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Standing out: how new firms in emerging markets build reputation

Violina P. Rindova University of Texas-Austin, USA

Antoaneta P. Petkova San Francisco State University, USA

Suresh Kotha University of Washington, USA

Abstract

While strategy and organizational researchers increasingly recognize that observers' perceptions and beliefs about firms have a substantive effect on firms' access to resources and performance, the processes through which these perceptions form are not well understood. To address this question, we examined how three new firms – Amazon.com, barnesandnoble.com and CDNow – that entered the emerging e-commerce domain in the mid-1990s built their initial reputations in the media. Given the limited theory and empirical evidence about the process of reputation accumulation by new firms in emerging markets, we used the case study method to develop inductively a model that relates the visible external actions of the three firms to the patterns of media coverage they accumulated. Patterns of media coverage are likely to both reflect and affect the process of reputation accumulation, as the media constitute an influential audience of critics, who first form their own perceptions and opinions, thereby reflecting the process of reputation accumulation, and then disseminate these perceptions and opinions to the public, thereby influencing the perceptions and opinions of other stakeholder audiences. Our analysis indicates that the pattern of market actions of new firms influences the pattern of media coverage they receive in terms of levels (visibility), content (strategic character), tenor (favorability) and distinction (esteem). The observed inter-firm differences in these characteristics of received coverage suggest that reputation may be better understood as a composite construct and that firms' reputational assets may vary in their composition. Our study offers an inductively developed process model that relates the market actions of new firms to the accumulation of the different components of their initial reputations in the media.

Key words • intangible assets • market actions • media studies • new ventures • reputation

New firms face considerable challenges in convincing stakeholders to exchange resources with them because 'the quality of a new venture is always a matter of some debate' (Stuart et al., 1999: 315). By developing a reputation a new firm can reduce stakeholders' uncertainty about its quality because reputation, defined as the collective knowledge about and regard for the firm in its organizational field (Fombrun, 1996; Ferguson et al., 2000; Rindova et al., 2005), can provide stakeholders with assurance about the firm's ability to create value (Rindova and Fombrun, 1999). How a new firm can build reputation, however, remains a relatively unexplored research question because extant reputation research studies primarily established firms that compete in well-defined industries with known players (Fombrun and Shanley, 1990; Deephouse, 2000; Tsai, 2000; Rindova et al., 2005). This research has shown that a firm can build its reputation through persistent investments in a variety of relevant signals, including levels of financial performance, patterns of resource deployment and endorsements from high-status or prominent third parties (Ferguson et al., 2000; Roberts and Dowling, 2002; Greenwood et al., 2005; Rindova et al., 2005).

This research, however, is of limited value for understanding how new firms in emerging markets build their reputations, because new firms lack reliable performance records (Gompers and Lerner, 2001), as well as the resources necessary to invest in relevant signals (Williamson, 2000; Pollock et al., 2004). For these reasons, most research on new firms views them as having to 'borrow reputation' from established actors (Beatty and Ritter, 1986). Entrepreneurship researchers have therefore focused on studying how the affiliations of new firms with high-status actors, such as venture capitalists (Lee et al., 2001; Shane and Stuart, 2002), underwriters (Gulati and Higgins, 2003; Higgins and Gulati, 2003), strategic alliance partners (Stuart et al., 1999) and customers (Reuber and Fischer, 2005), improve their performance. This research has shown that new firms benefit from the reputations of prominent others but leaves open the question of how new firms proactively build their own reputations.

New firms competing in emerging markets confront further challenges in building their reputations because in such contexts stakeholders face uncertainty not only about what the quality of a particular firm is, but also about how they should think about quality in the market (Aldrich and Fiol, 1994; Hargadon and Douglas, 2001; Lounsbury and Glynn, 2001). Research on legitimacy has addressed this problem and has observed that the success of new firms in emerging markets depends on the extent to which stakeholders understand and accept the new types of activities, products, and/or business models that these firms introduce (Aldrich and Fiol, 1994; Lounsbury and Glynn, 2001; Lounsbury et al., 2003; Sine et al., 2005). This research has shown that the development of legitimacy for the new industry as a whole contributes positively to the performance and survival of individual firms in the industry (Rao, 1994).

Research on legitimacy and reputation share a common concern with the effect of stakeholders' perceptions of firms' performance and survival. However, the perceptions these constructs refer to differ in content and bases (Rindova

et al., 2006). Legitimacy reflects the degree to which a firm's products and practices are perceived as fitting with societal expectations and are evaluated favorably based on this fit with industry norms and broader societal expectations (Lounsbury and Glynn, 2001), whereas reputation refers to the regard that stakeholders hold a firm is based on expectations that it can deliver value along key dimensions of performance (Rindova and Fombrun, 1999).

Both legitimacy and reputation affect the choices that stakeholders make among competing firms. Such choices involve two steps: categorization and comparison (Zuckerman, 1999). In the categorization step stakeholders decide which firms belong to a given category and should be included in the choice set. Categorization, therefore, depends on the legitimacy of the firm, i.e. the degree to which it is perceived as fitting with the beliefs and expectations associated with a given category. In the comparison step stakeholders evaluate how a firm compares with other members of the category. Comparison, therefore, depends on the firm's reputation. These arguments suggest that to gain access to stakeholders' resources a new firm not only has to be legitimate, but it also has to develop its own reputation.

Given the limited theory and empirical evidence about how new firms build their own reputations we used the methods of inductive theory building through case studies (Eisenhardt, 1989; Yin, 1994) to develop a theoretical framework about how new firms build initial reputations through market actions. We focus on market actions because they are the central mechanism through which firms compete and pursue competitive advantage (Ferrier, 1997; Ferrier et al., 1999). Although the primary purpose of market actions is to influence the position of a firm relative to customers and competitors, they also reveal information about its strategies and capabilities, thereby influencing observers' perceptions of it (Ferrier, 1997; Clark and Montgomery, 1998). Therefore, market actions may play an important, yet understudied role, in the reputation-building process of new firms.

We further focus on reputation accumulation by looking at the patterns of media coverage that new firms achieve because patterns of media coverage both reflect and affect the process of reputation accumulation (Carter and Deephouse, 1999; Deephouse, 2000; Pollock and Rindova, 2003). To the degree that journalists are cognitively constrained individuals who, like other people, have to make sense of complex messy data in order to form impressions and express opinions, media coverage reflects the process of reputation accumulation. However, journalists also disseminate their perceptions and opinions on a large scale and are seen as authoritative sources of information (Deephouse, 2000), thereby performing the role of institutional intermediaries (Pollock and Rindova, 2003) and critics. As a result, media coverage sets the agenda for public discourse (McCombs and Shaw, 1972; Carroll and McCombs, 2003) and affects reputation accumulation. The role of the media as 'a visible and enduring public of critics who act as a primary audience for product offerings' and guide to the public's evaluations of these offerings (Zuckerman, 1999: 1404) is particularly important in contexts where stakeholders face high levels of uncertainty, such as emerging markets.

In sum, media coverage provides an important window in the process of initial reputation accumulation in two ways: First, media organizations themselves constitute an audience that has to figure out which firms are newsworthy, i.e. which firms merit their attention, for what reasons and to what extent. Unlike other audiences, the media make their opinions public and therefore observable in a relatively unobtrusive manner. Second, the attention and interpretations that the media give to the firms they focus on become inputs into the sensemaking processes of other stakeholders, thereby having the potential to affect a firm's reputation with these audiences (Fombrun, 1996). Although media coverage may not capture the totality of stakeholder impression formation, it captures the central process through which knowledge and evaluations about a firm crystallize into a 'social fact' (Lang and Lang, 1988: 79).

To examine this process in depth, we studied the market actions and the media coverage of three new firms that entered the emerging e-commerce market in the mid-1990s: Amazon.com, barnesandnoble.com (BN.com) and CDNow. Our analysis of the three firms shows that they took different numbers and types of actions, and that these different patterns of actions were associated with different patterns of media coverage in terms of levels (visibility), content (strategic character), tenor (favorability) and distinction (esteem). Based on these observations we extend research that views reputation as a multidimensional construct (Deephouse, 2000; Greenwood et al., 2005; Rindova et al., 2005) and articulate several distinct components of the composite reputation construct. We further develop a process model that relates new firms' pattern of market actions to the accumulation of these different components of reputation.

Methods

To develop our theoretical framework we employed a multiple-case, embedded, longitudinal design. A multiple-case design enables researchers to use 'replication logic' (Yin, 1994) and to confirm or disconfirm emerging conceptual insights using the comparative evidence from the multiple cases (Eisenhardt, 1989; Yin, 1994). The embedded design further enables the development of richer and more accurate theories by uncovering aspects of a phenomenon at multiple levels of analysis (e.g. firm-level and action-level) (Eisenhardt, 1989). Finally, the longitudinal design enables us to use pattern matching, a technique for analytical induction, which is particularly suitable for analyzing processes that are diffused yet interrelated over time (Yin, 1994).

Theoretical sampling of cases

The emerging market selected for our study was the e-commerce domain, which emerged in the mid-1990s when the internet became available for commercial activity. To fulfill the requirement of the inductive, case-based theory-development

method for theoretical sampling, i.e. to select cases that exhibit the phenomenon of interest to a high degree (Yin, 1994), we identified new firms in an emerging market that had received sufficient media coverage to enable detailed and systematic comparisons. We chose three firms that entered the e-commerce domain in its early years of emergence between 1994 and 1997: CDNow (entering in 1994), Amazon.com (entering in 1995) and Barnesandnoble.com (entering in 1997).¹

Our selection of firms was also guided by an effort to build into the design of the study pair-wise similarities and differences through which we could explore alternative explanations for observed differences in the patterns of media coverage. First, including CDNow as a very early entrant in the e-commerce domain enabled us to explore the role of first-mover advantages as a potential explanation for a new firm's reputation (Lieberman and Montgomery, 1988). Second, including BN.com, which entered the market late but with the benefit of the resources and established reputation of its parent company, the book-retailer Barnes and Noble, allowed us to contrast two first movers with a follower that was able to borrow pre-existing reputation. The fact that despite the benefits of its parent's name BN.com did not manage to accumulate the same reputation as Amazon.com did, allows us to rule out resource endowments, including privileged access to reputational assets that can be borrowed through affiliation, as the primary mechanism for reputation accumulation by new firms. Finally, because BN.com and Amazon.com competed in the same product category and distributed essentially identical products (Ghemawat, 1999), comparing the two firms enabled us to account for the potential reputational effects of product quality and price (Milgrom and Roberts, 1986). Overall, our case selection met the requirements for 'theoretical replication' (Yin, 1994), which enables the researchers to broaden the generalization of their conclusions because the multiple-case studies were designed to cover different theoretically relevant conditions.

