INSEAD

Faculty & Research

Constructing Markets and Organizing Boundaries: Entrepreneurial Action in Nascent Fields

by

Filipe M. Santos

and

Kathleen M. Eisenhardt

2006/01/EFE

Working Paper Series

Constructing Markets and Organizing Boundaries: Entrepreneurial Action in Nascent Fields

Filipe M. Santos

INSEAD
Boulevard de Constance
77302 Fontainebleau, France
Tel: 33(0)1 60 724538
Fax: 33(0)1 60 724223
E-mail: filipe.santos@insead.edu

Kathleen M. Eisenhardt

Department of Management Science and Engineering
Stanford University
Terman Building, Room 415
Stanford, California 94305
Tel: (650) 725 1631
Fax: (650) 725 8799
E-mail: kme@stanford.edu

December 20, 2005

Under Review at Administrative Science Quarterly

We gratefully acknowledge the research support provided by the Stanford Technology Ventures Program and the INSEAD R&D Committee. We thank the thoughtful comments of Charlie Galunic, Morten Hansen, Sarah Kaplan, Riitta Katila, Woody Powell, Kaye Schoonhoven, Bob Sutton, Patricia Thornton, and seminar participants at Stanford University, INSEAD, University of Colorado, University of California-Berkeley, Harvard University, University of Maryland, Oxford University, Queen’s University Alliance Edge Conference, 2004 Prince Bertil Symposium, and the West Coast Entrepreneurship Conference. A preliminary version appeared in the 2004 Academy of Management Best Papers Proceedings.

Constructing Markets and Organizing Boundaries: Entrepreneurial Action in Nascent Fields

ABSTRACT

This paper examines how entrepreneurs manage their organizational boundaries in nascent markets. Given the limits of extant theory, we conducted an inductive theory building study of five firms over a multi-year period. The result is a framework that describes how entrepreneurs co-construct the boundaries of their firm and market using three key processes. First, entrepreneurs attempt to *claim* a nascent market by making the identity of the firm and the market synonymous. They accomplish this by using leadership signals, disseminating stories and adopting templates that balance familiarity and novelty. Second, entrepreneurs attempt to *demarcate* the market by creating a clear perimeter for the firm and shaping the surrounding industry structure. They accomplish this by co-opting established firms through alliances that are often very costly to the entrepreneurial firm. Third, entrepreneurs attempt to *control* the market by overlapping the footprint of the firm with the changing scope of the market. They accomplish this by acquiring entrepreneurial rivals who could become stepping-stones for established firms, would open new market segments or possess threatening resources. Overall, the focal firms were varyingly successful in executing these three processes. This, in turn, influenced significant outcomes such as market creation, level of competition, and market share. Taken together, these findings offer a *dynamic* and *strategic* view of boundaries that is shaped by an underlying logic of power. Overall, this paper contributes to reinvigorate the study of inter-organizational power by exploring the processes through which low power actors, such as entrepreneurs, attempt to construct new markets.

Key Words: Organizational Boundaries; Nascent Markets; Power; Market Construction;

Entrepreneurship.

Organizational boundaries are fundamental to theories of organization and strategy. Every organization must establish and maintain boundaries that demarcate it from the environment and define its domain of action (Scott 2003). Given this central role, the phenomenon of boundary management has been addressed from a variety of theoretical perspectives (Santos and Eisenhardt 2005). Some research examines organizational boundaries through a resource dependence lens that emphasizes the goal of reducing uncertainty in determining boundaries (Thompson 1967; Pfeffer and Salancik 1978). Other research relies on the resource-based view in which boundaries are shaped by the competences of the organization (Penrose 1959; Peteraf 1993; Brusoni, Prencipe et al. 2001), or adopts the identity perspective in which the emphasis is on the cognitive frames of organizational members (Porac, Thomas et al. 1995; Gilbert 2005). Another line of research focuses on exchange efficiency as the key driver of boundaries (Williamson 1991; Dyer 1996).

Yet, while these theories are diverse, they share two implicit and important assumptions. First, they assume an *existing industry* with clear features such as a dominant logic for doing business, knowledge of strategically valuable resources, an established industry value chain, and well-known dependencies on powerful organizations. For example, identity research often assumes that dominant industry-wide logics or recipes exist (Porac, Thomas et al. 1995; Thornton 2002). The resource-based view assumes that strategically valuable resources can be identified for specific industries (Miller and Shamsie 1996; Tripsas 1997). Exchange efficiency theories assume that industry suppliers are known and that the transaction structure is pre-determined (Williamson 1991; Jacobides 2005). Resource dependence assumes that the organizations upon which the focal firm relies are known (Pfeffer and Salancik 1978).

Second, these theories also implicitly assume the existence of an *established organization* for which core organizational resources are known, identity is articulated, internal power structures are established and efficiency is critical. For example, the resource-based view assumes that the organization is sufficiently well-formed that executives can identify key resources and determine their strategic value, inimitability and rarity (Helfat 1997; Brusoni, Prencipe et al. 2001). The identity perspective often assumes an organization with a clear understanding of “who we are” (Dutton and Dukerich 1991; Sull 1999). Resource dependence assumes that the internal power structure of the firm can be identified and evaluated with regard to its fit with external dependencies (Pfeffer and Salancik 1978). Exchange efficiency theories assume organizations will be forced to adopt efficient boundaries or else they will be selected out of the market (Nickerson and Silverman 2003).

While these assumptions may be valid in many situations, they and their related boundary theories may not generalize well to some contexts, such as *nascent markets.* By nascent markets we mean environments that are in an early stage of formation and so are characterized by rapid change and high ambiguity (Aldrich and Fiol 1994; Santos and Eisenhardt 2005). Nascent markets typically have unclear product definitions (Hargadon and Douglas 2001), undefined or fleeting industry structure (Eisenhardt 1989; Rindova and Fombrun 2001), and no clear dominant logic for market actions (Porac, Ventresca et al. 2002). Executives operating in nascent markets may be unable to specify their primary dependence relationships (Rao 1994), and may lack clear views regarding which organizations are their suppliers or competitors (Rindova and Fombrun 2001), which competencies are strategically valuable within the industry (Kaplan and Tripsas 2004; Gilbert 2005), and what industry-wide recipes should guide action (Aldrich and Fiol 1994; Ozcan and Eisenhardt 2005).

Similarly, traditional boundary theories may not extend well to the *entrepreneurial firms* that often pioneer nascent markets (Aldrich and Fiol 1994; Christensen and Raynor 2003). In contrast to established firms, new ventures typically have an incipient set of activities (Rindova and Kotha 2001; Burton and Beckman 2005), fluid identity (Lounsbury and Glynn 2001; Rindova and Kotha 2001), and intense pressures for survival (Graebner 2004). Thus, it is unlikely that managing boundaries to maximize exchange efficiency is a central concern for entrepreneurial firms. Rather, survival, growth, and legitimation are likely to be more pressing issues (Eisenhardt and Schoonhoven 1990; Rao 1994; Lounsbury and Glynn 2001). In addition, it is also unclear how entrepreneurs determine the organizational boundaries when their identity is ill-defined, their internal power relationships may be fluid, and their resources are limited (Rindova and Kotha 2001).

A few scholars have begun to study new firms in nascent markets. One dominant theme is the importance of acquiring cognitive and socio-political legitimacy (Aldrich and Fiol 1994) for the firm and market. A consistent finding in this research is the banding together by institutional entrepreneurs in collective action to socially construct the nascent market (Rao 1994; Rindova and Fombrun 2001). However, given that nascent markets often exhibit strong winners (Rindova and Fombrun 2001), it is unclear what strategies and mechanisms allow individual firms to gain a disproportionate amount of the resources flowing to the new market. Another theme centers on inter-firm relationships. Powell and colleagues (1996) observe that biotechnology ventures in the early stages of the industry gained knowledge and status benefits from alliance and network relationships, suggesting perhaps the importance for new firms in nascent markets of seeking (not avoiding) dependence. But why do established firms agree to partner? What must entrepreneurs relinquish? A third theme centers on adaptability. This work emphasizes the importance for young firms of continuously reshaping their identity and re-structuring their resources to compete in shifting, high-velocity markets (Eisenhardt 1989). For example, Rindova and Kotha (2001) find that organizational identity morphs as entrepreneurs adapted to change in the nascent market of Internet search. However, it is not clear how much entrepreneurs should adapt to external changes as opposed to try to shape the market structure. If the latter, what mechanisms can entrepreneurs use given their weak position and lack of resources? These authors call for more research detailing the processes through which new firms compete in these markets (Rindova and Fombrun 2001).

More importantly, while these studies shed some light on the actions of entrepreneurial firms in nascent markets, they do not directly address the central issue of establishing and reshaping boundaries. Thus, they leave open questions such as: How do entrepreneurs set their boundaries when their markets are ambiguous and shifting? How, if at all, does competition influence boundary decisions in nascent markets? What role, if any, do resources play in boundary setting when their value is unclear? Are boundary decisions best studied as independent, isolated events, as is characteristic of the literature? Overall, is there an underlying logic for boundary choice in nascent markets?

Given the central importance of organizational boundaries, the theoretical and practical significance of entrepreneurial firms in nascent markets, and these open questions, we ask: *How do entrepreneurs addressing nascent markets manage their organizational boundaries over time*? The limits of extant theories in address this research question and the related lack of empirical research suggest an inductive, grounded theory approach (Glaser and Strauss 1967; Eisenhardt 1989). Specifically, we examine how executives in five entrepreneurial firms organized their boundaries in nascent markets. Consistent with Scott (2003) and Santos and Eisenhardt (2005), we broadly define organizational boundary as the demarcation of an organization from the environment. Boundaries thus delimit the domain of action of the organization.

The resulting theoretical framework suggests that entrepreneurs in nascent fields intertwine and co-create organizational and market boundaries using three processes: *claiming*, *demarcating*, and *controlling*. First, entrepreneurs develop an identity that simultaneously bounds the activities of the firm and *claims* a distinct market for the firm. Thus, although entrepreneurs may use identity as an internal mechanism to inspire and align organizational members (Dutton and Dukerich 1991), they also use identity as a competitive weapon to become the cognitive referent within their nascent market.

