be managed. They suggest *institutional* and *innovative legitimacy* should be balanced in an effective way by *management of meaning*.

Alpha has unconsciously been engaging in management of meaning. Our core idea and business concept in itself stem from problems in the financial market and therefore we want to offer a solution. We have therefore put great emphasis in differentiate ourselves, by communicating benefits and ideals about helping private investors to perform better investments through banks capital funds, etc. In contrast banks, to whom we have communicated our interest to collaborate and thereby portrayed ourselves as willing to conform to existing doxa, even though our product is not compatible with their present operations or customer offerings. Thereby, Alpha has acquired institutional legitimacy from banks even though not engaged in any actions and at the same time gained innovative legitimacy from customers. This is one of the strength of management of meaning.

Another strength is that new ventures can focus on differentiation to build competitive advantages, as long as the institutional legitimacy is above its minimum. From this point of view, Alpha should continue put effort in and strengthen our competitive advantages, instead putting too much effort in conforming as suggested by Zimmerman & Zeitz. This sounds reasonable to me. How would Alpha attract customers from the dominant incumbents if we would conform to their doxa? Our customer base today (2011-05-30) has become customers due to the fact that we are different. As long as we have the institutional legitimacy needed, we can avoid the illusio. I therefore suggest a new model of the legitimacy threshold. Instead of focusing on the general amount of legitimacy, I suggest that the threshold constitutes of two curves, which both consist of the sum of all positive and negative perceptions of the new venture; institutional legitimacy as the lower curve, and the total curve constitutes of the institutional plus the innovative curve. The institutional legitimacy curve (the lower of the two), is the survival curve. The innovative legitimacy curve (the higher of the two), is the performance curve. The difference between the two is the effect of the differentiation and competitive advantages built. By small modifications of the definition of legitimacy, differences in an entity's perceived legitimacy by different stakeholders and recognizing the effect of innovative legitimacy, legitimacy as a concept changes substantially.

5.4 Summarized Critic towards Theory and Empirics of Alpha

Theory and Alphas practices have both been criticized in this chapter. In following subchapters will main critique be summarized.

5.4.1 Critique of Theory from Alpha Empirics

To start with, theory is too often isolated from one and another. When all parts are together, the full picture is different from analyzing one at the time. This is definitely the case when it comes to new entry and legitimacy. An illustrative example is the need for resources to exploit first-mover-advantages, which is not examined thoroughly in theory. From my experience from Alpha, FMA theory and RBV are closely related. When combined, it is clear that first-mover-advantages do not exist until exploited. If resources needed are not acquired, the first-mover-advantage becomes a first-mover-disadvantage. There is also a need to integrate FMA theory with legitimacy. According to Liebermann & Montgomery, has the first entrant an advantage in acquiring resources. This is highly questionable, because when entering a new market, there are uncertainties about the industry itself. Therefore, stakeholders might have doubts about the survival of the firm and the new entrant can have problems acquiring resources. To reduce this uncertainty, legitimacy plays a key role. Legitimacy's role of reducing uncertainty is often overseen. When launching Alpha in Sweden, Epsilon's personal legitimacy was the source to reduce stakeholders' perceived uncertainty, enabling Alpha acquiring the basic resources. Thereby, RBV and legitimacy are closely related and effect one and another. It is also important to understand that legitimacy is not a goal or a resource of value, if it is not leveraged to gain resources or create sales.

I also question Suchman's definition of legitimacy, which also is used by Zimmerman & Zeitz. Legitimacy should not be generalized, because different stakeholders might perceive an entity differently. Therefore should legitimacy be the sum of all negative perceptions of an entity. This slightly different definition gives a different view upon legitimacy and how it can be managed. Thereby, De Clercq & Voronovs view of legitimacy becomes more attractive compared to Zimmerman & Zeitz. Zimmerman & Zeitz view and strategies to acquire and manage legitimacy do not include innovative legitimacy and they focus more on perceived legitimacy from actions. I therefore find Zimmerman & Zeitz view is incomplete. This reasoning is backed up by my experiences and observations from working within Alpha. De Clercq & Voronovs' arguments for management of meaning in contrast to Zimmerman & Zeitz suggestions, is very effective and applicable, which has been successfully implemented by Alpha.

I suggest that Innovative legitimacy and the slightly different definition of legitimacy also changes the theories about the legitimacy threshold. The legitimacy threshold should consist of: the survival curve and the performance curve. The survival curve is the need for a certain degree of institutional legitimacy and the performance curve consist of the survival curve plus the innovative legitimacy. The gap in between the two is the effect of differentiation and competitive advantages built (see figure 2).