Data collection

Our first data set consists of all visible externally oriented market actions that each firm took from its founding until the end of 1998. We chose this time period because during this period the three firms entered the e-commerce domain and remained focused on competing predominantly in one product category (Amazon.com and Barnesandnoble.com in books, and CDNow in music retailing).² Although CDNow entered the e-commerce domain in 1994, it did not take any actions that year. Thus, while we collected data since the beginning of 1994, our analytical displays cover the period 1995–8, for which actions and media coverage on the three firms actually existed. Following Yin (1994), we established the facts with regard to the market actions taken by the three firms using data triangulation across multiple sources, including press releases, company websites, 18 published cases and several corporate histories books.

Through this process we identified 162 unique actions taken by the three firms that met the definition of market actions as externally directed, specific, and observable competitive moves (Ferrier et al., 1999). For each firm we developed a chronological display of its actions over time.

Our second data set consists of all articles published about the three firms between 1994 and 1998 in four prominent business media publications: *Business Week*, *The Economist*, *Fortune* and the *Wall Street Journal*. We chose these sources because they have been used in past research capturing reputation in the media (e.g. Greenwood et al., 2005) and because they are viewed as richer information sources that not only report on events, but also provide interpretations (Haunschild and Beckman, 1998). We reasoned that such sources are also more likely to be a valid indicator of reputation accumulation, because research shows that prominent third parties are viewed as more credible sources of evaluative information (Stuart, 2000). These sources yielded a total of 627 articles about the three firms: 488 about Amazon.com, 47 about BN.com and 92 about CDNow. As a robustness check, we examined the extent to which coverage by these prominent media outlets is representative of the more general pattern of media coverage of the three firms. We collected count data of all articles that referred to one of the three firms in the 'Major Newspapers' and 'Magazines and Journals' databases of *Lexis-Nexis*. The two time series were correlated at .96, suggesting that our sample of sources reflects the level of media coverage the firms achieved.

After removing repetitive articles that cover more than one of our focal firms and articles that only mentioned a firm's name without providing any substantive discussion about it, we obtained 148 unique articles, or sampling units, from which we further extracted specific coding units. Coding units enable researchers to sample the content of sampling units that are too rich or too complex to be analyzed reliably (Krippendorff, 2004). The coding units for our study were all paragraphs surrounding the mentions of the name of at least one of the three firms that also made specific statements about the firm. Using these criteria we obtained 278 coding units (177 for Amazon.com, 53 for BN.com and 48 for CDNow).

Data analysis

Our analysis followed the procedures for case-based analytic induction (Yin, 1994) and included multiple iterations of the following steps: breaking the data into categories through open coding; extracting patterns in the data and developing relevant dimensions and core constructs; matching patterns; obtaining theoretical corroboration for observed relationships; and integrating relationships into an overall theoretical model. Below we explain the key procedures associated with the coding and pattern matching steps.

Breaking the action data into categories through open coding

We first organized the actions of each firm in chronological displays. We then coded these actions by using as a starting point the action categories developed

by competitive dynamics researchers and applied to multiple research contexts and industry settings. According to this body of research firm market actions fall in several broad categories: new product introductions, marketing campaigns, alliances/partnering and mergers and acquisitions (Young et al., 1996). Given our emerging market context, we also allowed new categories to emerge from the data and existing categories to be recombined. Following these procedures, we categorized the market actions into five categories, which accounted for 96 percent of all actions taken by the three firms, a total set of 155 market actions, of which 77 were taken by Amazon.com, 39 by BN.com and 39 by CDNow.³

Three of the five categories – marketing, new service development and partnering – were the same as the categories used by competitive dynamics research. Through open coding two new categories emerged from the data: customer relations and symbolic actions. We used the category ‘customer relations’ to capture additions of website features and services, which although relevant to the exchange relationship between a firm and its customers, were not directly related to the buying process of finding, selecting and ordering a product (we coded actions of the latter type as ‘new service development’). While these initial categories provided the initial structure for analyzing our data, emerging theoretical insights about the importance of innovative actions, which included both new service development and customer relations actions, led us to merge the two categories in subsequent analysis. The category ‘symbolic actions’ was used to capture actions that used institutional and cultural resources to distinguish the firm. Actions in this category included announcements of interactive book-writing with celebrity writers, poetry contests, formation of communities based on distinct social categories, or reception of awards and other forms of recognition. Table 1 provides definitions and examples of actions categorized in each category.

Extracting patterns from the data on actions

Following the traditions of inductive research, we first uncovered the patterns in the data by using a variety of analytic techniques for qualitative data analysis, such as putting information into different arrays (e.g. by type of action, by firm, by quarter), and creating data displays, tabulations and time-series plots (Miles and Huberman, 1984; Yin, 1994; Lee, 1999; Krippendorff, 2004). The three firms differed significantly along several attributes of their patterns of market actions, including level of actions, diversity of actions in each quarter and extent of reliance on different types of actions. We compared these differences by quarter, by firm and by action type, and then constructed action profiles for the three firms. Figure 1a presents the action profiles for each firm for the entire observation period and Figure 1b plots their total levels of actions per quarter.

Breaking the media data into categories through open coding

Following the procedures for open coding recommended by Glaser and Strauss (1967), we explored the content of media interpretations about the three firms

Table 1 Coding of action types

Action categories	Definition	Examples (Source: Press-releases in PR Newswire)
New service development	Change in service functionality (changes in the buying process, transaction-related)	'Opens computer room'; 'Announces a new feature called Ultimate Shopping Solution'
Marketing	Pricing change or advertising campaign (transaction-related)	'Kicks off major advertising'; 'Offers lowest prices'
Customer relations	Addition of services that provide opportunities for interactions between the customers and the firm (exchange-related, but not transaction-specific)	'Gives customers unrivaled state-of-the-art recommendation center'
Partnering	Establishing relationship with another organization	'Announces strategic partnership with Microsoft'
Symbolic actions	Actions that draw on institutional and cultural resources	'Announces "Be a Poet" contest'

by asking the questions 'what' and 'how'. Examining media content through the lens of the question 'what' led us to distinguish between action-related, performance-related and general statements. Action-related statements make references to specific actions or an action category (e.g. explaining how a website functions); performance-related statements report on a firm's revenues, accounting or financial market performance; general statements make a generalization about a firm without a specific reference to either actions or performance. Examining media content through the lens of the question 'how' led us to distinguish among three types of statements that: first, inform, by stating facts; second, explain, by suggesting causal relationships; and third, evaluate, by connoting explicitly positive or negative implications of an action or an attribute. Table 2 provides examples of the categories used in the coding of the media coverage. Breaking the media coverage into these different categories enabled us to characterize the emerging interpretations about the firms in terms of strategic type, favorability and esteem. As discussed below, the three firms differed in all of these components, as well as in visibility, which enabled us to use pattern matching analysis in our theory development.

Pattern matching

Having observed systematic differences in both the patterns of actions taken and the components of accumulated reputations, we used pattern matching, an analytical technique developed by Yin (1994) for theory building and testing by comparing patterns in case data. Yin (1994) distinguishes between theory-based and

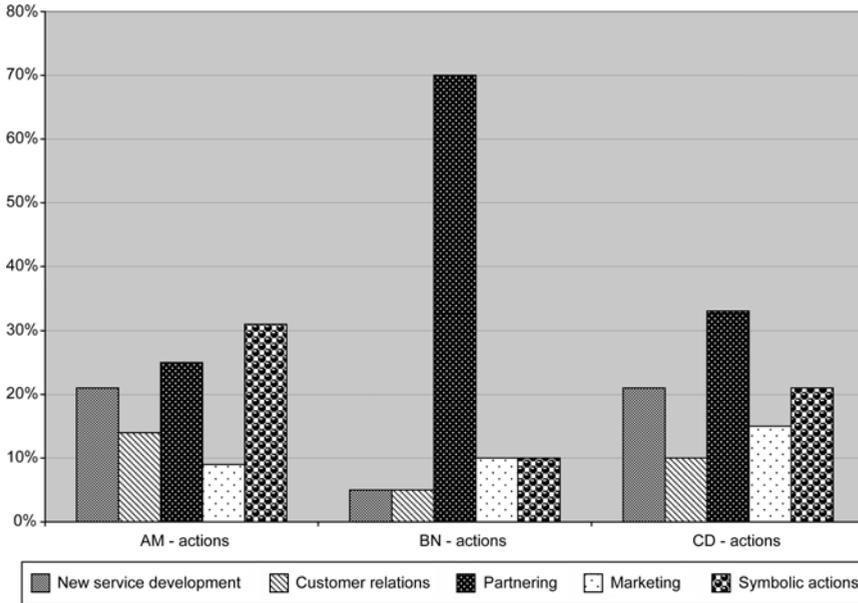


Figure 1a Action profiles of the three firms

data-based pattern matching. Theory-based pattern matching compares observed patterns with theoretically expected ones and can be used for theory testing. Data-based pattern matching enables inferences about causal relationships among different factors by tracking similarity and dissimilarity in their levels.