Instead of just copying established practices and models, entrepreneurs seek to become the winning firm through tactics that make the firm both familiar and novel, and both legitimate and unique. Second, entrepreneurs attempt to define the perimeter of their organization through co-optation alliances with established firms and so *demarcate* the nascent market. Although these alliances may provide resources (Gulati 1995; Eisenhardt and Schoonhoven 1996; Powell, Koput et al. 1996), they also extend the firm's sphere of influence, structure the market roles of established firms, and limit competition. Instead of reducing dependence on external forces (Pfeffer and Salancik 1978), these alliances actually create dependence and require costly expenditures to consummate. Third, entrepreneurs attempt to gain ownership of critical resources through the acquisition of entrepreneurial rivals and so *control* the market. Although they may use these resources to bolster the competences of their firms (Capron, Dussauge et al. 1998; Ahuja and Katila 2001; Finkelstein and Haleblian 2002; Graebner 2004), entrepreneurs also use acquisitions to block the entry of powerful competitors and eliminate competition. Surprisingly, they often destroy the resources they acquire. Taken together, these findings suggest an aggressive, anti-competitive and even monopolistic logic for co-constructing organizational and market boundaries.

More broadly, our findings highlight the often forgotten role of *inter-organizational power* in understanding strategic and organizational phenomena. We contribute insights into how entrepreneurs, who usually cannot exert strong forms of power such as major resource deployments, use the tactics of illusion, preemptive and delayed timing, and exploitation of others' tendencies in order to gain critical scale. We also point to the role of entrepreneurs in shaping nascent markets (Schoonhoven and Romanelli 2001) through a pattern of boundary decisions that transforms environmental ambiguity into a structurally favorable market position. This pattern may even constitute the central strategy of the entrepreneurial firm.

METHODS

The research design is an inductive, multiple case study. Multiple cases enable a replication logic in which the set of cases is treated as a series of experiments, with each case serving to confirm or disconfirm the inferences drawn from the others (Yin 1994). A multiple case study typically results in better-grounded and more general theory than single cases (Eisenhardt 1989). The research employs an embedded design with three units of analysis: boundary decision, organization, and market. An embedded design enables richer, more accurate theory by uncovering aspects of a phenomenon that occur at multiple levels. Smaller units of analysis such as boundary decisions focus data collection by addressing well-defined organizational events, while larger units of analysis, such as the organization and market, provide a longitudinal context (Yin 1994).

The research setting is the confluence of computing, consumer electronics, and telecommunications industries during the last decade. During this period, numerous innovations such as distributed computing architectures, electronic messaging, wireless communication, and Internet commerce gained widespread acceptance. This setting is particularly attractive because of its numerous and varied nascent markets, and the related burst of entrepreneurial ventures.

The research sample is drawn from firms founded between late 1994 and mid 1995. We chose this founding period because it is sufficiently distant to allow longitudinal patterns to emerge and yet sufficiently recent to allow accurate and detailed data collection. As noted above, many entrepreneurs faced nascent markets during this founding period. These early-stage markets had ambiguous industry structure, vague product conceptions, unpredictable technological change, and few accepted business models (Rindova and Kotha 2001). We chose five firms that addressed different nascent markets (virtual marketplace, digital services, online commerce, enterprise software, and networking hardware) and had diverse founding contexts, ranging from entrepreneurs who stumbled serendipitously into an opportunity, to ones who owned a technology and were searching for an opportunity, to ones who had detailed strategic plans (see table 1 for more details on the sample firms). In general, a diverse sample such as ours offers greater generalizeability and firmer grounding of emergent theory than a homogeneous sample (Harris and Sutton 1986).

Given the goal of understanding how organizational boundaries are managed over time, we necessarily employ a longitudinal design, collecting data that covers the first six years of the firms' existence. Although our firms were longer-lived than some other new firms, having sufficient history for each firm was necessary to understand the temporal dynamics of organizational boundaries. This requirement outweighed the implications of not having a random sample, especially in a descriptive and theory-building study such as ours. In addition, our firms vary considerably in terms of their critical boundary decisions and related outcomes, bringing useful variety to this descriptive study.

Data Collection: The focus of data collection is the tracking of boundary decisions for each firm during its first six years. We define a *boundary decision* as an organizational choice that shapes the demarcation of the organization relative to its environment (Scott 2003; Santos and Eisenhardt 2005). Consistent with our interest in a deep and longitudinal understanding of organizational boundaries this is an expansive definition that includes organizational boundaries specified in terms of the resource portfolio of the firm (Brusoni, Prencipe et al. 2001), its sphere of influence (Pfeffer and Salancik 1978), the cognitive mindset of its members (Tripsas and Gavetti 2000), and the governance of activities (Williamson 1991). Examples of boundary decisions in our study include acquiring a firm, ending an alliance, re-defining the organizational identity, and making an outsourcing decision.

There are two main data sources: archival and interview. The extensive archival data include both internal and external sources. The internal sources include all press releases since founding (average of approximately 50 per year per firm), SEC filings and IPO prospectus (approximately 1000-1200 pages per firm), internal reports and presentations (approximately 70-150 pages per firm), as well as video and audio archives of presentations by firm executives at different points in time (average of four per firm). The external sources include media articles about each firm that we identified using *ABI Inform*. We identified these articles by using the firm name as a key word, leading to approximately 80 to 200 articles per firm. We complemented these with analyst reports about the focal firms, books about each firm when available, and media articles about competitors and the evolution of the nascent market.

Using these extensive archival data, we developed chronological case histories for each firm. Each case was about 60 pages in length and took about 2 months to complete. We started by developing a chronological list of boundary decisions for each firm, comprising about 15 to 20 decisions. We then used these decisions to structure the case narrative. We organized the cases by year, detailing the boundary decisions made during each period. We included tables and graphs of the evolution of important metrics (e.g., revenue, market share, number of employees, profits, and rates of growth) for each case (Miles and Huberman 1994). We also tracked the evolution of the executive team, which enabled us to identify appropriate informants for the interview phase of data collection.

The second main data source is semi-structured interviews with internal and external informants. We conducted an average of nine interviews per firm for a total of 46 interviews. Our entry interview was typically with the CEO and/or founder and lasted several hours. This initial interview focused on identification of important boundary decisions, prompted as appropriate by the archival data. These interviews were very helpful in identifying boundary decisions that were not highlighted in the archival data, such as acquisitions that did not go through or outsourcing alternatives that were considered but not chosen. These interviews were also used to identify internal informants. At the end of these interviews, we obtained between 13 and 15 major boundary decisions for each firm, and identified at least three internal informants who could provide first-hand information about each of these decisions.

We selected the internal informants based on three criteria: 1) long tenure in the organization in order to provide a temporal perspective on the organizational boundaries, 2) direct involvement in some of the most critical boundary decisions to provide deep, first-hand knowledge, and 3) functional and hierarchical variety to obtain a rich range of perspectives. We complemented these informants with four categories of external informants: former employees, business partners, competitors, and industry experts. The use of multiple informants serves two main purposes. First, multiple informants mitigate the potential biases of any individual respondent by allowing information to be confirmed across several sources (Golden 1992; Miller, Cardinal et al. 1997). Second, multiple informants can lead to a richer and more elaborated model, since different individuals typically focus on complementary aspects of a major decision (Schwenk 1985; Dougherty 1990). The interviews ranged from 45 minutes to 2 hours. We recorded and transcribed them, generating about 800 pages of double-spaced transcripts. We followed up with clarifying emails and telephone calls as needed.

The interview guide has two main sections. The first section is composed of open-ended questions about the evolution of the nascent market, the focal organization, and its boundaries. The second section is composed of focused questions about particular boundary decisions in which the informant was involved. This interview structure allows the collection of narratives that provide open-ended data on how managers framed boundary decisions and conceptualized the organization and market, and yet, also enabled the collection of very specific, factual information about various boundary decisions (e.g., dates, events, meetings, managers involved, alternatives discussed, and results). In order to avoid "leading" the informants, we asked informants to relate the story of the decision as they observed it, prompted by probing questions from the interviewer. We relied on a "courtroom" procedure, in which questions concentrated on facts and events rather than respondents' interpretations, especially of others' actions (Eisenhardt 1989). An emphasis on facts is less likely to be subject to cognitive biases and impression management (Huber and Power 1985; Miller, Cardinal et al. 1997).

After the interviews, we augmented the initial case histories with the interview data. The final case chronologies include both narratives and detailed comparative tables for each boundary decision, organized in a common format. In particular, we analyzed the context, implementation, and outcome of each boundary decision, and assessed its impact on the overall organizational and market boundaries. As a check on the emerging case stories, a second researcher read all interview transcripts and formed an independent view of each case. This view was then used to crosscheck and improve the case stories. The final cases are about 100 pages in length. Overall, this combination of extensive archival sources and interview data from multiple internal and external informants enables a rich, triangulated, and accurate understanding of the phenomenon (Kumar, Stern et al. 1993). For example, media articles clarified the industry context affecting the boundary decisions, while interviews revealed the actions of managers and the alternatives not chosen.

Data Analysis: As is typical in inductive research, we began with in-depth analysis of each case from the perspective of our research question (Eisenhardt 1989). Tables and graphs were used to facilitate the analysis (Miles and Huberman 1994). Two researchers read the cases independently in order to form their own view of each narrative. The goal of this within-case analysis was to identify theoretical constructs, relationships, and longitudinal patterns within each case independently and in relation to the research question.

Consistent with multiple case research, we then turned to cross-case analysis in which the insights that emerged from each case were compared with those from the other cases to identify consistent patterns and themes across the cases (Eisenhardt 1989). Focal firms and decisions were grouped by variables of interest to facilitate comparisons and develop propositions. Comparisons were initially made between varied pairs of cases. As patterns emerged, other cases were added to the comparison to develop more robust and refined theoretical concepts. Significant discrepancies and agreements in the emergent theory were noted and investigated further by revisiting the data. We relied on an iterative process of cycling among theory, data, and literature to induct a theoretical framework of how entrepreneurs organize the firm boundaries in nascent markets.