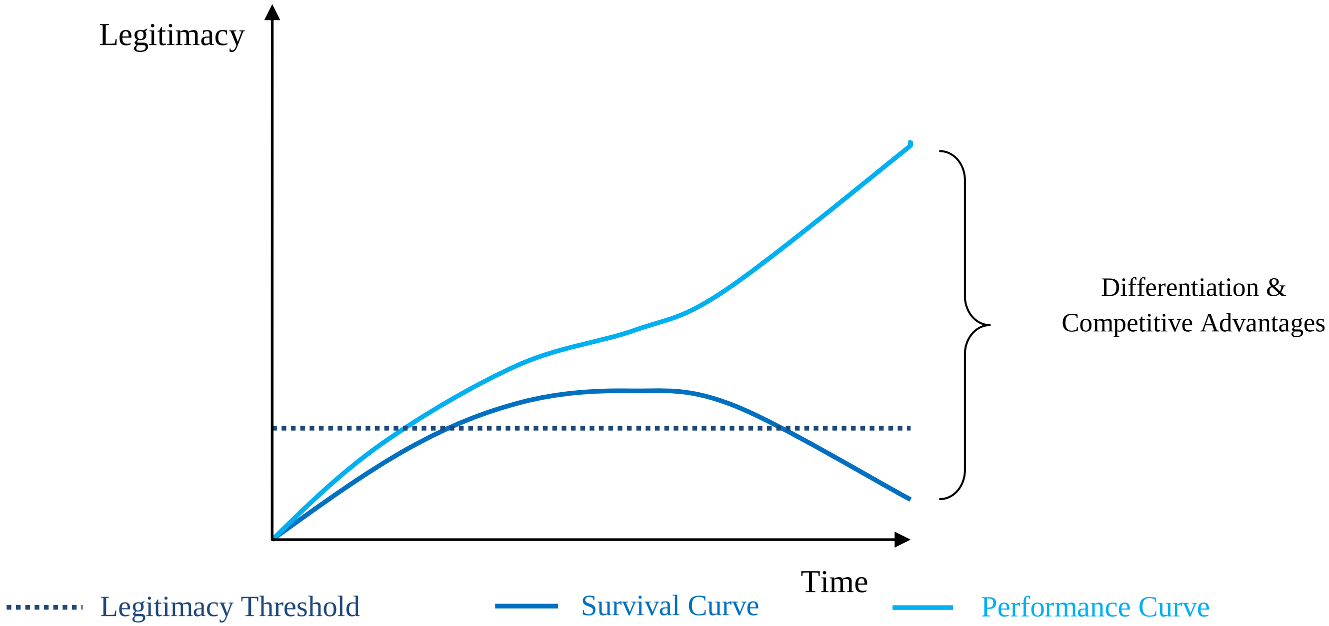

Figure 2 – Legitimacy Threshold, Survival Curve and Performance Curve

5.4.2 Critique of Alpha Empirics from Theory

The main critic to Alpha is the lack of knowledge about legitimacy theory. Even though Alpha have acted according to theory in many ways and some parts of theory have not been optimal for Alpha, the understanding of the concept would have helped Alpha as a new venture, in a new market, with a new product. Some negative events or effects could have been reduced or avoided to better gain legitimacy in order to acquire resources and build growth.

An example is our lack of understanding about our comprehensibility. According to Suchamn's category cognitive legitimacy, Alpha should have communicated a more comprehensive image towards the stakeholders, which address their beliefs and experienced reality in their everyday life. If Alpha would have created a more comprehensive image, the balancing loop effect would have been decreased and the word-of-mouth (reinforcing loop) would have had an increased effect. Thereby, Alpha would have taken advantage of the positive effects of being new and reduced the negative, as described well by the "double edged sword", which in its turn would increase the legitimacy.

Another critique towards Alpha is the complex prospect, which investors had problems assessing. Since Alpha was a new venture, on a new market, with a new product, there was and still is a great amount uncertainty. This uncertainty was increased by the prospect since it was not comprehensive enough and therefore it created negative cognitive legitimacy from investors.

Even though my view upon Zimmerman & Zeitz and Suchmans' theories about how to acquire and manage legitimacy is somewhat skeptical, their categorization and their presented sources of legitimacy can be helpful to get a better understanding where legitimacy stem from. It is evident that more knowledge about these categories and sources could have helped Alpha to better manage legitimacy.

6. Conclusion

By combining between different theories about being new/new entry and legitimacy with my observations and experiences from Alpha, I have gained valuable insights of legitimacy as a concept and its relation with being new and new entry. As a consequence I strongly argue for an integrative view, since isolation of theories leads to an unrealistic view of being new and legitimacy.

One of the key findings in this paper is the need to have access to resources needed to be able to exploit first-mover-advantages. Even though they are not exploited, the disadvantages will be present. Therefore are resources key for a new venture or new entrant, especially during great uncertainties. These uncertainties are key aspects to understand the role of legitimacy. Since individuals are generally risk averse, these uncertainties must be reduced and legitimacy reduces the perceived uncertainty. With this reasoning, legitimacy has a great importance for new ventures and entrants.

Different categories of legitimacy, described by Zimmerman & Zeitz (2002) and Suchman (1995) have been identified as tools which can be valuable to understand where legitimacy stems from. Although, there view does not include innovative legitimacy and thereby becomes their suggested strategies somewhat less relevant, according to the results from working with Alpha. De Clercq and Voronov on the other hand suggest innovative legitimacy is an important aspect for a new venture or a new entrant and therefore their view on strategies to acquire legitimacy is fundamentally different from Zimmerman & Zeitz. Their suggested strategy management of meaning was proven effective by Alpha. The understanding of institutional and innovative legitimacy and their suggested strategy management of meaning can help new ventures or new entrants to efficiently differentiate itself to build competitive advantages but without too much emphasis on conforming to the social environment.

This view-point fundamentally changes the legitimacy threshold. Instead of generalize legitimacy; I suggest two curves, the survival curve and the performance curve. The survival curve consists of institutional legitimacy which must be above the threshold to not risk the negative effect of illusio, and the performance curve consist of institutional legitimacy but also innovative legitimacy. The gap in between is the differentiation from incumbents and competitive advantages built. I believe this is model and tool can help new ventures better understand how to manage legitimacy. I

There are also implications with my research since it is based on autoethnography from only one case. Though, my intentions to question theory from observations and experiences but, also question my own practices from working within Alpha have been successful. I believe this paper has highlighted the problems with isolated theories and I invite others to do further research on the relation between being new or new entry with legitimacy. I also suggest further development of the suggested legitimacy threshold as a tool to manage legitimacy.

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