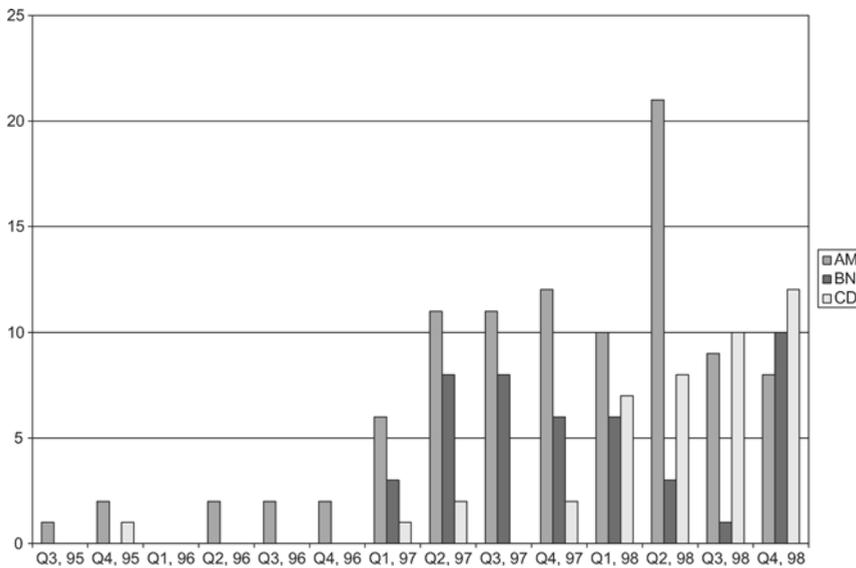


Figure 1b Action patterns of the three firms by quarter

Table 2 Coding of media interpretations

Open coding questions	Open coding categories	Examples
Coverage of 'what'	Specific action (new service development action)	'Using a technology called GroupLens, developed at MIT and the University of Minnesota and commercialized by startup Net Perceptions, Amazon is developing a system similar to Reel's for rating and suggesting books.' (<i>Business Week</i> , 24 March 1997)
	Action category (customer relations action)	'Tell CDnow 's Album Advisor you like Lou Reed, Bob Dylan and Eric Clapton, and it spits back dependable recommendations for Bruce Springsteen and Neil Young.' (<i>Wall Street Journal</i> , 18 June 1998)
	Performance	'Amazon.com recorded 1997 sales of \$148 million, up more than 825% from the previous year.' (<i>Wall Street Journal</i> , 16 April 1998)
	General statements	'For the moment three companies – towerrecords.com, CDNow, and a company called N2K – are leading players. All three are growing faster than a crowd of teenage girls outside a Hanson concert, and each is fighting hard to become the dominant Web name in the category, a la Amazon.com in books.' (<i>Fortune</i> , 12 January 1998)
Coverage – 'how'	Informs (marketing action)	'Barnes & Noble Online has a great deal on Freedomland, the new novel by Richard Price. At \$12.50 for the hardcover copy, it is 29% lower than Amazon.com and 44% lower than its own store, where it sells for \$22.50.' (<i>Business Week</i> , 22 June 1998)
	Explains (new service development action)	'Through a service called BookMatcher, Amazon.com asks customers to rate ten books. The ratings enable it to further determine readers' preferences and to suggest additional titles they might like. The site also alerts customers to new arrivals by their favorite authors.' (<i>Fortune</i> , 22 June 1998)
	Evaluates positively (partnering action)	'Barnes & Noble Inc. said it forged exclusive agreements with Microsoft Corp. to become the exclusive on-line bookseller at some of the software giant's most heavily trafficked Internet sites.' (<i>Wall Street Journal</i> , 7 October 1997)
	Evaluates negatively (new service development action)	'Price comparisons aside, the new Barnes & Noble site fails to meet the standard set by Amazon. Both sites use their front pages to spotlight new books, but where Amazon's write-ups are informative and chatty, Barnes & Noble 's read more like marketing copy.' (<i>Wall Street Journal</i> , 22 May 1997)

We utilized the data-based pattern matching to compare similarities and differences in the patterns of market actions of the three firms with the similarities and differences in their media coverage. If similar levels of a given factor co-occur with similar outcomes and dissimilar levels, with different outcomes, the researchers can plausibly conclude that this factor contributes to the outcomes (Yin, 1994). In comparing the observed similarities and dissimilarities in the patterns of market actions and media coverage of the three firms, following Yin (1994) we treated a relationship between an action attribute and a pattern of media coverage, or a reputation component, as exhibiting a close fit when high levels of an action attribute co-occurred with high levels of a reputation component and low levels or absence of the same attribute co-occurred with low levels of the reputation component. Because the validity of inferences drawn through pattern matching depends on establishing the similarities and dissimilarities in the patterns across the cases precisely, whenever possible we relied on frequency counts to obtain quantitative gauges of similarities and differences (Miles and Huberman, 1984).

Theory development

When we observed a close fit between action attributes and reputation components, we looked for existing theory to supply a theoretical explanation why a given pattern is likely to be theoretically generalizable (Yin, 1994). Several of the theoretical corroborations for the observed relationships suggested that the market actions may affect the extent to which a firm is noticed, the way it is evaluated and whether it is considered an exemplar of a new category. Incorporating these ideas from social cognition research into our theory development led us to theorize that the observable market actions of a new firm change its properties as a cognitive stimulus, i.e. as a set of cues that trigger different impression formation processes (Fiske & Taylor, 1991), thereby facilitating its reputation accumulation.

As a final step, we validated our model and insights by soliciting feedback from three critical informants from Amazon.com, the firm that exemplified the theoretical relationships we inducted. Although this feedback did not play a role in the development of our ideas, it provided external validation for our insights and revealed some internal processes that may have underlaid the market processes we describe. We include a summary of this feedback in an Appendix.

What the firms did and what the media said: differences in firm market actions and media coverage

Inter-firm differences in patterns of market actions

Differences in level of market actions

The three firms differed significantly in their levels and timing of market actions. CDNow entered online in 1994, but took no actions in its first year of operation and very few actions between 1995 and 1997. This low level of

activity may be explained by the fact that the firm was founded with a modest ambition but experienced rapid growth, which gave its founders a sense of relatively unproblematic success (Olim et al., 1998). In its first full year of business, CDNow sold more than \$2 m worth of CDs; and by 1998 it had 33 percent of the market for online music retail (Carpenter, 2000; Reitz and Akers, 2000). In 1998, however, facing competitive threats from Amazon.com and N2K, CDNow increased its level of market actions by taking 85 percent of its total actions in this one year alone.

In contrast to CDNow, Amazon.com took a number of important market actions shortly after its entry in the emerging market and sustained a high level of activity throughout the entire period of observation. This action pattern may reflect its perceived urgency to 'get big fast' (Amazon.com founder and CEO Jeffrey Bezos, cited in Louie, 1998: 2), as well the need to compete with BN.com. In its first year and a half of existence (mid-1995 to end-1996) Amazon.com took nine market actions (for the same time period CDNow took only one action). In the period when Amazon.com competed with BN.com (1997–8), it took nearly twice as many actions as its resource-richer competitor BN.com: 8.5 compared with 4.9 actions per quarter, respectively.

BN.com entered online retail in 1997 through an alliance with AOL. Although run as a separate organization from its parent company in order to avoid sales taxes on online purchases, BN.com relied on the Barnes and Noble brand for the success of its online entry, as the following quote illustrates: 'There's no one in America that knows more about books than Barnes and Noble; the Web simply enables us to broadcast that [brand] message on a new channel' (Steve Riggio, cited in Louie et al., 2001: 17). Consistent with this belief that it can readily extend the parent company's existing brand in the emerging e-commerce market, BN.com took a moderate level of actions, the majority of which were partnering. Overall, BN.com took fewer actions than Amazon.com did and the same number of actions as CDNow.

Differences in action types

Using the embedded design of our study, we further examined how the three firms differed in the overall composition of their market action repertoires. Amazon.com took the highest number, 27, of new service development and customer relations actions (or 35% of its total), followed by CDNow with 12 actions (31% of its total) and BN.com with only four such actions (10% of its total). The high level of new service development and customer relations actions that we observe in the case of Amazon.com is consistent with the firm's stated goal to create new forms of customer value:

Our goal is to redefine what a 'store' means. ... We want people to have fun in the store site. We want to have author interviews. We want to have access to a lot of content. We want to have a lot of opportunities for community. We want people to have their book groups and their relationships with other book groups. (Bezos, cited in Louie, 1998: 14)

Although in more modest terms than Amazon.com, CDNow also emphasized new service development in its actions, again consistent with the views expressed by its founder, Jason Olim: 'Our goal has been to build a better music store ... for the unsatisfied music lovers out there' (cited in Carpenter, 2000: 76). Finally, BN.com's low number of new service development and customer relations actions also appears consistent with the firm's view of the internet as 'simply another distribution channel' (Louie et al., 2001). Its CEO, Steve Reggio, explained this view as follows: 'We are not building a rocket ship here. It's [the web] a way for us to extend our expertise, our passion, and our knowledge of books' (Riggio, cited in Louie et al., 2001: 17). Overall, we observe that Amazon.com and CDNow took more new service development and customer relations actions, whereas BN.com took primarily partnering actions.

Differences in symbolic actions

Another notable difference in the pattern of market actions of the three firms is that Amazon.com took significantly more symbolic actions than the other two firms did. Amazon.com took 24 actions (31% of its total), compared with eight actions (all in 1998) by CDNow and four actions by BN.com. Recall that we defined as symbolic actions that used institutional and cultural resources to distinguish a firm because we identified two main types of actions in this category: First, Amazon.com publicized the recognition it has received by third parties, emphasizing their institutional status as evaluators, or 'watchdogs' (see Rao, 1998, for a discussion of this type of actors). For example, its very first press release reported on early recognition received for its innovative website features:

Amazon.com Books, a virtual bookstore offering more than 1 million titles, has broken into one of the most prestigious hot lists in the Internet community. Point Communications, an independent watchdog that rates Internet sites, recently ranked Amazon.com Books as the number one book-related site on the Web, and the sixth best site overall out of the estimated 500,000 sites inhabiting cyberspace. The Point survey, updated weekly, rates all World Wide Web sites by content, presentation, and experience. With more than 6,000 new pages coming on-line every week, making The Point's Top Ten list is no small feat ... In its review of Amazon.com, The Point highlighted the virtual bookstore's innovative Eyes and Editors free personal notification service, and described Amazon.com's speedy keyword searches as 'most impressive'. (Amazon.com press release, 24 October 1995)

Second, Amazon.com organized online events involving celebrity figures and relevant social groups to associate the firm with culturally significant individuals and trends. For example, it organized an online writing competition with the participation of the award-winning writer John Updike:

John Updike and Amazon.com Seek 44 Coauthors for 'The Greatest Tale Ever Told': ... Engaging in what he describes as 'sticking my head into the mouth of the electronic lion', Pulitzer-Prize winning author John Updike has written the

beginning of an original story titled 'Murder Makes the Magazine' exclusively for online bookseller Amazon.com. The first paragraph of 'Murder Makes the Magazine' will appear on Amazon.com's Web site (www.amazon.com) on Tuesday, July 29. Over the next 44 days, visitors to Amazon.com may write and submit their own paragraphs to continue John Updike's story, his first murder mystery. On September 12, Updike will write the final paragraph of this collaborative tale. (Amazon.com press release, 29 July 1997)

Such symbolic actions invited stakeholders to experience its novel offerings in a fun and risk-free way, while conveying a sense of uniqueness – of the firm, its activities and of those that interacted with it. According to Jeff Bezos:

We are pleased Mr. Updike decided to make his first foray onto the Internet with Amazon.com. We are committed to giving our customers *rich and unique experiences*. Forty-four *talented people* will get to collaborate in real-time with John Updike, *the greatest living writer*. We will all watch this collaboration unfold every day for 46 days. (emphases added)

Summary conclusions about the observed differences in market actions

The inter-firm differences in market actions we observed revealed that new firms engage in different levels and types of market actions following their entry into an emerging market. For example, whereas CDNow was the first of the three firms to enter into the e-commerce domain, it remained rather inactive for a long time, and then engaged in a sudden spur of actions in 1998. Its pattern of market actions enables us to examine how early entry, a low level of actions and a sudden change in the level of actions may influence reputation accumulation. Second, although BN.com had greater initial resources than the other two firms, it invested its resources in a moderate level of activity, focusing primarily on one type of action – partnering. Its pattern of actions enabled us to examine how a predominant focus on partnering influences a new firm's reputation. Finally, although Amazon.com was neither the first mover in the e-commerce domain, nor the most resource-rich firm, it maintained high levels of actions throughout the entire observation period, taking many innovative actions and combining them with a high number of symbolic actions. Overall, we observed differences in level and content of market actions, both across firms and across time periods. These differences enabled us to compare systematically how action patterns influence media coverage.