CONSTRUCTING MARKETS AND ORGANIZING BOUNDARIES

Our findings suggest that entrepreneurs attempt to simultaneously manage their organizational boundaries and the boundaries of their nascent market. Their aim is to establish sufficient dominance in a distinct and viable market such that the firm survives. Entrepreneurs try to achieve this by managing boundaries using three distinct processes. First, entrepreneurs attempt to *claim* a new market and become its cognitive referent. They do this by shaping a winning identity that defines both the firm and the market. This process allows entrepreneurs to enact their conception of the nascent market from an ambiguous field of opportunities and establish their firm as the leader. Second, entrepreneurs attempt to *demarcate* the market by specifying the perimeter of the firm and its relationships with other firms. They do this by co-opting established players in nearby markets. This process creates a structure of roles that sharpens their boundaries and establishes a well-defined, defensible perimeter that lowers competition. Third, entrepreneurs attempt to *control* the market by overlapping the footprint of the organization with that of the emerging market. They do this through the acquisition of entrepreneurial rivals. This process allows entrepreneurs to adjust the ownership of resources to reinforce their dominant position. Together, these three processes indicate how entrepreneurs rely on a power rationale to co-construct the boundaries of their organization and market. Each process is detailed next.

Claiming the Market

Executives in established firms usually operate in well-defined, existing markets. They manage their organizational boundaries through a series of discrete decisions that alter their vertical value chain

(Williamson 1991; Jacobides and Hitt 2005) and their horizontal market scope (Teece 1980).

In contrast, entrepreneurs in nascent markets are faced with ambiguous settings with unclear customers, undefined product attributes, and no established industry value chain. They usually have only a rough idea of the need they are addressing and who their customers might be. Even if entrepreneurs have a clear view of these issues, they usually cannot anticipate whether their particular organizational identity and associated market conception will succeed.

In light of this ambiguity, we find that entrepreneurs in nascent fields devote significant effort to *claiming the market*. By claiming the market, we mean defining the identity of the firm and the nascent market such that the two are synonymous. In effect, entrepreneurs attempt to be the prototypical organization that is automatically recognized by others (e.g., potential customers, partners, and analysts) as the cognitive referent in a new market that they define.

Entrepreneurs rely on three primary claiming mechanisms: *adopt templates*, *signal leadership*, and *disseminate stories*. *Adopt templates* is defined as the transferring of well-known cognitive models from other areas into the organization. Using these well-known concepts makes the firm and its nascent market more familiar and understandable to customers and other stakeholders. *Signal leadership* is defined as concrete actions that entrepreneurs take to convey their superior expertise and dominance of their firm in the nascent market. These actions attempt to differentiate the firm from potential competitors and increase its legitimacy. *Disseminate stories* is defined as spreading symbolic narratives, either real of fictitious, with the intent of raising awareness and reinforcing perceptions about the firm and its market that are consistent with the identity that the firm is adopting.

A good example is Secret. Secret's founders began with a sophisticated cryptography technology, but without a clear identity or market. They experimented with several ideas before gaining traction with an unexpected offering - providing a secure environment for digital communications. But while this seemed promising, it was very ambiguous. As Secret's VC put it: *"There was a product out there but it was not very well-defined and it was searching for a market."*

Secret's executives then spent considerable time grappling with questions like: What are we selling? Who are we? In particular, they debated "security" vs. "trust" as their key identity element. One executive describes the resolution in favor of trust:

"We believed that we had a broader obligation to the Internet at that time, which was to have this underlying trust infrastructure…. Trust was not just security in terms of keeping people out but it also was letting people in. And we realized that a lot of what we did – digital certificates, digital signatures, that was not really security technology…It was a trust technology".

While trust became recognized as central to both their identity and their concept for the nascent market, ambiguity remained. For example, one executive noted: *"It was a trust technology",* but then went on to ask: *"Is it a trusted service? Is it trust services? Is it trust in infrastructure services?"* As they struggled with their identity, Secret's executives began *adopting templates* from related areas to describe their activities for would-be customers, other stakeholders, and even themselves. They used well-known concepts such as "ID card", "passport", and "wallet". Secret's VC explains how they began to understand and explain themselves: *"You know, you have kind of an electronic wallet and have all your IDs on one thing, and it would become your passport around the Net."*

To further clarify their identity and win acceptance of that identity as the cognitive referent of the nascent market, Secret executives also provided *leadership signals.* For example, they hired a very experienced, high-profile lawyer to lead the legal team very early in the firm's history. This team developed a framework of best practices that further shaped the meaning of the nascent market, and bolstered the perception of Secret as the expert in the market. This framework ultimately became the market standard. As Secret's CEO explains:

"One of the most significant early employees was George. He was very well thought of in both the academic as well as the legal community. George spearheaded all our efforts, domestically and internationally, on encryption, digital signature law, what we call certificate authority practices. And we created the first set of these industry practices for that. The policies by which you should hire people, the policies by which we issue a

certificate, the policies by which we should revoke it…So we invented this as we went along and George's ability to put legal underpinnings to it really separated us from the would be competitors that started in the garage with a web-site."

Secret's executives also relied on *disseminating stories* that differentiated Secret and conveyed its unique "trust" identity. For example, they organized elaborate ceremonies for opening data centers and invited the media (note: Secret operated geographically distributed data centers to deliver its service). These ceremonies were designed to transmit the idea of trust through features such as armed personnel and bunker-like facilities. Secret executives brought together players from the off-line (e.g., notaries) and on-line (e.g., network security executives) "trust" worlds to attend these ceremonies. Given the uniqueness of these ceremonies, Secret entrepreneurs succeeded in enticing the media into covering Secret in detail. For example, one reporter observes:

"An unusual ceremony at the new bunker-like operations facilities of Secret grabbed the attention of certificate authorities such as notaries and accountants, as well as corporate and network security executives. Complexity and importance were elements of Secret's events. Witnessing the ceremony were representatives from various organizations, armed officers, and a notary-videographer to record the ceremony for archiving".

Over time, Secret executives further adjusted their identity by adding the template of a "public utility" that conveyed quiet ubiquity and always-on reliability of a trusted service (e.g., water or electricity company). This identity further guided boundary decisions about which activities to pursue. Even attractive activities were not pursued if they fell outside the identity. An example was software sales. As a Secret VP explains:

"We decided that strategically we were a services company…We told a whole bunch of people: "Here is why the services model works, here is why it is great, here is why we're a services company to do these types of things…". So you would not decide: "well, we are selling some software as well". You have to be consistent and that gives you credibility. A key part there is that we did not really waffle. There were always people in sales or other parts of the company saying: "hey we can sell software too, it is easy to sell, the customer can touch it, you get the revenue recognition in the current quarter for it, etc". We said, "No, we are a service company, we are staying on course here and stay in this services space".

Over time, Secret executives made their identity synonymous with the market. By combining a trust vocabulary with the public utility template from the off-line world, disseminating reinforcing stories in the form of symbolic ceremonies, and signaling leadership by setting the certification standard, they both clarified their identity and intertwined it with the emerging understanding of the nascent market. As a result, Secret became the cognitive referent at the center of the online certification market. Media reports from the period note that Secret is: *"The leading authority for certifying Web server encryption keys"*.

Magic provides a second example. While Secret's identity was initially poorly defined, Magic began with a sharp sense of identity. The heart of this identity was "customer-centric online shopping". Nonetheless, Magic executives still had to convince stakeholders (e.g., customers and financial backers), that theirs was a winning identity. Indeed, when Magic was founded, online shopping was a novel, difficult concept to understand because it involved a very different user experience compared to traditional retail. There was confusion around basics such as how to evaluate products and how to pay. Although the new technology offered striking features that were unavailable in the off-line world, Magic's executives nonetheless *adopted templates* from traditional shopping that were very familiar to end users. The purpose was to reduce ambiguity and accelerate user acceptance. For example, they used well-known concepts such as "shopping cart" and "check out" in their user-interface design.

Magic executives also provided *leadership signals* by purposefully offering the widest selection of items within the product category. They diligently worked to achieve product shipments to 45 countries and all 50 U.S. states in the first month of operations, and then widely broadcast these achievements to stakeholders and the media. They proclaimed Magic as the largest retailer in the world in their category. Magic executives continued signaling leadership by launching very high-profile advertising that featured well-known figures from academics, business, and sports comfortably using Magic's offerings. In fact, Magic was the leading television advertiser among new ventures at the time. This advertising further supported Magic's identity as "customer-centric" and as the leading firm in the market.

Magic was also active in *disseminating stories* that reinforced its customer-centric identity. For example, executives released stories about corporate frugality (e.g., cheap office furniture) that reinforced the theme of customer dedication, not employee perks. They also promoted stories that featured the founder's very personal passion for the customer. An executive concludes one such story:

"(The Founder's) response to this (a customer request) was that customers gets their way. There were no exceptions. The only exception was when someone wanted something that just couldn't be done because it was a physical impossibility. Otherwise we made the software fit what the customers were telling us".

Through this combination of mechanisms, Magic became the cognitive referent in the nascent online market. As an expert confirms: *"Magic has become the default name when you think of buying on the Net".*

While all firms engaged in claiming activities, some faced more challenges than others. An example is Harbor. Harbor's founder stumbled into the nascent market of online marketplaces when his hobby unexpectedly became a successful business. He had strong personal values around egalitarianism. One observer describes the founder as wanting *"a fair, open, honest marketplace".* Another notes *"Harbor was capitalism for the rest of us".* To coalesce these values into an identity, the founder began using a "community" template, emphasizing related vocabulary such as how "friends" could connect, share information, and trade in a "secure" environment.