Inter-firm differences in patterns of media coverage

Visibility and favorability

Following extant research that has dimensionalized media reputation (Deephouse, 2000; Pollock and Rindova, 2003), we first compared the three firms in terms of their level of coverage, visibility, and the framing of that coverage in positive or negative terms, favorability. The three firms differed significantly in their media visibility, captured in the total number of articles that mention the firm. Visibility

may be an important component of reputation because it reflects the level of awareness and exposure a firm enjoys (Rindova et al., 2005). Amazon.com had higher levels of visibility than the other two firms for each quarter as well as on average for the entire period of observation (35 articles per quarter, compared with six for BN.com and six for CDNow). Second, following extant research that has argued that the extent to which the media frame interpretations about a firm in positive and negative terms captures the favorability of its reputation (Deephouse, 2000; Greenwood et al., 2005), we constructed favorability ratios based on the proportion of positive and negative statements about each firm. These ratios indicated that Amazon.com and CDNow received more favorable coverage (with 4:1 and 3:1 ratios, respectively) than BN.com did (with a 1:1 ratio).

Action-related content

Next we compared the three firms in terms of the content of media interpretations about them. Plotting the frequencies of occurrence of each type of statement for each firm, depicted in Figure 2a, we observed interesting differences in the content of coverage about the three firms: Amazon.com's profile contains a balanced distribution of media statements across different action types and a significantly higher proportion of general statements than the profiles of the other two firms. In contrast, BN.com's profile was highly focused on one type of action, partnering, and CDNow's profile does not exhibit a strongly predominant category. These observations are consistent with game-theoretic research, which argues that observers develop beliefs about the strategic character of an actor based on its past actions and that such beliefs constitute the actor's reputation in the market. Combined with our observations, these arguments suggest that interpretations about a firm's strategic character are an important component of its reputation. The strategic character interpretations capture what a firm becomes known for and provide an answer to the question 'reputation for what?'

Next, we compared each firm's strategic type with the composition of its market actions (plotted in Figure 2b). Figure 2b shows that for all three firms their strategic type component of reputation mirrors the composition of their actions. For example, BN.com's media profile emphasizes partnering, consistent with its actual pattern of market actions. Amazon.com's and CDNow's media profiles correspond proportionately to their patterns of market actions (except for the high proportion of general statements about Amazon.com, a puzzling observation which we discuss below). Symbolic actions received almost no media coverage (less than 1% of the media coded) and are not presented in the plots. Overall, Figure 2b shows that the interpretations about each firm congealed into a distinct strategic type, which reflects fairly closely the types of actions it took. These observations suggest that the composition of a new firm's action repertoire influences the content of its reputation and that the answer to the question 'reputation for what?' depends on what a particular firm does.

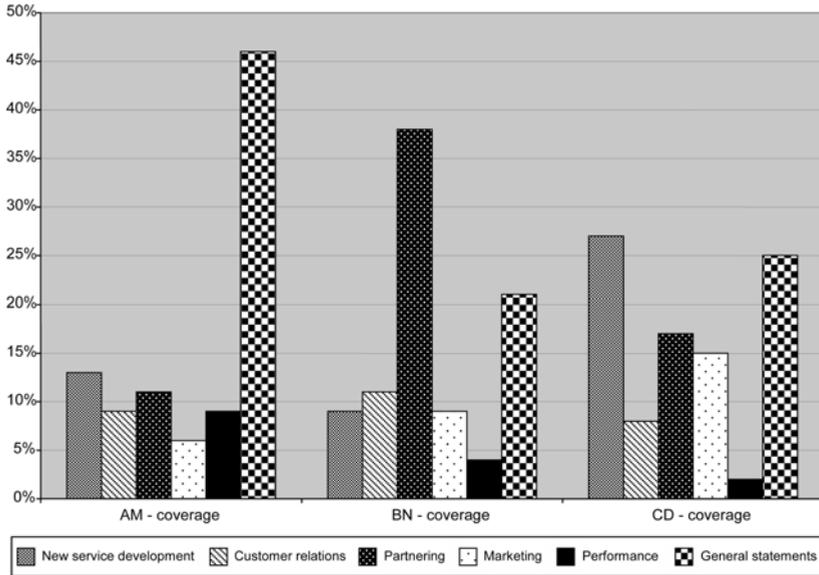


Figure 2a Strategic character profiles of the three firms

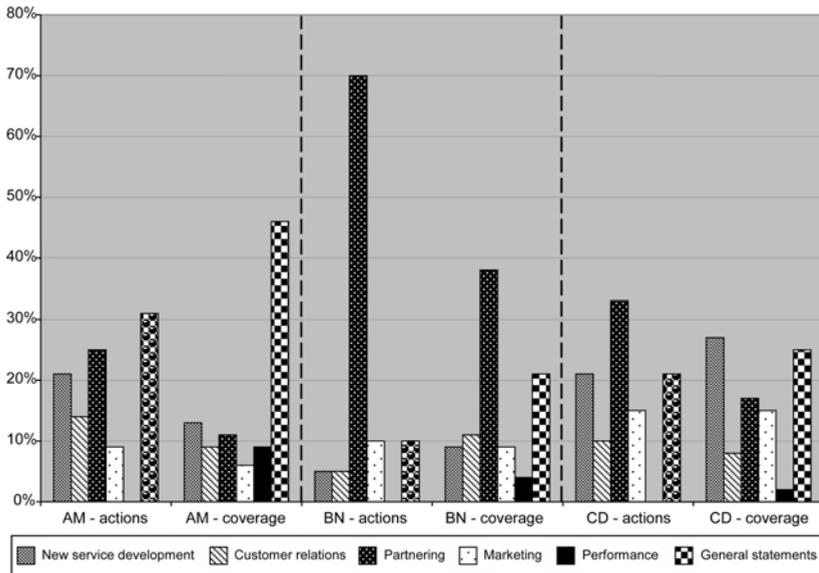


Figure 2b Correspondence between composition of actions and strategic character profiles of the three firms*, †

Notes

* Symbolic actions did not receive media coverage, so this category does not appear in the strategic character profiles in the media.

† The strategic profiles in the media included general statements, which were not action-related, but instead offered general characterizations. Such statements are included in the 'general statements' category.

General statements

A second major difference in the content of media coverage of the three firms was the extent to which the media made generalizations about them: Amazon.com received 82 general statements (46% of all statements), CDNow 12 statements (25%) and BN.com – 11 statements (21%). General statements were used to provide framings about the relative success or achievement of a firm. For example, Amazon.com was described as ‘an underground sensation’, ‘the Web’s king of books’, ‘the Wal-Mart of the Internet’ and ‘gravity-defying’. In our data, 83 percent of the general statements about Amazon.com referred to it as a ‘pioneer’, a ‘model’, a ‘standard’ or an ‘example’. In other words, the majority of general statements about Amazon.com explicitly held the firm as an exemplar of the emerging market. In contrast, BN.com was characterized as failing to meet the standard set by Amazon.com (*Wall Street Journal*, 1997: B6). In the case of CDNow we found three references to it as a ‘pioneer’, all of which were made for the first time in 1998 (a puzzling fact, which we were able to explain as our theoretical model emerged). These observations led us to conclude that the media coverage of Amazon.com followed a distinct pattern, framing the firm as an example.

To probe deeper into the idea that Amazon.com was held as an exemplar, we coded the number of times it was used as a comparative referent when the media discussed the other two firms, and the number of times the other two firms were used as comparative referents when Amazon.com was discussed. Out of the 23 co-occurrences of the names of two of our three firms together, Amazon.com was used 16 times as a referent point for either BN.com or CDNow; neither of these two firms was used as a referent point for Amazon.com; and in the remaining seven co-occurrences Amazon.com was used together with CDNow (five times) and BN.com (twice) as representatives of the category. Thus, these data support the idea that Amazon.com was used as an exemplar of the emerging e-commerce category.

What is particularly interesting about this process of using a firm as an exemplar of a new category is that, while exemplification is necessitated by the need to reduce ambiguity in the emerging market (Ball-Rokeach, 1973), the persistent framing of a firm as its exemplar appears to institutionalize it as the standard of achievement in the category. As a result, the issue of how its offerings compare with those of competitors becomes institutionally resolved. In this regard, being used as an exemplar resembles a form of legitimacy because the firm acquires a certain ‘taken-for-grantedness’ (Suchman, 1995). However, in contrast to legitimacy, rather than reflecting a firm’s fit with existing norms and expectations, exemplary status reflects perceptions that the firm sets the norms and expectations for others to follow. Such perceptions, we argue, can be understood as a distinct component of reputation that is best characterized as ‘esteem’ (Fombrun, 1996). Thus, based on the patterns observed in our data, we define esteem as a component of reputation reflecting the explicit distinction given to a firm by a given audience.

Summary conclusions about differences in media coverage

Table 3 summarizes the differences in the reputations of the three firms and shows that they differed in levels of visibility, degree of favorability, content describing their strategic character and the presence or absence of esteem. These differences suggest that new firms accumulate reputational assets with different compositions and that decomposing the reputation construct into different components may enable researchers to better assess how firms derive value from their reputations. In terms of the goals of our study to explore how new firms build reputations through market actions, these differences represent a non-equivalent dependent variables condition, which permits researchers to examine systematically the potential causal factors associated with these differences (Yin, 1994). In the next section we discuss how market actions may contribute to the accumulation of these different components of reputation.