However, while this identity became clear within Harbor, it was unclear whether the identity would win in the nascent market. One challenge was communicating the identity to customers. An industry expert recalls: *"It was a totally different animal; they (customers) didn't know what to make of it".* A second challenge was gaining attention among many competing identities. For example, while Harbor's identity was a "community" of friends trading with one another, Harbor's leading competitor (an older, larger firm) conceptualized an identity of *"Las Vegas style shopping excitement"* with a gambling format aimed at men. It was unclear which (if any) of these very disparate identities would win. After trying unsuccessfully to gain traction with their identity for several months, Harbor executives came up with the idea of *disseminating a story* about the company's founding that illustrated Harbor's "community" identity and associated it with warm, personal (and fictitious) details about the founder.

Fortuitously, this unusual story was picked up by the press, embellished, and repeated in many feature articles about Harbor. The story heightened awareness of Harbor, reinforced its identity as a "community", and sharpened customer understanding of how to use Harbor's services. Harbor executives followed up with advertising initiatives that reinforced salient features of this story. In addition, Harbor executives *signaled leadership* through aggressive litigation that blocked potential competitors' access to their customers. Although they justified this action as necessary to protect the "security" and "privacy" of the "community", it also had the effect of signaling Harbor's leadership and willingness to strongly reinforce its claim.

Overall, Harbor's late start in claiming the market precluded it from becoming the cognitive referent in the first few years. However, Harbor's efforts at claiming the market were useful in establishing the nascent market as distinct and enabling Harbor to become a significant firm within it.

Finally, although all of the entrepreneurs attempted to claim the market, some were not successful as Saturn illustrates. Saturn was founded in the "white space" near the telecommunications equipment and networking markets. Saturn's founder explains this nascent market:

"Not one customer in the telecom business said they needed such an IP router for the core. Everyone with no exception was using Internet switches. Not one telecom provider was even thinking of building such a router for the public telecommunications network because no customer had ever asked for one."

Although Saturn executives wanted to claim the market, they were not proactive. They did not adopt a template to create familiar meanings. They kept their technology secret during their initial years and did not attempt to signal technical leadership. While they did *disseminate a story* in the form of a "theory" to justify the existence of a distinct market that only Saturn could serve, it lacked the dramatic qualities (e.g., personal details, novelty, adversity) that make stories such those at Harbor memorable. Also the "theory" was narrowly disseminated to a few market analysts and did not capture media attention. As a result, most observers considered Saturn's market to be an extension of an existing market. As a media report of the period notes: "*Saturn is widely perceived as a threat to Leader's hold on the* *networking market"*.

Overall, our findings suggest several observations. First, entrepreneurs do more than simply develop an identity that inspires and aligns organizational members (Dutton and Dukerich 1991; Corley and Gioia 2004) or provides a "lens" or "map" of the market (Sull 1999; Gavetti and Levinthal 2000). Rather, they also attempt to make their identity synonymous with the nascent market. They engage in sensegiving activities to make their identity more likely to emerge as the cognitive referent that defines the new market. Our contribution is thus showing how identity is used as a competitive weapon that helps entrepreneurs move from an amorphous, contested opportunity to a winning claim for a distinct market. (See Table 2 for a summary of the activities of each firm in claiming the market and the result in terms of market creation and becoming the cognitive referent.)

Second, nascent markets contain strong elements of social construction. Entrepreneurs are not "entering" a new market (Chatterjee and Wernerfelt 1991) or "discovering" a hidden market (Kirzner 1997). Rather they are trying to make their conception of the nascent market understood and accepted by others. Nascent markets can thus be seen as a competitive field of alternative identities. Winning identities are likely to be those promoted by entrepreneurs who use specific mechanisms to persuade others to accept their chosen conception. Although previous research notes the tactics by which industry groups (Rao 1994) and groups of entrepreneurs (Rindova and Fombrun 2001) collectively engage in the social construction of markets, we contribute by specifying the mechanisms by which individual firms attempt to become the accepted leaders in a new market.

Why are the specific mechanisms that we observe useful? The adoption of familiar *templates* makes it easier for stakeholders to understand the company and its products, and for organizational members to act in a reinforcing fashion. As Hargadon and Douglas (2001) found in product development, coupling new functionality within a frame of existing vocabulary speeds the acceptance of innovations. The familiarity of well-known images triggered by existing templates improves the comfort, understanding and acceptance of novel artifacts by customers and other stakeholders, thus blending old meanings with new functionalities. This, in turn, makes it more likely that novel products and services will be understood and adopted. *Leadership signals* (e.g., creating industry standards, using well-known spokespeople) convey dominance and expertise that make the firm's identity more legitimate within the nascent market and more acceptable to stakeholders (Lounsbury and Glynn 2001). This, in turn, enhances the firm's claim to the market. Finally, *stories* are particularly effective because of their power to convey information in a salient, memorable way. Individuals are much more likely, for example, to remember the implications of simple, emotionally charged stories than to remember facts and quantitative information (Nisbett and Ross 1980; Heath, Bell et al. 2001). Also, to the extent that stories portray the firm as highly unusual, convey drama in the form of winning over adversity, and/or contain intriguing personal information, they emphasize the uniqueness of the venture and so are more likely to be amplified by the media (Rindova, Pollock et al. 2005).

Overall, these mechanisms are an intriguing blend of actions that make the firm both more familiar and legitimate, and yet simultaneously more unusual and unique. The result of these apparent contradictions is the intertwining of the boundaries of the firm with those of the coalescing market in the minds of organizational and other actors. This is a particularly powerful blend of actions in nascent markets where individuals lack grounding and so are open to ways of resolving the ambiguity.

Demarcating the Market

Executives of established firms in existing markets often manage their boundaries by reducing their dependence on key exchange partners (Thompson 1967; Pfeffer and Salancik 1978). Depending on the source of dependence, they may engage in a board interlock, hire an executive with useful ties, or integrate operations in order to buffer the organization from uncertainty.

In contrast, entrepreneurs in nascent markets typically face ambiguity with regard to who their key exchange partners may be and what the dependencies are. Entrepreneurs are usually surrounded by powerful firms that may define the nascent market as simply either part of their own existing markets or as an attractive new market to enter (Markides and Gerosky 2005). It is often unclear how executives in these established firms will ultimately perceive their role, if any, in the nascent market. Moreover, if these established players choose to become competitors, they often pose a significant threat to the survival of the venture.

In light of this ambiguity, we find that entrepreneurs in nascent markets attempt to *demarcate the market*. By demarcating we mean co-aligning their organizational perimeter with the nascent market and defining relationships with firms in nearby markets. Specifically, they attempt to co-opt powerful players in nearby markets via alliances. Their aim is to deter these players from becoming competitors by creating roles and relationships for them, thus creating a surrounding industry structure and fencing a clear perimeter. In so doing, entrepreneurs clarify their scope and the market structure (e.g., buyers, suppliers), but also create dependence on these powerful players.

Entrepreneurs use three alliance mechanisms to entice powerful players to accept the proposed market boundary and roles: *revenue sharing agreement*, *equity investment*, and *anti-leader positioning*. <u>*Revenue sharing agreement*</u> is an alliance mechanism by which the co-opted firms benefit from the nascent market through distribution, advertising, or supplier contracts with the entrepreneurial firm. Such agreements provide the co-opted firms with a role in the emergent industry structure and revenues from the new market without actually spending resources to participate directly. Thus, established firms have an incentive to support the growth of the new firm. <u>*Equity investment*</u> is an alliance mechanism by which entrepreneurs allow the co-opted firms to purchase a stake in their firm. Again, this enables these firms to benefit from the new market without participating in it directly. Thus, while entrepreneurs sacrifice some ownership, they also reduce the incentive of threatening firms to enter the market and increase the incentive to support them. *Anti-leader positioning* is an alliance mechanism used when there is a very strong firm that dominates a nearby market. Entrepreneurs seek other established firms to join an alliance in opposition to this leader. To be credible, the market claimed by the venture must be seen as having some relationship to markets where the strong firm dominates, thus being potentially attractive to that firm. This gives incentive to other established firms to support the growth of the new firm in order to counter the power of the leader. The downside is that the entrepreneurs inevitably alienate this dominant firm and are almost sure to face competition from it.

Saturn is an example. As noted earlier, Saturn was founded in a nascent market near the networking and telecom equipment markets. The venture faced competitive threats from established firms in both markets. These players were likely to regard the nascent market either as an extension of their market or as an attractive new market to enter, especially if Saturn succeeded. Therefore, Saturn executives very actively attempted to define its perimeter and that of its market by pursuing alliances with five established firms. Saturn's enticement for allying was that these firms could avoid addressing a new market. That is, their relationship with Saturn would give them a stake in the nascent market, but leave them free to spend their time and resources elsewhere. Central to the argument was Saturn's willingness to be the "*anti-leader*" to the dominant firm. All of the potential partners feared "Leader", and were battling this dominant firm in several markets (e.g., optical, landline, wireless). Saturn's CEO explains: *"All of them were worried about [Leader], and we were the [anti-leader], so it was a chance for them to team up with somebody that was taking [leader] on."*

To the surprise of Saturn executives, all five target partners agreed to ally. Two agreed to *equity investments*. When the others found out, they clamored to invest as well. These alliances were very costly to Saturn because they diluted ownership at a time when the firm had sufficient financial resources. However, the goal of demarcating a clear perimeter that clarified Saturn's boundaries relative to threatening firms outweighed the drawbacks. *Anti-leader positioning* and *equity investment* thus transformed five very large firms from potential competitors into partners, and clarified the industry structure. An industry expert notes: *"They pulled together a beautiful deal on the strategic side that was tried to be copied by many other companies. This is difficult when you are dealing with so many gorillas."*

A year later, Saturn executives developed deeper relations with several of these partners via r*evenue sharing agreements*. These were distribution alliances that legally obligated the partners to stay out of Saturn's market and promote Saturn's products. In return, these partners gained a share of the revenue. An industry expert commented on the results of one of these agreements: *"Partner was selling a remarkable amount, like a hundred million dollars, of their gear. That was a great partnership."*

Overall, Saturn deterred competition from several firms via alliances that demarcated the market. Of course, *anti-leader positioning* did not deter the dominant firm, and this firm became a major competitor. Nonetheless the combination of a technology lead, rising awareness about the firm, and the cooptation of key firms enhanced Saturn's ability to compete. A duopoly emerged between Saturn and Leader. An analyst noted, *"The market became a two horse race"*.