Becoming salient, promising and distinctive: toward an action-based model of reputation accumulation

Level and composition of market actions: the salience effect

Pattern matching

The differences in the levels of market actions of the three firms were paralleled closely by differences in their media visibility. Furthermore, we observed that changes in visibility occurred when firms changed the level of their market actions in a given period. For example, CDNow had a visibility advantage over Amazon.com for almost a year after Amazon.com's entry in online retail, from

Table 3 Inter-firm differences in accumulated reputations

Company	Amazon.com	BN.com	CDNow
Esteem	<i>High</i> 68 statements frame it as an 'example' and 'standard'	<i>No esteem</i>	<i>Commencing?</i> 3 statements call it 'pioneer' (all in Q4'98)
Favorability	<i>Favorable</i> Positive interpretations 4 times more than negative	<i>Mixed</i> Positive interpretations as many times as negative	<i>Favorable</i> Positive interpretations 3 times more than negative
Strategic character	Reflects action composition	Reflects action composition	Reflects action composition
Visibility	<i>High</i> 35 articles per quarter	<i>Low</i> 6 articles per quarter	<i>Low</i> 6 articles per quarter

mid-1995 to early 1996. In this period CDNow received media coverage in almost every quarter while Amazon.com received no coverage until the second quarter of 1996. This initial visibility advantage can be attributed to its first-mover advantage, as CDNow was one of the earliest entrants in online retail in 1994. However, the high level of market actions taken by Amazon.com and the low level of actions taken by CDNow in this time period (as shown in Figure 3a) seem to be associated with a shift in visibility, with Amazon.com's visibility beginning to exceed CDNow's in the second quarter of 1996 (see Figure 3b). It should also be noted that during this time period there were no references to the performance of either firm, suggesting first that the visibility gains of Amazon.com were influenced by its actions rather than its performance, and second, that the relationship between actions and visibility might be stronger in the absence of performance information.

Using the replication logic of our case-based design, we identified and examined a similar pattern of relationships between the level of market actions and visibility when BN.com and CDNow made changes in their levels of market actions. In 1997 CDNow took fewer actions than BN.com did (five compared with 24) and the two firms had similar media visibility (two articles per quarter). In 1998, however, CDNow increased its level of market actions sevenfold, resulting in its taking twice as many actions as BN.com (33 and 15 actions, respectively). During this time period its media visibility also exceeded that of BN.com (19 as opposed to 10 articles per quarter). These changes in market actions levels and media visibility for the two firms are illustrated in Figures 3c and 3d. Overall, across multiple cases we observe that taking high levels of market actions was accompanied by increases in media visibility and taking low levels of market actions was associated with declines in media visibility. These observations suggest that the level of market actions a firm takes may influence the extent to which it accumulates media visibility.

Theoretical corroboration

Social cognition research provides a theoretical corroboration and explanation (Yin, 1994) for these observations. First, according to social cognition research frequency of action is associated with perceptual dominance (Fiske and Taylor, 1991). In other words, an actor that takes actions frequently becomes more salient and attracts and commands higher levels of attention. It is therefore plausible that, given that a large number of issues and actors compete for attention in markets (Hoffman and Ocasio, 2001), a new and otherwise unknown firm may be able to attract attention if it exhibits high levels of action taking.

Second, the level and frequency of actions may also affect a firm's availability in observers' memory. Availability in memory refers to the relative ease of retrieval of knowledge about a firm (Tversky and Kahneman, 1973; Fiske and Taylor, 1991). How available knowledge is depends on how frequently it is activated in memory. Frequency of activation, in turn, depends on frequency of exposure to stimuli from the domain to which the knowledge pertains (Krippendorff,

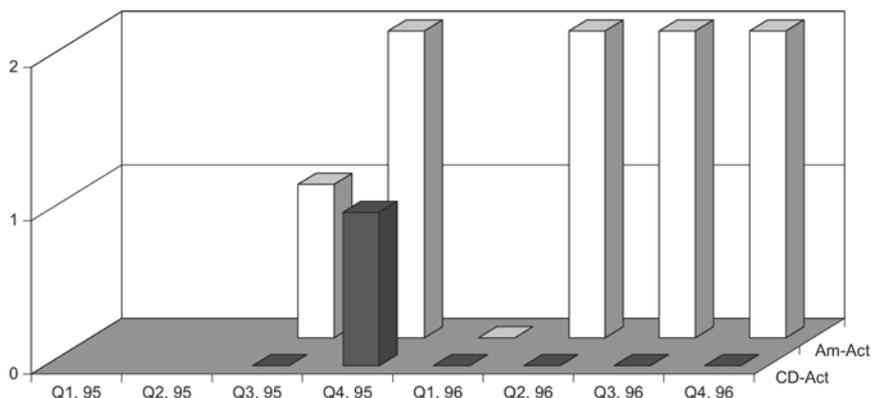


Figure 3a Comparison of level of actions by Amazon.com and CDNow (1995–6)

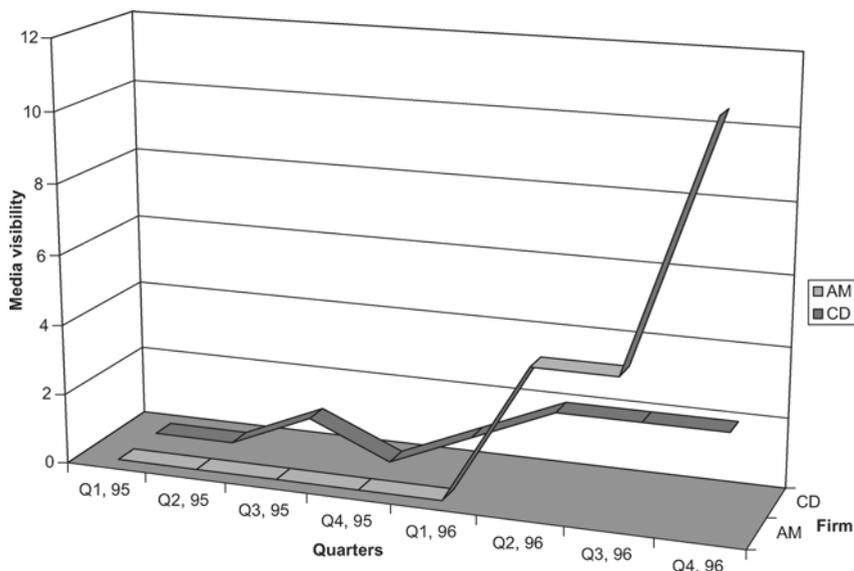


Figure 3b Comparison of visibility for Amazon.com and CDNow (1995–6)

2004). A firm’s level of actions increases journalists’ exposure to stimuli pertaining to the firm and makes the firm and its actions potentially more available in their memories. Further, to the degree that a firm takes actions of different types with different frequencies (as we observe in the different action repertoires of the three firms), actions that are taken most frequently are likely to define the salient attributes of the firm and to be interpreted as its strategic character.

Firms that are more available in memory are more likely to be covered, regardless of whether there is new information about them or not (Pollock et al.,

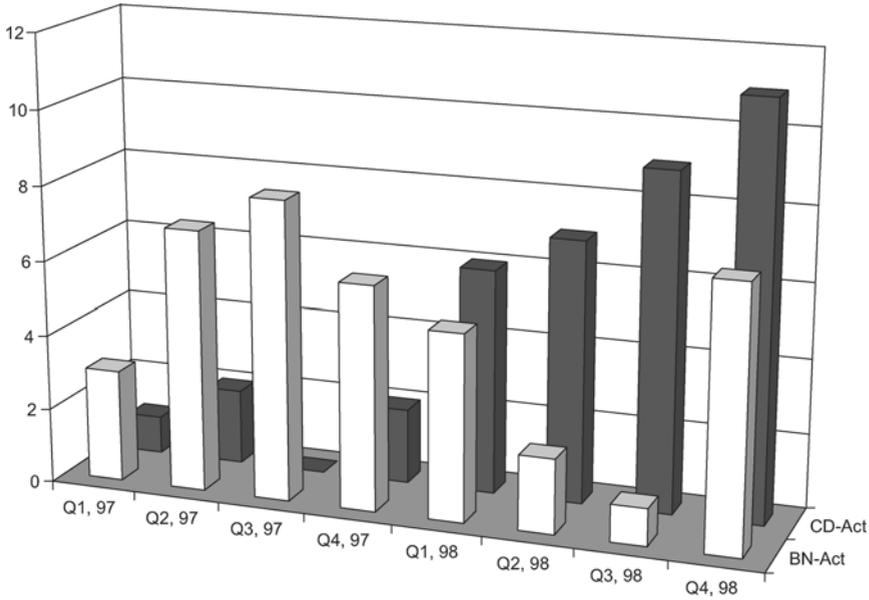


Figure 3c Comparison of level of actions by BN.com and CDNow (1997-8)

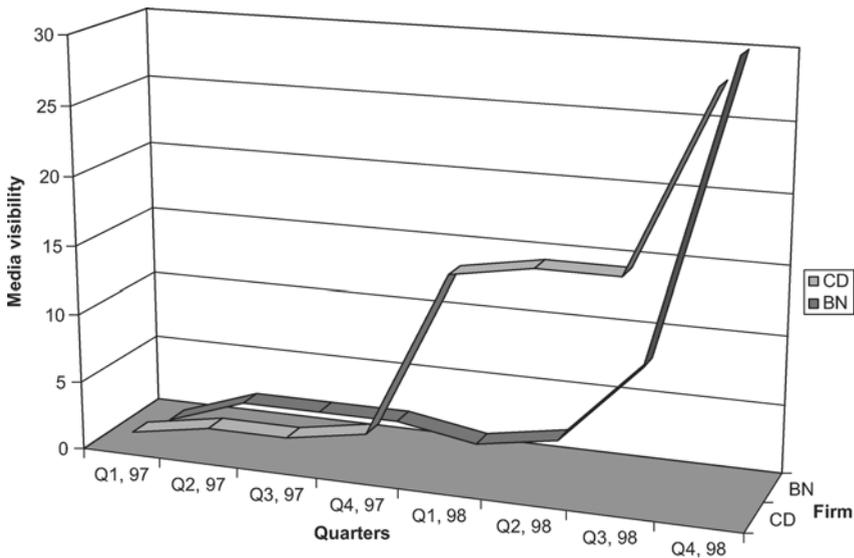


Figure 3d Comparison of visibility for BN.com and CDNow (1997-8)

2004). Therefore, a firm’s salience, defined as the extent to which a firm is readily available in memory, leads to higher visibility. Visibility in turn is likely to increase a firm’s salience, generating a positive feedback effect, which would accelerate the growth of the visibility component of a new firm’s reputation. This

idea, consistent with the patterns we observe, is also consistent with Dierickx and Cool's (1989) idea that the rate of accumulation of an intangible asset depends on its prior levels of accumulation. Therefore, both the level of actions a firm takes and the level of visibility it has previously accumulated are likely to contribute to the level of visibility it accumulates in a given time period. Further, the actions that a firm takes most frequently are likely to have higher relative salience and to determine interpretations about its strategic character.