Secret provides a second example. As noted earlier, its executives were trying to demarcate a market that focused on trust services in digital communication. They anticipated that several firms in the banking, carrier, and software markets might become competitors, especially if Secret succeeded. Thus, quickly after founding, Secret's executives organized brainstorm sessions to identify the most powerful players in nearby markets in order to deter their entry. Secret's CEO explains:

"One of the things that separate us is that we are always worried about who could take this away from us and we tend to find a way to cooperate when there is a win-win scenario. Before they recognize us and turn their attention to us, we find a way for them to benefit from their association with us."

After they chose *equity investment* as their alliance mechanism, Secret's executives spent several months negotiating a round of equity financing with these firms. Much like Saturn's executives, those at Secret tried to anticipate the possible future moves of the established firms before their executives recognized the promise of the nascent market. They hoped that these established players would be preoccupied with their existing markets. Secret's VC explains:

"I wanted to get all people believing in what we were doing and starting to sell the vision of certificate use for identification. And I wanted to keep them out of the market…Everybody was doing a hundred things. But if we took this one off their plate, hopefully they would become our partner – both technology and marketing partner."

As a result, a few months later, Secret announced an equity investment round that included ten corporate investors from several established markets. While these alliances provided resources (although like Saturn, Secret did not need the investment), they more significantly demarcated the market by clarifying the role of Secret and the roles of each player in relation to Secret. This, in turn, shaped a perimeter around the organization and its market. The CEO explains: *"We have kind of also created a demilitarized zone for ourselves. I think that was very important."* Secret's VC went further: *"It (the equity investment alliances) did have material consequences. It established us as the leader."*

Recognizing that, if the nascent market grew, equity investments might not be enough to deter some of these established firms, Secret executives continued proactively discouraging competition by offering *revenue sharing agreements.* For example, Secret co-opted a leading firm in a nearby market by re-directing some activities to this firm so that it would become a supplier to Secret, not a competitor. A few months later, Secret executives signed a *revenue sharing agreement* with other potential competitors. They created an international affiliate program to co-opt major telecom carriers such that Secret gave these firms a portion of in-country revenues and a complementer role to Secret in their respective regions. According to the CEO: *"The affiliate model was put out so that we could get into bed with phone companies around the world"*. As a result, Secret avoided competition with another group of powerful firms. Overall, Secret's combination of alliances successfully co-opted the targeted firms. In fact, no established firms chose to compete with Secret. Rather, they accepted Secret's demarcation of the market. As one industry expert observes: *"Secret has little direct competition"*.

While Saturn and Secret executives anticipated threats from established firms and blunted them, other entrepreneurs were neither as prescient nor as successful. Nonetheless, even failed attempts often clarified boundaries and delayed competition. Harbor illustrates this point. Harbor executives attempted to ally with established firms to demarcate their market and thereby prevent competition. They identified three powerful firms that posed significant competitive threats because their markets were proximate to Harbor. Harbor executives also recognized that these firms possessed crucial advantages (e.g., much larger customer base, deep pockets, more reliable technology). Although Harbor's executives approached all three firms, they were successful in forming a *revenue sharing agreement* with only one. But, even that deal was painful for Harbor. It deeply divided the executive team because it required Harbor to sign a revenue sharing agreement that included a very expensive advertising contract (e.g., first payment consumed half of Harbor's annual marketing budget) in exchange for exclusive access to the firm's customers and a non-compete agreement. On the one hand, the business development team argued that the deal was necessary to gain customers and avoid competition. On the other hand, senior executives were loath to give up so much money since Harbor was already gaining customers. The deciding factor was the recognition that preventing competition from a leading player was worth the price. As a board member put it: *"We were paying that amount to prevent Player from entering the business."*

Simultaneously, Harbor executives were also negotiating alliances with the two other potential competitors. Unfortunately for Harbor, executives at these firms perceived Harbor's market as just an extension of their own. After several months, they each offered to acquire Harbor instead of allying. Harbor executives deliberately prolonged the acquisition talks to gain more time to establish themselves in the market. Harbor eventually declined their offers, and both firms then became competitors. They competed intensely with Harbor for two years. Nonetheless, the alliance with the first firm and the negotiation delays with the other two gave Harbor a head start. This head start coupled with fortuitous network effects and an increasingly compelling identity enabled the firm to survive the competition.

Finally, Magic executives were less engaged in demarcating the market. For example, when several established firms approached Magic with alliance offers, they rudely rejected them. As one executive notes, *"We thought that those companies were old-fashioned and that they could never really compete with us."* Rather, they focused on alliances with small entrepreneurial firms in nearby markets and took equity positions in them. Unfortunately, several established firms entered the market and competed surprisingly well against Magic, forcing it into heavy expenditures and price wars that brought four years of losses. Ironically, not only did Magic fail to avoid competition from established firms, the company also lost most of its investments in its small allies when many of them failed.

Our findings offer several contributions. The strategy literature often conceptualizes alliances as a means to access resources (Eisenhardt and Schoonhoven 1996; Dyer and Singh 1998; Gulati 1998). Although our data confirm that alliances enabled entrepreneurs to gain resources, they often already had these resources. They typically possessed, for example, sufficient capital and were garnering customers. Moreover, they often paid a heavy price for these extra resources in the form of lost revenue, shared profits, and diluted ownership. Thus, the primary value of these alliances was structuring the perimeter of the organization in a way that favored the venture. Alliances emerge as competitive weapons to deter the entry of strong potential competitors, clarify the boundaries of the organization and nascent market vis-à-vis others, and shape an advantageous industry structure of suppliers, buyers, and complementers that lowers competition. (See Table 3 for a summary of the activities of each firm in demarcating the market and the result in terms of level of competition).

Another contrast with the alliance literature is its emphasis on social capital. The extant literature points to social capital as pivotal to alliance formation (Gulati 1995; Eisenhardt and Schoonhoven 1996). "Whom you know" is fundamental to engaging partners. However, we observe that, while social capital may be relevant in meeting potential partners, it does not seal the deal. Entrepreneurs often must make major concessions to powerful firms in order to co-opt them. Social capital alone is insufficient. Rather, entrepreneurs often anticipate the need for alliances, preemptively approach established firms, and offer something very significant (e.g., equity stake, revenue sharing, or strategic value against a leading firm that often becomes an enemy) to entice these potential competitors to become partners.

The alliance literature also offers mixed support for the link between alliances and the performance of entrepreneurial firms. While some work suggests that alliances are beneficial, recent work finds a negative effect, particularly when entrepreneurs engage rivals (Baum, Calabrese et al. 2000; Ozcan and Eisenhardt 2005). Our research suggests a resolution. That is, picking the right allies is crucial (i.e., established firms that are otherwise likely to compete). For example, Magic's entrepreneurs wasted time and resources by allying with young firms even as they ignored and insulted established firms that became significant competitors. Offering compelling incentives is also crucial. For example, Midway was a new venture trying to establish a market for software in the Internet computing world. Its founders formed alliances with powerful firms to demarcate its boundaries, turning these potential competitors into complementers and distributors. However, they did not offer these partners enough enticement to keep them as partners. As the market blossomed, they became competitors. Overall, alliances in which entrepreneurs offer potential competitors sufficient incentives to stay out of the nascent market can be valuable. Other alliances are, at best, delaying and, at worst, hinder performance.

Finally, while it is clear why entrepreneurs would want these alliances, it is less obvious why executives in established firms would be interested in partnerships with weak, small firms. One reason may be that these alliances capitalize on the natural tendency of established firms to delay entry into nascent markets until they become well-defined (Ozcan and Eisenhardt 2005). Executives in established firms often believe (and rightly so) that they can delay entry and still be effective competitors (Markides and Gerosky 2005). Moreover, they often prefer to approach nascent markets by creating “real options”, so that a small commitment of resources provides learning opportunities and a possible entry point into the market. Thus, as we observed, entrepreneurs can exploit this tendency of established firms to delay entry by promoting themselves as those “real options”.

Overall, our findings are consistent with White (1981) who argues that firms engage in the construction of markets by “finding and sustaining roles with respect to one another”. But going beyond this, we note that entrepreneurs often take the lead in this process. For them, market ambiguity is an opportunity to win by constructing a distinct and structurally favorable market. Specifically, entrepreneurs use alliances to convince would-be competitors to take other industry roles (e.g., suppliers, customers, investors). These actions, of course, create dependency on established firms with significant resources. However, a strategy of simply reducing dependence by buffering the organization (Pfeffer and Salancik 1978) would isolate the relatively weak entrepreneurial firm and likely doom the entrepreneurs’ conception of the nascent market. Thus, a key contribution of our study is to show that entrepreneurs in nascent markets actively trade ambiguity for uncertainty to create a favorable industry structure. In addition, we show that co-optation alliances play a key role in this process and explain how, with whom, and when they are useful.

Controlling the Market

Executives of established firms in existing markets often manage their organizational boundaries by adjusting the resource portfolios through acquisitions. The motivation is that acquisitions enable a rapid addition of strategically valuable resources (Ahuja and Katila 2001; Graebner 2004) that may provide a stronger competitive position in current markets (Anand and Singh 1997; Capron, Dussauge et al. 1998) and effective entry into new ones (Karim and Mitchell 2000; Finkelstein and Haleblian 2002).

In contrast, entrepreneurs in nascent markets often do not know which resources are or will be strategically valuable (Kaplan and Tripsas 2004). They may also have entrepreneurial rivals with different and perhaps superior resources (Rindova and Kotha 2001). The high ambiguity of nascent markets also makes it difficult to predict ex-ante which resource configurations will win.

Given this ambiguity, we find that entrepreneurs often attempt to *control the market.* By control the market we mean overlapping organizational boundaries with market boundaries such that the organization occupies as much of the market as possible. Entrepreneurs do this through acquisition (and sometimes destruction) of the resources of entrepreneurial rivals. Specifically, they acquire rivals that are threatening in their own right, have sprung up to address new parts of the market, or could be used as stepping stones into the market by established firms.

Entrepreneurs thus rely on three main types of acquisitions to control the market: *elimination of competing models, increased coverage,* and *blocking entry.* <u>*Elimination of competing models*</u> is an acquisition that is aimed at destroying the resources of threatening rivals. These rivals have resources or perhaps business models that could be superior or otherwise damaging to the entrepreneurs' control of the nascent market. After the acquisition, these resources may be destroyed or blended into the firm to make its resource portfolio more robust. <u>*Increased coverage*</u> is an acquisition that expands the firm's presence into emerging areas of the nascent market (e.g., new geographical regions, new categories of users) so that the boundaries of the market and firm continue to co-align as the market expands. <u>*Blocking entry*</u> is an acquisition that is aimed at removing possible stepping-stones into the market. The possibility that powerful firms could easily enter by acquiring these rivals is the main concern, not fear of the rivals per se. This type of acquisition often leads to phasing out or disposing of the acquired resources of the target firm.

An example is Midway. Its founders addressed a nascent market that related to middleware (the layer of software that sits between the operating system and the software applications) and adopted the identity of "the operating system of the Internet". As discussed earlier, they tried to co-opt some of the established players which might decide to enter the market. But they also faced entrepreneurial rivals that were addressing roughly the same nascent market. Therefore, Midway executives took several steps to control the market. First, they *increased coverage* of the market by acquiring, in rapid succession, several smaller rivals operating in different countries. This acquisition spurt gave Midway global market coverage and greatly reduced the possibility of viable entrepreneurial rivals emerging from these geographies. Subsequently, Midway phased out the acquired products and dispersed their resources except those in sales and marketing.

With control in several major countries, Midway executives next contacted their principal entrepreneurial rival in the US. This firm had a similar technology, but a different distribution model (i.e., third party sales channel) that was not working well. Sales were stagnant. Although it was clear that Midway was gaining advantage over this rival, had global presence, and did not need its resources (e.g., Midway possessed similar technology, and better sales and marketing), Midway executives still wanted to make a *blocking entry* acquisition to prevent established firms from quickly expanding into the market by buying this rival. Since the two ventures owned the only software products that were based on a critical technology, the acquisition would allow Midway to block access to that technology and related patents, in addition to access the rival's customers. Indeed, Midway's CEO acknowledged the intentional obstruction of two specific established firms:

"The primary reason was to make sure that neither "A" or "B" companies ended up with the technology…Their products today are better than the old stuff but they can't go all the way (without this technology). So it was a blocking move on our part,"

Midway executives phased out the acquired brand and product, and transferred customers and sales people to their own software product. As a result, Midway became the undisputed market leader and significantly delayed the entry of threatening established firms. These established firms took two years to develop technology that could circumvent Midway's patents.

Later, several entrepreneurial rivals entered the market with newer technologies. Faced with this new challenge, Midway executives assessed whether the advantages of *elimination of competing models* via acquisition outweighed their acquisition costs. They decided to acquire two ventures that appeared to have the most threatening technical resources. These acquisitions gave Midway executives time to develop their own technology using in-house resources plus some from one of the acquired firms. The remaining acquired resources were disposed or destroyed.

Overall, Midway executives enhanced their control of the market through aggressive acquisitions that gave the firm global coverage, eliminated competing resources and business models, and removed stepping stones into the market. Despite the eventual strong challenge from the leader of a nearby market and the breakdown of its demarcating alliances, Midway's proactive use of controlling acquisitions helped to spur roughly 60% market share at the end of five years.

Another example is Harbor. The venture (described earlier) had become an important player in a coalescing market, but had not yet become the cognitive referent and had only partially co-opted powerful potential competitors. Thus, Harbor executives regarded controlling the market as crucial to their survival and so actively engaged in acquisition of entrepreneurial rivals. For example, early on, Harbor executives acquired a small entrepreneurial rival. This firm was not a threat by itself since it was much smaller than Harbor. However, it could have been easily used as a stepping-stone into the market by other firms. Its technology and customer base would have been valuable to established firms seeking a quick market entry. An industry expert acknowledges: *"The real concern was the prospect that a larger company might buy this company and use it to launch a competing service"*. The acquired firm was given little attention and was soon phased out. But, the acquisition *blocked the entry* of two major firms that Harbor had failed to co-opt, and forced them to enter more slowly via organic growth.

A year later, an entrepreneurial rival appeared with an alternative market conception based on a novel business model. When the firm began to grow, Harbor executives decided to make an acquisition to *eliminate a competing model.* They approached this firm and purchased it. After the acquisition, Harbor executives added some aspects of the acquired business model to their main service offering, and so enhanced the robustness of their offering to similar threats in the future.

Shortly after this acquisition, Harbor executives recognized that their market was becoming global and that entrepreneurial rivals were developing in several European countries. These firms might eventually become large, enter the U.S., and possibly threaten Harbor's attempts to control the global market. Therefore, Harbor executives made several acquisitions that *increased coverage* of the firm's footprint in the expanding global market. In some countries, they transferred the customers to Harbor's services while they disposed of other acquired resources. In others, they left the acquisition as a standalone business. Harbor executives also made two small product acquisitions that *increased coverage* of Harbor's range of customers to include high-end one segments.

Overall, by using acquisitions to *block entry, eliminate competing models* and *increase coverage*, Harbor executives strengthened their control of the market and overcame their early failure to become the cognitive referent and co-opt several established firms. Coupled with fortuitous network effects, they gained control of the market with 80% share after five years.

While Midway and Harbor were particularly aggressive in attempting to control the market, others were less so. For example, after their early success in claiming the market, Magic executives were confident in their ability to defeat established firms. So while they considered several acquisitions to *block entry* of established firms, they did not pull the trigger. In one crucial case, they decided that the price was too high for a failing rival. Unfortunately, an established firm bought this rival, used its resources to enter successfully, cut prices and gained market share at Magic's expense. Overall, although Magic executives made a couple of small acquisitions, they made few attempts to control the nascent market and ultimately captured only about 30% of their core market.

The most extreme case is Saturn where executives initially avoided attempts to control the market because they were philosophically opposed to acquisitions. They placed their faith in organic growth. Saturn's CEO said: *"I am very conservative because I still think you build companies the old fashioned way and you cannot cheat (through acquisition)"*. As noted earlier, Saturn had initially strong alliance relationships with five major established firms. While two of these firms remained partners, the others decided to compete with Saturn when they saw Saturn's success. Since Saturn had not attempted to acquire the other entrepreneurial firms that had also sprouted in the market, these ventures were readily available as stepping-stones for Saturn's erstwhile partners. These former partners bought several of Saturn's entrepreneurial rivals, fueled them with new resources, and quickly established market presence. One of these rivals became a very significant competitor. Ironically, this competition occurred just as the leading firm (i.e., the powerful one against whom Saturn had used anti-leader positioning) had launched an aggressive counter-attack against Saturn. Faced with decreasing sales and the possibility of slipping into third place in the market, Saturn executives reversed their stance and began to use acquisitions to control the market. But the price was high. In order to buy its emerging rival, Saturn was forced to make a rich offer of 30% of Saturn's market capitalization (most of it in cash). However, this drastic move enabled Saturn to retain its duopoly position with the leading firm.

These findings suggest several contributions. First, the data reveal a more varied use of acquisitions than in the literature. Although our evidence supports acquisitions to obtain new resources (Capron, Dussauge et al. 1998; Ahuja and Katila 2001) and achieve synergies (Larsson and Finkelstein 1999; Graebner 2004), it also strongly suggests that acquisitions can be used as competitive weapons to prevent established players from obtaining key resources and to eliminate rival business models. (See Table 4 for a summary of the activities of each firm in controlling the market and the result in terms of market share). Acquisitions of threatening resources that are not needed and are then eliminated are particularly striking, and have largely been ignored in the literature (Chatain and Capron 2005). Our findings also suggest that the often-noted failure rate of acquisitions may not account for this kind of resource-destroying acquisition, and so under-report the actual success rate of acquisitions.

Second, we observe that entrepreneurs use acquisitions to structure the market in their favor. By choosing to eliminate alternative business models and resources, cover expanding areas, and remove stepping-stones, they shape market rivalry, a fundamental feature of industry structure. They also improve their competitive advantage by making their own resources more scarce (Peteraf 1993). Although such anti-competitive behavior may appear in the consolidation of maturing markets (Anand and Singh 1997), the logic is different within nascent markets. That is, entrepreneurs attempt to delay or even block the entry of new competitors into an attractive market through elimination of stepping stones, and retain control over a growing market through increased coverage acquisitions. In contrast, executives in mature markets typically acquire to thwart current rivals (not anticipated ones) and to gain cost (not revenue) advantages in a shrinking market. Taken together, these observations indicate that industry structure and resource distribution are not completely exogenous. Rather, executives use acquisition to construct a nascent market to their advantage.

Third, our findings suggest insights into how firms combine alliances and acquisitions. While others note that alliances are a first step towards acquisition, we observe a different relationship. We find that entrepreneurs use alliances to co-opt potential rivals that are too large to purchase. As a result of these alliances, entrepreneurs are able to create industry roles (e.g., supplier, complementer, buyer) for these would-be competitors. In contrast, they use acquisitions to eliminate entrepreneurial rivals that they can afford to purchase. But for both mechanisms, the objectives are the elimination of competition and the creation of a favorable industry structure. Therefore, entrepreneurs use both alliances and acquisitions to shape the emergence and evolution of the nascent market and its surrounding industry structure.

Finally, while it is clear why entrepreneurs would make these acquisitions, it is not clear why their targets would acquiesce. One reason may be the preference of entrepreneurs to be acquired by other entrepreneurs. Indeed, research focusing on the seller side of acquisitions (Graebner and Eisenhardt 2004) indicates that entrepreneurs prefer to be bought by other entrepreneurs because they perceive greater cultural fit and higher likelihood that their firm will make a strategic difference inside an entrepreneurial buyer.