Innovative actions and expectations of value creation

Pattern matching

In analyzing the content of media interpretations, we noted that certain types of actions tended to receive particularly positive interpretations. For example, the personal recommendations offered by Amazon.com (a customer relations action) and the individualized store interface developed by CDNow (a new service development action) received repeated coverage including detailed explanations and positive evaluations, as illustrated below.

Through a service called BookMatcher, Amazon.com asks customers to rate ten books. The ratings enable it to further determine readers' preferences and to suggest additional titles they might like . . . All of this adds up to relationship marketing that land-based retailers can only dream about. (Nakache, 1998: 169)

Music retailer CDnow Inc. already is singing its virtues. On Sept. 16, it launched My CDnow, which lets customers get a page designed just for them with music suggestions based on their stated preferences, past purchases, and ratings on artists and CDs. CDnow has seen an immediate benefit in consumer interest: The number of pages viewed on one of its features, called 'Wish List' – which appears on the customized pages and lets shoppers name CDs they may buy later – jumped 200% almost immediately . . . (Hof et al., 1998: 164)

Following these observations we systematically compared the frequency of occurrence of actions, i.e. how many actions of each type the three firms took, the frequency of coverage by the media, and the extent of explanations and positive or negative evaluations for each type of action. These comparisons are reported in Table 4. For example, in the new service development category, the three firms collectively took 26 actions and received 37 references in their media coverage. Of those references, 68 percent included explanations (e.g. discussion of how a new feature works), 43 percent included explicit positive evaluations and 8 percent included negative evaluations. Conducting such comparisons across the five action types shows that new service development and customer relations actions generated simultaneously the highest levels of explanations (68% for new service development and 81% for customer relations) and positive evaluations (43% for new service development and 38% for customer relations). We reasoned that both new service development and customer relations actions are innovative types of actions that require more explanation. Innovative actions

Table 4 Pattern of media interpretations for different action types

Action type	Number of actions	Media references to the action category	Type			Tenor		
			Explanations %	Factual statements %	Neutral %	Positive %	Negative %	
New service development	26	37	68	32	49	43	8	
Product marketing	17	23	35	65	70	17	13	
Customer relationships	17	26	81	19	58	38	4	
Partnering	59	47	38	62	74	26	0	
Symbolic	36	2	100	0	100	0	0	

also appear to generate more positive evaluations because they show novel ways in which the firms in the emerging market create value for customers. As a result, taking more such actions may increase the favorability component of a firm's reputation. Using our embedded design, we examined if the evidence at the firm level of analysis is consistent with this theoretical insight. We observed that Amazon.com and CDNow, which took more innovative actions both in absolute terms and as a proportion of their total market activity (27 actions, 35%, and 12 actions, 31% respectively), also garnered more favorable interpretations (as reported in Table 3) than BN.com, which took fewer innovative actions (four actions, 10%), did. Therefore, both at the action and the firm level of analysis innovative actions appear to generate more favorable coverage.

Theoretical corroboration

Strategy research on value creation corroborates and explains why innovative actions may generate positive evaluations. Moran and Ghoshal (1998) argue that value is created when firms combine resources in novel ways. Innovative actions, which introduce novel product and service features, may provide observers with some evidence about a new firm's efforts and/or ability to combine resources in novel ways. Consistent with this logic, research finds that high-tech start-ups that commercialize innovations are more likely to receive venture capital funding than other types of ventures, presumably because investors have higher expectations about their value creation potential (Hellmann and Puri, 2000). Lee et al. (2000) also find positive stockmarket reactions to new product introductions. Therefore, extant research corroborates the idea that innovative actions may be perceived as signals that create positive expectations about the value creating potential of a firm, thereby enabling the firm to accumulate favorable reputation.

Examining the patterns of positive and negative evaluations for marketing and partnering actions provides further evidence that media evaluations of new firms may follow an implicit value-creation logic. Marketing actions, for example, received the lowest levels of explanations (35%) and positive evaluations (17%) and the highest level of negative evaluations (13%). The actions included in this category – price cuts and advertising campaigns – increase costs and/or lower profit margins, and therefore, may raise doubts about the value-creating potential of new firms (Besanko et al., 1996). Partnering actions, while receiving no negative evaluations, generated fewer positive evaluations than innovative actions did. Their pattern of coverage is also consistent with a value creation signaling logic because partnering actions provide observers with indications that a new firm is garnering access to resources (Stuart et al., 1999; Stuart, 2000; Shane and Stuart, 2002), but convey no information about ability to combine these resources in novel ways. Therefore, while partnering actions may be important for securing access to resources (e.g. partnering actions helped BN.com gain access to the requisite resources to compete with Amazon.com online), they do not appear to provide observers with clear indications of the value-creating potential of a

new firm. In sum, the type of actions new firms take may influence observers' expectations about their value-creating potential; in the context of an emerging market a firm taking innovative actions may create positive expectations about its value-creating potential, leading to a favorable reputation.

Symbolic actions and exemplary distinctiveness

Pattern matching

A final notable difference in the action patterns of the three firms is that Amazon.com took a higher number of symbolic actions than the other two firms (see Figure 1a). As discussed, Amazon.com relied heavily on symbolic actions to create engaging and distinctive events. Thus, although not influencing the exchanges between the firm and its customers directly, symbolic actions showcased the novel possibilities of online retail. Further, Amazon.com's symbolic actions reinforced the type of perceptions that its innovative actions promoted. For example, Amazon.com sought to differentiate itself from physical bookstores by introducing a (virtual) collection of 1 million titles. It also symbolically embellished the differences by comparing the size of its collection with the Taj Mahal and the Pentagon, making the difference appear more striking and out of the ordinary. Thus, innovative actions differentiated the firm's products and services from those of existing retailers and began to define the unique characteristics of the new category. Symbolic actions engaged the imagination of observers and made the attributes generated through innovative actions more distinctive, vivid and memorable, resulting in a higher likelihood that the firm would be used as an exemplar of the category and would accumulate esteem.

Given that Amazon.com was the only firm that accumulated esteem, we could not apply the replication logic we used in developing the other theoretical relationships to the same extent. The case of CDNow provided some partial evidence of the initial accumulation of esteem. Specifically, we found three references to CDNow as a 'pioneer' in 1998. These general framings, similar to those received by Amazon.com, suggest that CDNow may also have begun to accumulate esteem. What is interesting here is that these first esteem-related statements occurred after CDNow took its first symbolic actions, even though it had taken innovative actions throughout the observation period. Because CDNow was purchased by Columbia House in 1999, we could not examine whether, if sustained, the combination of innovative and symbolic actions would be associated with the accumulation of esteem by CDNow. Therefore, we treated the evidence of some commencing accumulation of esteem by CDNow as partial replication evidence that supports the notion that a combination of innovative and symbolic actions may contribute to the accumulation of esteem.

Theoretical corroboration

Why may a combination of high levels of symbolic and innovative actions lead to a firm being constituted as an exemplar? Research in social cognition shows

that when people encounter novel and unusual events and experiences, to which pre-existing categories may not apply readily (as is the case with novel services and technologies), they make sense of the novel stimuli by developing new categories inductively. To do so, they use a few vivid and memorable examples, based on which they define the attributes of the new category (Smith, 2005). As discussed, since symbolic actions enhance and embellish the attributes prompted by innovative actions, the combination of the two is likely to make a firm more distinctive, vivid and memorable as a stimulus, thereby increasing the likelihood that it will be used as an exemplar of the new category. In other words, the combination of innovative and symbolic actions may endow a new firm with exemplary distinctiveness. Exemplary distinctiveness, therefore, is an attribute of a firm that is not only innovative but also engages the imagination of audiences through evocative symbolic activities. In sum, social cognition research on the use of exemplars in category development corroborates the idea that a combination of innovative and symbolic actions may contribute to the firm being used as an exemplar by increasing its vividness and distinctiveness. This process of exemplification, we argued, institutionalizes the firm as a standard of achievement in its category and leads to the accumulation of esteem.

A model of reputation accumulation by new firms in emerging markets

In Figure 4 we summarize the processes discussed in this section. The model depicts the strongest relationships we identified among various possible alternatives using pattern matching procedures. Overall, we identify three core processes that underlie the accumulation of reputation: First, taking high levels of market actions appears to increase the salience of a firm and its actions, resulting in higher levels of visibility. Since a wide range of actions may serve to increase the salience of a firm and in our data, the totality of a firm's actions rather than any particular type of action was associated with visibility, we concluded that visibility may be easier to accumulate than the other two components of reputation. This idea is reflected in Figure 4 with the broad base of the reputation pyramid being made up of visibility. It is also important to note that visibility is not content-free: while the totality of actions increase a firm's visibility, the composition of its action repertoire determines the specific attributes in terms of which the firm becomes salient and known. In other words, the totality of actions a firm takes also affects the content of its reputation in terms of what it becomes known for, or its strategic character. Second, our observations suggest that actions that provide observers with stronger indications of the value-creating potential of a firm generate more positive and less negative evaluations. Therefore, a firm can increase the favorability of its reputation by providing observers with indications of its ability to create value, and, in particular, by taking innovative actions. Because firms differ in their innovative ability (Galunic and Rodan, 1998), it may be more difficult for any given firm to take innovative actions and to accumulate favorability as