DISCUSSION

We began by noting that, although diverse, the extant theories of organizational boundaries often implicitly assume established firms and existing markets. In contrast, we explore the shaping of organizational boundaries over time in the context of entrepreneurial firms and nascent markets.

Our resulting theoretical framework indicates that entrepreneurs intertwine and co-create organizational and market boundaries using three processes. First, entrepreneurs attempt to develop an identity that simultaneously bounds the activities of the firm and becomes the cognitive referent that defines the market. If they succeed, they *claim* the market. If they fail, a distinct market may not emerge or it may grow according to the conception of others. Second, entrepreneurs attempt to define simultaneously the perimeter of the organization and the structure of the market by using alliances with established firms that offer them market roles (e.g., customer, complementer). If they succeed, they *demarcate* the market. If they fail, they risk competition from powerful players that can trigger price wars, create expensive technology races, and cripple profits. Finally, entrepreneurs attempt to simultaneously own the critical resources in the market, and overlap the firm with the market through the acquisition of entrepreneurial rivals. If they succeed, they *control* the market. If they fail, they risk conceding market leadership to others. Overall, these three processes seem a central feature of competition in nascent markets (see Table 5 for detailed overview and comparison of these processes).

Taken together, these processes indicate a *strategic* and *dynamic* approach to boundaries. That is, entrepreneurs make a series of interrelated boundary decisions (e.g. orchestrated combination of stories, templates and leadership signals, series of reinforcing and market-structuring alliances, set of market-controlling acquisitions) that can exhibit a pattern. The pattern is *strategic* in the sense that it is at least a partially coherent approach to winning. The pattern is *dynamic* in that it shifts over time in both anticipation of and reaction to the actions of other firms. Thus, organizational boundaries are not so much the result of a series of atomistic make v. buy decisions as portrayed in much of the literature. Rather, organizational boundaries are more accurately the result of a strategic and dynamic pattern of choices over time. More fundamentally, since entrepreneurs use these organizational processes to influence firm success, they may constitute the strategy of these young firms (cf., Eisenhardt and Bingham 2005).

Towards Reinvigorated View of Power

Unexpectedly, our framework highlights the role of *inter-organizational power*. The current view of inter-organizational power stems from classic work such as Selznick's TVA study (1949), Thompson's insights on interdependence (1967), Zald's (1970) focus on open systems, and Pfeffer and Salancik's (1978) resource dependence theory, all of which emphasize established organizations and existing environments. However, as Mizruchi and Yoo (2002: 602, 614) note in their review, research on inter-organizational power has stalled. More important, they argue that extant research rests on distant, archival data that offers little insight into how firms actually exercise power. These observations suggest that an in-depth study such as ours provides an opportunity to reinvigorate the study of inter-organizational power. We have several contributions related to this reinvigorated view.

One contribution is that entrepreneurs in nascent markets try to claim, demarcate and control a distinct and viable market. Theirs is an aggressive, anti-competitive and even monopolistic logic that is captured by the popular catch phrases, “have lunch or be lunch” and “snooze, you lose.” Thus, nascent markets are not the inevitable outcomes of technological advances or demographic changes (Baum and Singh 1994; Kirzner 1997). Rather, entrepreneurs can exhibit considerable agency in co-constructing their organizational and market boundaries (Schoonhoven and Romanelli 2001), often at the expense of others. When they act otherwise, they risk becoming over-powered by strong, established firms or out-maneuvered by nimble, savvy entrepreneurial rivals.

A second contribution is the *interplay of ambiguity and uncertainty* in the exercise of power. Previous views of power emphasize avoiding uncertainty (Thompson 1967; Pfeffer and Salancik 1978). In contrast, we observe that some entrepreneurs exploit the ambiguity of nascent markets and so shape the market structure (e.g., competition, suppliers, complementers) to their advantage. But in so doing, these entrepreneurs create dependence on other organizations. Thus, they trade ambiguity (i.e., lack of meaning and structure) for uncertainty (i.e., dependence on others in a known structure). This is an attractive trade for skilled entrepreneurs because they can move from the chance environment of ambiguity (where luck is crucial) to the skill environment of uncertainty (where ability is important) (Davis, Eisenhardt, and Bingham, 2005). But the trade now requires the management of dependence. Thus, the adroit exercise of power by entrepreneurs is likely to include the early exploitation of ambiguity to create favorable markets as suggested by our findings, but then the later attempts to reduce uncertainty as suggested by current theory (Pfeffer and Salancik, 1978).

The third contribution is an expanded repertoire of *mechanisms to wield power,* including some (such as identity, alliances and acquisitions) that are not often associated with a power rationale. For example, although executives use identity to align and inspire organizational members (Dutton and Dukerich 1991; Corley and Gioia 2004) and to provide a “lens” or “map” for action (Sull 1999; Gavetti and Levinthal 2000), they also use identity as a power mechanism to become the cognitive referent and improve the likelihood that their market conception is the winning one. Similarly, although executives use alliances to access resources (Dyer and Singh 1998; Gulati 1998), they also use alliances to co-opt potential competitors and give them roles such that the emergent industry structure is more favorable to the entrepreneurial firm. Although executives use acquisitions to acquire valuable resources (Capron, Dussauge et al. 1998; Ahuja and Katila 2001), they also use acquisitions to destroy potentially threatening resources, block the access of others to those resources, and eliminate competition. Overall, this suggests broadening the use of these mechanisms to include the exercise of power, and extending the extant view of power to weapons beyond interlocking boards and cross-industry acquisitions (Mizruchi and Yoo, 2002).

A final contribution is explicating the *tactics of low power organizations* such as entrepreneurial firms. Previous research indicates the tactics available to powerful firms in established markets such as the brute force application of market power or the creation of interlocking boards with other major firms (Porter 1980). In contrast, we indicate the subtle and less understood tactics of low power firms.

One such tactic is ex*ploitation* of the proclivities of others to the advantage of the focal firm. That is, rather than attempting to force other organizations to act in a particular way, entrepreneurs exploit the tendencies of others. For example, the use of stories (e.g., romantic founding story at Harbor, stories about the obsessive dedication of the founder to customers at Magic) exploits the tendency of individuals, including customers and investors, to be overly influenced by unique, vivid, and personal stories (Nesbitt and Ross, 1981; Rindova et al 2005). Similarly, offering their firms as "real options" to established firms in alliances that demarcate the market (e.g., Secret's multiple alliances with potential competitors) exploits the tendency of established firms to delay entry until market attractiveness is clear (Geroski and Markides 2005). Likewise, the use of acquisitions to blunt the competitive impact of entrepreneurial rivals exploits the preference of entrepreneurs to be bought by other entrepreneurs

(Graebner and Eisenhardt 2004).

A second tactic of low power firms is *illusion*. Illusion relies on deception such as exaggerating prominence or shielding intentions. For example, leadership signals (e.g., Secret's active setting of industry standards despite being a small firm with 20 employees and one lawyer) convey an image of entrepreneurial firm importance that is greater than the reality (Zott and Huy 2005). Alliances often suggest to established firms the possibility of acquisition even when the entrepreneurs have no intention of selling. Similarly, acquisitions of entrepreneurial firms occur when the buying firm emphasizes synergy and common culture (Graebner and Eisenhardt 2004), but these same buyers also often obscure their predatory intent (e.g. Midway's acquisition of small rivals that were then closed).

A third tactic is *timing* (either preemptive or delaying). For example, the preemptive use of templates may lock-in the focal firm as the cognitive referent before other firms take action. The preemptive use of alliances can tie up would-be competitors in contractual obligations before they fully realize the market's potential (e.g. Saturn's early cooptation of 5 would-be competitors). Pre-emptive acquisitions can eliminate stepping-stones into the market before others act (e.g. Harbor's elimination of rivals). Similarly, delaying can be advantageous. For example, Harbor deliberately prolonged acquisition negotiations with two suitors in order to gain time to establish their firm in the market. Midway used acquisitions to buy stepping stone rivals and gain control of patents that forced large competitors to take the slower path of creating new technology in-house.

Overall, by examining entrepreneurial firms in nascent markets, we attempt to contribute a reinvigorated view of power. This view recognizes the interplay of ambiguity and uncertainty for the exercise of power and a repertoire of mechanisms (e.g., identity, alliances, and acquisitions) to wield power that are often used for other purposes. Significantly, we spotlight the tactics of low power organizations such as exploiting opponent tendencies, illusion, and timing in their exercise of power.

We also offer a reminder of the relevance of power. While much research emphasizes the relationship of social embeddedness to entrepreneurial outcomes, we draw attention to the often forgotten exercise of power.

Generalizeability and Normative Implications

A key consideration is the generalizeability of the findings. Since our empirical focus is entrepreneurial firms in nascent markets, our theoretical frame most appropriately generalizes to these contexts. However, the data suggest that the key environmental condition for these processes to be effective is the presence of high levels of ambiguity. Thus, our findings may generalize to established markets that suffer major shocks (caused by technology, regulation, or demand shifts) that disrupt the established structure and create ambiguity. These settings can become fertile ground for entrepreneurs to attempt to construct a new market space, either through a new venture or within existing firms. Examining the conditions of applicability of this framework is a useful avenue for future research.

Finally, does this framework suggest normative implications? As we note earlier, in order to study organizational boundaries over time, we necessarily selected surviving firms. Thus, our inducted theoretical framework is most appropriately descriptive. However, it is also true that our focal firms survived and thrived relative to many ventures. Thus, although we cannot rule out that mediocre and even failed firms engaged in the same practices as our focal firms, the actions of our focal firms may be consistent with success. In addition, variation among our firms is also suggestive of normative implications. That is, the firms took varied approaches to organizing their boundaries. Some approaches were clearly successful, such as Magic's use of templates, stories and leadership behaviors to become the cognitive referent in a distinct market, Secret's alliances with large firms that eliminated competition, and Midway's purchase of entrepreneurial rivals to build market share. Others approaches were clearly mistakes. For example, Magic executives stumbled in demarcating and controlling the market by ignoring the established players. As a result, although they became the cognitive referent, they faced significant competition, price wars, losses, and reduced market share. Perhaps more compelling, some executives reversed course and improved. For example, Saturn executives initially erred by ignoring acquisitions. But when they realized that they were making market entry too easy for established firms, they began to make acquisitions and so re-established their market share. Therefore, although further research using large-scale, representative samples is clearly required to validate normative implications, our descriptive findings are possibly related to superior performance.