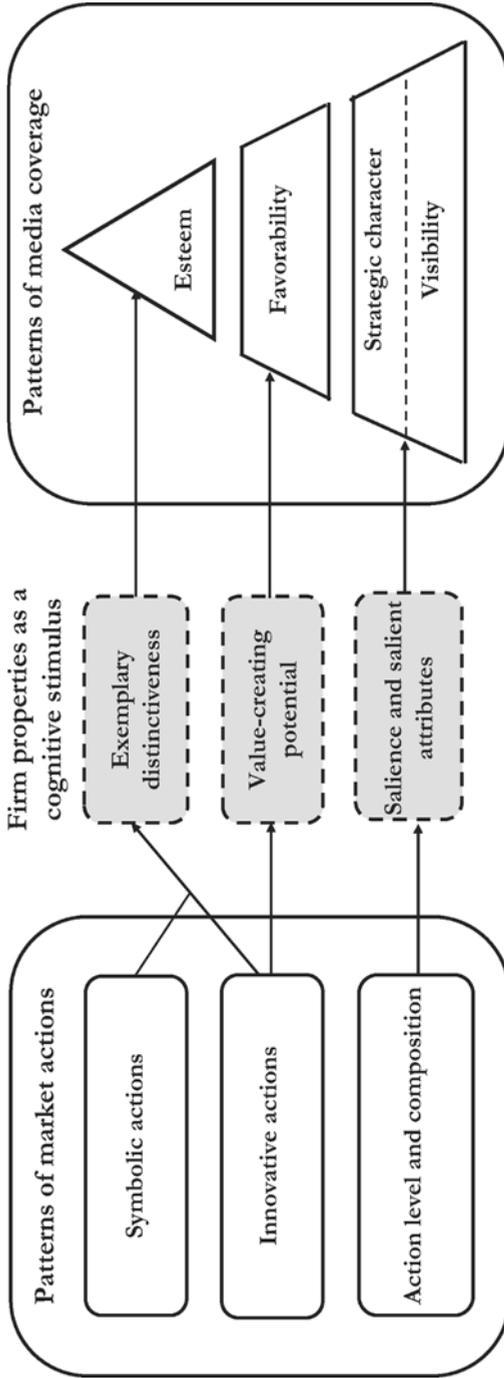


Figure 4 An inductive model of reputation accumulation through market actions

compared with visibility. This idea is reflected in the smaller size of the favorability component relative to the visibility one in the reputation pyramid in Figure 4.

Third, innovative actions when taken in combination with symbolic actions showcase a firm's capabilities and achievements and make the firm highly distinctive, thereby increasing the likelihood that it will be constituted as an exemplar of the category and will accumulate esteem. Achieving exemplary distinctiveness may be particularly difficult for any given firm, because of the complexity and uncertainty involved in the production and use of symbols (Eco, 1976; Hatch, 1993). Therefore, the esteem component of reputation might be the most difficult to accumulate. This idea is reflected in the small area representing esteem at the top of the reputation pyramid in Figure 4.

Taken together the processes we inducted suggest that the patterns of market actions that a new firm takes may influence its attributes as a cognitive stimulus. These attributes – salience, perceived value-creating potential, and exemplary distinctiveness – influence the extent to which observers are aware of the firm, develop positive expectations about it and consider it to be the standard of achievement in its category. The processes we describe are fundamental cognitive processes involved in impression formation, which underlies the development of reputations (Clark and Montgomery, 1998). Therefore, although developed in the context of reputation accumulation with a single audience – the media – our model is likely to generalize more broadly to the process of reputation accumulation with different audiences.

Discussion

Using an inductive theory building approach, we developed new theoretical ideas about the process of reputation accumulation by new firms in emerging markets, an issue of considerable theoretical and practical importance that has received limited research attention. Our in-depth analysis of the market actions and media coverage of three new firms in the emerging e-commerce domain in the mid-1990s offers several key insights about the role of market actions in the process of reputation accumulation and the composition of reputation as an intangible asset.

Actions as a vehicle for reputation accumulation

Our theoretical model, which relates specific attributes of the market actions of firms to the accumulation of different components of reputation, makes an important contribution to the scholarly understanding of the mechanisms through which firm reputations are built. First, the specific relationships between the attributes of market actions and the different components of reputation suggest that new firms may have a greater ability to build this asset than

theories emphasizing the social complexity of reputation accumulation suggest (Barney, 1991). By applying Yin's (1994) pattern matching approach, we were able to trace complex and diffused processes and to engage in what Ventresca and Mohr (2001: 815) characterized as 'descending models of analysis' that enable researchers to specify 'the nuts and bolts of institutional life'. Taking this approach enabled us to observe a close mirroring between the reputations of new firms and the patterns of their actions.

Second, our study provides some important ideas about how different types of market actions contribute to the accumulation of intangible assets with different value. For example, we observe that the totality of a firm's actions contributes to its visibility, but it is the level of its innovative actions that appears to contribute to favorability (see Appendix). Further, in departure from prior research, which emphasizes partnering as an important mechanism through which new firms gain access to resources and 'borrow reputation' (Stuart, 2000), in our study partnering actions appear to have a somewhat limited impact on the accumulation of favorability. Partnering actions may contribute to reputation accumulation to a lesser degree than innovative actions, because they are a fairly common type of strategic behavior among new firms (Stuart et al., 1999) and because they are less informative as signals of value creation (Moran and Ghoshal, 1999). Our observations that marketing actions were associated with negative evaluations more often than other types of actions were also surprising and challenge the extant views that pricing and advertising are critical signals that influence a firm's reputation (Milgrom and Roberts, 1986). In the contexts of new firms, such actions may be perceived as too costly and may increase uncertainty about their value-creating potential. These surprising observations suggest that there may be important differences in the reputational effects of different patterns of market actions for new and established firms. Thus, while our study provides a step toward understanding how market actions affect the ability of new firms to build reputations, future research should examine more broadly the role of market actions as a reputation-building mechanism across different industry contexts.

Third, our observations suggest that market actions overall may be more important as a mechanism for reputation building for new firms than they are for established firms with performance track records. Whereas prior reputation research has found that past financial performance is one of the major predictors of the reputations of established firms (Fombrun and Shanley, 1990; Roberts and Dowling, 2002; Deephouse and Carter, 2005), in our study financial performance appeared to play a limited role in the early reputation accumulation process. Performance-related statements constituted relatively small proportions of the interpretations of the three firms in the media: 9 percent for Amazon.com, 4 percent for BN.com and 2 percent for CDNow. Moreover, the first performance-related statements appeared in the media more than a year after the first action-related statements for each firm. Our observations about the relative lack of media focus on the performance of new firms, however,

should be interpreted with caution because we observed the process of reputation accumulation for a relatively short period of time, early in the life of both the new firms and the emerging market, when performance information tends to be unavailable and unreliable, as the following quote illustrates: 'Amazon.com . . . said it has seen about thirtyfold growth from last year's holiday period, though it declined to provide specific sales figures' (Plitch and Fleetwood, 1996). An important direction for future research would be to extend our model over a longer period of time in order to examine at what point in the life of firms financial performance begins to play a more substantive role in their reputation accumulation.

Also, despite our great efforts to take into account the various complexities associated with capturing such diffused processes as market activity and accumulation of reputation, we acknowledge that initial differences in entrepreneurial visions and resource (Burton et al., 2002) and local market conditions, which past research has related to differences in firms' competitive positions (Noda and Collis, 2001), were not directly included in the scope of our investigation. As a result, our study does not account for the potential direct effects that such inter-firm differences may have on the likelihood of receiving media coverage and the process of reputation accumulation.

Composition of the reputation construct

A central observation in our study is that the three firms accumulated reputations that differed in four components: visibility, strategic character, favorability and esteem. These findings build on prior research that has explored reputation as a multidimensional construct (Deephouse, 2000; Pollock and Rindova, 2003; Rindova et al., 2005). Our study extends this line of research by providing a detailed examination of the different types of interpretations and evaluations that make up the collective knowledge and regard that constitute a firm's reputation. In addition, our study shows that the various components of reputational assets accumulate through different processes, making some of them more difficult to accumulate and, therefore, potentially more valuable (see Appendix). For example, we noted that favorability is more difficult to accumulate than visibility, and therefore, constitutes a potentially more valuable component of a firm's reputation. Consistent with this argument, Greenwood et al. (2005) find that favorability is positively related to firm revenues, while visibility is not. However, Rindova et al. (2005) find that prominence in stakeholders' minds affects the willingness to pay for an organization's outputs to a greater degree than perceptions of the quality of these outputs do. Together these studies point to the need for future reputation research to examine the economic value of reputational assets with different compositions.

Our study advances the agenda for research on reputation by elaborating further the composition of reputational assets and identifying esteem as a component of reputation. While the idea that corporate reputations incorporate

esteem has been proposed in past research (Fombrun, 1996), the distinctive theoretical content of the concept of esteem has not been specified. Our analysis suggests that esteem accrues as firms are constituted as the standard of achievement in their industry categories. This conceptualization of esteem opens up several interesting directions for future research. First, research interested in the economic value of reputation as an intangible asset should explore the relative rarity and value of esteem. Our observations suggest that esteem may accrue to only one or two firms that come to represent a given category. At the same time, evidence exists that competing firms seek to shift the boundaries and dimensions that define industry categories (Rao et al., 2003), thereby creating possibilities for accumulating esteem. Recognizing esteem as an important component of reputations can stimulate researchers to explore further the relationship between reputation accumulation and industry categorization. This is an important direction for future research given the paucity of research on the emergence of industry categories (see Lounsbury and Rao, 2004 for a recent exception). Our study suggests the intriguing possibility that firms and influential third parties, such as the media, co-create the categories that come to define a market reality. Firms that develop strategies to influence these processes stand to gain significant advantages by standing out. Future research should examine how the efforts of firms to shape their institutional environment affect their competitive standing.

More generally, our arguments suggest that an interesting direction for future research would be to examine the differences between legitimacy and reputation by seeking to understand how a firm's actions position the firm relative to industry categories and norms and what effects this position may have on stakeholders' evaluations. For example, as discussed, legitimacy researchers emphasize that a firm garners favorable evaluations of acceptance and desirability when its actions fit with existing norms (Suchman, 1995). In contrast, recently researchers have proposed that actions of nonconformity that depart from such norms constitute firms as celebrities enabling them to attract high levels of attention and emotional reactions (Rindova et al., 2006). Our observations suggest a firm may achieve a third position relative to industry norms, that of an exemplar of a new category. This exemplification process may influence stakeholders' expectations not only about the firm's ability to create value, but also about how other firms in the industry should create value. In other words, a firm that accumulates reputation as the standard of performance in the new industry may come to define the norms for the industry. Becoming the standard of comparison with which stakeholders compare other firms in the industry and other firms in the industry compare themselves may generate both demand-side advantages for the firm, as the firm becomes identified with the category (e.g. Xerox in copiers), and supply-side advantages, as its resources and capabilities become requisite for creating value according to the expectations it has set.

However, it is also conceivable that the accumulation of esteem increases both competitive imitation and stakeholders' monitoring of the firm. For

example, we observe that CDNow changed its action pattern in 1998 when it began to take actions that were similar to those of Amazon.com, including taking its first symbolic actions. Similarly, evidence suggests that Amazon.com was used by various stakeholders as a gauge for the future of the e-commerce category, as the following statement by a hedge fund manager illustrates: 'If Amazon can succeed, it validates the whole dot-com model. If it fails, the whole dot-com thing seems fraudulent' (Schwartz, 2000: 114). Given the limited time frame and sample size of our study, we could not establish whether firms that accumulate esteem are more likely to be imitated by competitors and preferred or watched by stakeholders, and what implications these comparison processes may have for their long-term performance and survival. The possibilities outlined above, however, suggest that it would be important for future research to examine the competitive and market consequences of accumulating esteem and the position a firm achieves relative to industry norms.

In seeking to understand the economic value of different components of reputational assets, future research should also explore the extent to which our observations about the components of reputation accumulated in the media generalize to reputational assets based on the perceptions and opinions of different stakeholder groups. We argued that using the media to study the process of reputation accumulation is advantageous because media organizations are an audience that has to figure out which firms merit their attention, for what reasons and to what extent. As such, they share similar concerns with other stakeholders that need to decide which firms merit their attention and resources, for what offerings and to what extent. However, media organizations also differ from other stakeholders in that they have to develop and supply more elaborate interpretations of firms, so that they can explain novel developments to others, and in that they have to present interpretations that are interesting to other stakeholders and attract their attention. As a result, they may tend to focus on contexts, firms and actions that are more conspicuous. In addition, the emerging market context in which we conducted our study has been characterized as a context of irrational exuberance (Shiller, 2001), and may have exacerbated this tendency of the media further. Therefore, the process of reputation accumulation we describe may not generalize beyond the substantive setting in which it was developed (Glaser and Strauss, 1967).

We also argued that studying reputation accumulation in the media is advantageous because the media are an institutional intermediary which may affect reputation accumulation with other audiences. However, while the media may influence the agenda for public discourse and may reflect the general public stance toward a given firm (McCombs and Shaw, 1972; Carroll and McCombs, 2003), they seldom reflect the idiosyncratic views of specific individuals. Since it is ultimately individuals who make buying decisions, we recommend that future research seeks to relate the reputation accumulated in the media to the opinions and behaviors of specific stakeholder groups, such as customers, investors, and employees.

Further, we would like to caution future researchers that the influence of the media on other stakeholders may be stronger in an emerging market context. Psychologists have characterized such contexts as contexts of pervasive ambiguity and have argued that the media play a particularly important role in 'defining the situation' (Ball-Rokeach, 1973: 378). Therefore, in such contexts, it may be easier for firms to attract media attention and to be chosen as exemplars through which the situation is defined and clarified. Other industry contexts where media may play similarly important roles are those undergoing dramatic change or experiencing environmental jolts (Meyer, 1982). These arguments suggest that it will be important for future research to examine the extent to which our model applies to new firms competing in various contexts both in new and established industries.

Researchers have argued that mature industries and fields are characterized by well established 'elites' (Greenwood and Suddaby, 2006), suggesting that it is very difficult for new firms to attract attention, and especially to accumulate esteem. Yet evidence exists that even in established industries, such as the coffee industry, new firms taking a combination of highly innovative and symbolically-laden actions, like Starbucks, can accumulate esteem and trigger a dematuration of the industry in the process (Rindova and Fombrun, 2001). These observations are consistent with research that stresses the importance of symbols for constructing meaning in markets (Aldrich and Fiol, 1994) and suggest that future research can benefit from more systematic comparisons of the processes of sensemaking and impression formation in contexts characterized by different degrees of uncertainty and change.

In conclusion, our study offers an inductively developed process model that relates the market actions of new firms to the accumulation of the different components of their initial reputations in the media. Future reputation research will be enhanced by studies that explore the extent to which the components of reputation we identified and the processes for their accumulation we articulated generalize across different types of industry contexts and stakeholder audiences. In doing so, researchers should be mindful not to seek to replicate the specific action patterns we identified, but to explore the theoretically generalizable mechanisms we derived based the observed patterns, namely, how salience contributes to visibility, signals of value creation to favorability, and exemplary distinctiveness to esteem.

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Notes

- 1 We did not find examples of online book-retailers that had entered online prior to Amazon.com and had achieved sufficient media coverage to allow for a systematic analysis of their reputation accumulation. For example, we could not use the case of a company like Book Stacks, which entered online retail in 1992 and opened a web-based 'store' in 1994, because we found only four media articles that mentioned it.
- 2 The end of the observation period was based on Amazon.com's diversification into music and the acquisition of CDNow by Columbia House.
- 3 Seven actions fell outside these five categories: four mergers and acquisitions and three changes in organizational structure. These actions were removed from subsequent analysis because there were too few (1–2 per firm) of them to allow for systematic examination of their impact on the reputation accumulation process.

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Appendix: Managerial perspective on reputation building at Amazon.com

Following prior inductive studies (Rindova and Kotha, 2001), we sought to validate our theoretical insights using feedback from key informants. We focused on key informants from Amazon.com because it exemplified the theoretical relationships we identified and can therefore be considered a 'revelatory case' (Yin, 1994). We solicited and obtained participation from three senior managers who were in charge of product development and marketing strategy (Executive Vice

President, Senior Vice President and director) at Amazon.com during our observation period. Each informant agreed to read the paper and comment on it in an open-ended interview. Each feedback session lasted at least an hour and included direct feedback on the paper as well as an open-ended discussion of how Amazon.com approached reputation building in its early years of existence. Two researchers took detailed notes during the feedback session and consolidated them within 24 hours. Our critical informants confirmed the validity of the relationships of the proposed model and did not suggest modifications to it. Instead they provided interesting insights into the internal factors that contributed to the observed pattern of actions derived from our analysis of the archival data.

Strategic choice of level of action taking

Our key informants confirmed that Amazon.com strategically pursued media visibility, because the firm's top management believed that media visibility was critical to the accumulation of reputation. More specifically, Amazon.com's top managers decided strategically what level of actions the firm should take in order to attract media attention. For example, they discussed the relative merits of bundling actions into big launch events (similar to the product launches used in the packaged software industry by firms like Microsoft) as opposed to releasing information about the new features and services frequently. They chose the latter approach because it allowed the firm to learn faster what features were valued by customers than it could with less frequent feature launches, and it had the potential to attract media attention continuously. Informants also stressed that frequent and ongoing action taking reflected the logic of continuous flow, a philosophical principle underlying Amazon.com product development and operations. Therefore, according to our informants the sustained high level of market actions we observed is a result of both strategic targeting of media visibility and a by-product of the organization of internal activities.

Combining innovative and symbolic actions

Our key informants confirmed that Amazon.com placed a high priority on innovative actions. According to one informant who held the position of an EVP during the observation period:

At Amazon.com innovativeness was viewed as a key brand attribute, because we wanted to be seen as a leader, not a follower. Such actions were viewed as a means to avoid being classified as a 'store.' We were very careful to resist those definitions. We wanted Amazon.com to stand for this new emerging thing . . . so we tried not to follow into other people's footsteps and to be very innovative instead. (Interview data)

Accordingly, the firm released new service features frequently. Thus, the high level of innovative actions we observed reflects a conscious effort by Amazon.com's management to shape public perceptions of the firm as an innovator and to differentiate it from physical retailers.

Finally, our informants readily acknowledged the strategic importance that Amazon.com accorded to actions that we termed symbolic. For example,

an SVP of Public Relations, the function that managed symbolic actions internally, was hired before the SVP of Marketing. This important decision reflected the belief among the top management team that symbolic actions had several advantages over the conventional marketing approach, including: first, they reached large audiences relatively inexpensively; second, they did so interactively, enabling real time observation and learning; and third, they had the potential to promote interactivity to large audiences by creating big events. Because symbolic actions were considered strategically important, Amazon.com used its innovative actions to figure out things that are really interesting to customers and then designed unique and engaging events around them. This approach to public relations may explain why Amazon.com was able to generate a number of unusual symbolic actions, which were not imitated by other firms. Overall, the key informants confirmed the validity of our theoretical framework and provided a glimpse into the strategic and organizational logic underlying the pattern of Amazon.com's actions we observed. They confirmed that Amazon.com pursued reputation strategically, using the means we identified in our inductive model.

Violina P. Rindova, to whom all correspondence should be addressed, is an Associate Professor of strategic management at University of Texas – Austin. Her current research focuses on the social construction of markets and the socio-cognitive dynamics of the creation of intangible assets, competitive advantage, and value. Her recent work on the creation of celebrity CEOs and firms with Timothy Pollock and Mathew Hayward includes 'Believing One's Own Press: The Causes and Consequences of Chief Executive Officer Celebrity' (*Strategic Management Journal*, 2004) and 'Celebrity Firms: The Social Construction of Market Popularity' (*Academy of Management Review*, 2006). Address: CBA 4.202 McCombs School of Business, University of Texas – Austin, Austin, TX 78701, USA. [email: Violina.Rindova@mcombs.utexas.edu]

Antoaneta P. Petkova is an Assistant Professor of management and organization at San Francisco State University. Her research focuses on the role of innovation and entrepreneurship in influencing stakeholder perceptions about organizations. Recent writings include 'Being Good or Being Known: An Empirical Examination of the Dimensions, Antecedents, and Consequences of Organizational Reputation', with Violina Rindova and Ian Williamson (*Academy of Management Journal*, 2005) and 'When Is a New Thing a Good Thing? Technological Change, Product Form Design and Perceptions of Value for Product Innovations', with Violina Rindova (*Organization Science*, forthcoming). Address: 353 Business Building, San Francisco State University, San Francisco, CA 94132, USA. [email: apetkova@sfsu.edu]

Suresh Kotha is the Douglas E. Olesen/Battelle Excellence Chair in Entrepreneurship and a professor of management and organization at the University of Washington Business School. His research interests focus on corporate entrepreneurship, e-commerce business models, technology and innovation management, and competitive strategy. Recent writing includes:

'Knowledge Creation Through External Venturing: Evidence from the Telecommunications Equipment Manufacturing Industry', with Anu Wadhwa, *Academy of Management Journal*, 2006. Address: 318 Mackenzie Building, University of Washington Business School, Seattle, WA 98115, USA. [email: skotha@u.washington.edu]