CONCLUSION

We began by observing that organizational boundaries are a fundamental issue in organization and strategy research. Yet, while this issue is addressed by multiple theories, most research assumes existing markets and established firms. In contrast, we inductively examine multiple boundary choices in entrepreneurial firms and nascent markets. Our primary contribution is an emergent theoretical framework that consists of three processes by which entrepreneurs co-create the boundaries of their firm and market. Taken together, these processes suggest a dynamic and strategic view of boundaries that gives significant agency to entrepreneurial executives. More fundamentally, we attempt to contribute by bringing power back to organizational and strategy research. In recent years, research has centered on topics such as social networks, flexibility, innovation, and learning. In contrast, this study serves as a subtle reminder that strategic action by organizations often rests on considerations of power. By examining a context that is far from the traditional domain of power research (i.e., weak organizations with limited resources in new markets), we offer fresh insights into how executives in low power organizations take advantage of the ambiguity in nascent fields to construct new markets and organize boundaries. In so doing, we hope not only to shed light on the processes by which organizational boundaries and nascent markets are formed, but also to reinvigorate the study of power.

Table 1: DESCRIPTION OF SAMPLE FIRMS AND CASE DATA

Pseudonym	**Harbor**	**Secret**	**Magic**	**Midway**	**Saturn**
Domain	Virtual Marketplace	Digital Services	Online Commerce	Enterprise Software	Networking Hardware
Founding Context	Stumbled into opportunity	Possessed technology looking for opportunity	Focused a diffuse opportunity	Acquired technology to address opportunity	Built technology to address opportunity
Archival Data					
# Audio/Video Sources	4	4	5	4	6
Approx. Int. Sources	1700 pages	1600 pages	1800 pages	1400 pages	1300 pages
Approx. Ext. Sources	1100 pages	800 pages	1400 pages	1000 pages	1000 pages
# of Interviews	11	7	8	13	7
Internal Informants	General Manager Functional Executives	CEO Gen. Manager Functional Executives VC	General Manager Functional Executives	CEO / Founder Gen. Manager Functional Executives	CEO Founder Functional Executives VC
External Informants	Industry Expert Competitor Ex-employee Partner	Industry Expert Partner	Industry Expert Competitor Ex-employee	Industry Expert Competitor Ex-employee	Industry Expert Competitor Partner

Note: All firms are public and were founded between late 1994 and mid 1995 in the US.

Table 2: CLAIMING THE MARKET

Rating in use of Identity mechanisms*		Identity Mechanisms: Adopt Templates	Identity Mechanisms: Signal Leadership	Identity Mechanisms: Disseminate Stories	Result**
	Definition	Use of unique cognitive models from other areas, together with values, practices and vocabulary	Concrete actions that convey superior expertise and/or market dominance	Spreading of symbolic narratives about the company and/or market (fictitious or real)	Measure: cognitive referent in distinct market (three years after founding) Source: media reports and external informants
	Rationale	Sensegiving to help internal and external actors understand the venture	Create legitimacy in the eyes of internal and external actors	Raise awareness of firm, reinforce its identity, convey its relationship to concrete user needs	
Magic	++++++	++ Adopted " shopping" template in online world with related vocabulary and "customer-centric" values	++ Offered the "widest choice on the globe" Massive advertising using opinion leaders focused on "customer centric" experience	++ Disseminated stories about founder's obsessive dedication to customers Publicized "customer-centric" stories about corporate frugality	**Cognitive referent** **Distinct market** "*Magic* has become the default name when you think of buying on the Net"
Secret	++++++	++ Adopted "trusted services" template and vocabulary, Added "public utility" template	++ Defined and disseminated legal framework of "certification best practices"	++ Organized unusual ceremonies w/armed guards and bunker facilities to attract the media	**Cognitive referent** **Distinct market** "The market [analysts and customers] … established ***Secret*** as leading authority for certifying Web server encryption keys. "
Harbor	++++	++ Adopted "community" template, vocabulary, and related social values	+ Aggressive use of litigation against would-be rivals	+ Widely publicized (and false) romantic story about founder	**Not cognitive referent** **Distinct market** "The consumer-to-consumer online auction model is a new niche that *Harbor* was able to foster"
Midway	+++	+ Adopted template of "operating system" for the Internet	+ Acquired several high-profile firms	+ Created new category of end-users: E-generation	**Not cognitive referent** **Distinct market** "The company has carved out a marketplace that has proven crucial to computing"
Saturn	++	Did not adopt a template	+ Kept technology secret. Belatedly secured three flagship clients	+ Created "theory" to justify new market but it was neither widely disseminated nor memorable	**Not cognitive referent** **Not distinct market** "*Saturn* is widely perceived as a threat to *Leader*'s hold on the [existing] networking market"

* To rate the use of identity mechanisms, we assigned each firm a score of "+" for use of a particular mechanism. We assigned "++" if entrepreneurs were particularly early and proactive in using this mechanism.

** We measured cognitive referent by whether the firm was used in the media as the market reference. We measured distinct market by whether market was described in the media as unique and independent of related markets.

Table 3: DEMARCATING THE MARKET

Rating in use of Co-opting Alliance mechanisms*		**Co-optation Alliance Mechanisms**			**Result****
		Equity Investment	**Revenue Sharing Agreement**	**Anti-Leader Positioning**	Measure: Level of competition in market (four years after founding) Source: External archival sources
	Definition	Sale of equity to established players in nearby markets	Contract that gives payments to players in nearby markets for advertising, supply or distribution	Agree to be the main adversary of the dominant established firm in a nearby market	
	Rationale	Deter entry via giving indirect participation in success of firm	Deter entry via giving direct participation in success of firm	Deter entry of lesser firms by confronting leading firm for them	
Secret	++++	++ Round of financing with 10 key potential entrants. Structured industry roles.	++ Co-opted largest player in nearby market. Created affiliates program for potential carrier entrants.		**Low competition** Five major companies became partners. No market entry by established players. *"Secret has little direct competition"*
Saturn	++++	++ Round of financing with 5 potential entrants. Did not approach leader.	+ Co-opted 3 major players with distribution agreements.	+ Attracted 5 of the major competitors of the industry leader.	**Medium Competition** One player co-opted long-term, others delayed entry. Leader entered. *"The market is now a two horse race"*
Harbor	++		++ Approached 3 of the largest players in nearby markets. Co-opted largest with advertising deal, delayed others.		**High Competition** One major player co-opted long-term. Others delayed, then entered. *"Competitive intensity between the companies is rising dramatically"*
Midway	++		+ Co-opted 2 major players with distribution contracts. Only delayed them because gave no major concessions.	+ Attracted lesser firms with goal of diluting power of the leading player.	**High Competition** Gained early lead. Then tough competition from established players. *"The company is facing brutal competition from larger, more established adversaries"*
Magic	+	Did not approach established players. Arrogant when approached by them.	+ Created affiliates program to co-opt entrepreneurial players in nearby markets.		**Highest Competition** Powerful players entered. Faced intense price wars and losses. *"In the midst of a furious battle between Magic and competitor for hegemony"*

* To rate use of co-opting alliances we assigned firms a "+" for each mechanism used and "++" if firm used the mechanism early and proactively

** We measured *level of competition* by the strength of rivalry in the market, assigning low to no significant competition, medium to a duopoly, high to an oligopoly, and highest to an oligopoly in which the focal firm was forced into strong price wars.

Table 4: CONTROLLING THE MARKET

Rating in use of Controlling Acquisitions*		**Controlling Acquisitions**			**Result****
		Elimination of Competing Models	**Entry Blocking**	**Increased Coverage**	
Definition		Acquisition of rival firm that threatens due to different or superior business model or resources	Acquisition of rival firm to remove a stepping stone entry point for powerful potential entrants	Acquisition of rival firm to gain presence in new areas of the market (e.g., new geographies, new customer types)	Measure: market share (five years after founding) Sources: external archival data
Rationale		Threatening business models or resources closed or combined	Acquired firm closed although fungible resources may be used	Acquired firm carefully integrated to preserve resources/momentum	
Midway	+++++ +	++ 2 acquisitions of ventures w/ competing technology (1 closed, 1 combined) "We could potentially be sideswiped by the emergence of this technology"	++ 1 acquisition to control all patents (closed) "The primary reason was that neither A or B ended up with the technology"	++ 7 acquisitions of distributors worldwide (all partly used) "Suddenly, we had a worldwide presence with people who knew how to sell and service"	Leadership ~ 60% share
Harbor	+++++	++ 1 acquisition of threatening business model (combined) "We could learn as much from them as they could learn from us"	++ 1 acquisition to block entry by acquisitive establish. firms (closed) "The real concern was that a larger Internet company might buy *firm* and use it to launch competing service"	++ 6 acquisitions in both new types of customers and geographies (combined) "We did not integrate immediately because they were growing fast"	Leadership ~ 80% share
Secret	++++	++ 1 acquisition of competing technology (closed) "Their technology did not have the same dependence as ours"		++ 4 acquisitions to add new types of customers (combined) "It was really just to give us a beach head in the enterprise market"	Leadership ~ 80% share
Magic	++	+ 1 small acquisition of threatening business model (closed down and re-launched as new complementary service)	Failed to make a key blocking acquisition that became a stepping stone	+ 2 acquisitions to add geographic coverage "We bought companies because it was a quicker way to get off the ground"	Leadership ~ 30% share
Saturn	++	+ 1 late, very expensive acquisition (combined)	Failed to make key blocking acquisitions that became stepping stones	+ 2 late acquisitions to add new customer types "What we wanted to do was to get a foothold into the cable operators"	2nd Place ~ 20% share

*To rate use of controlling acquisitions we assigned firms "+" for each acquisition type used and "++" if firm used that type early and proactively

** We measured *market share* by % of total sales obtained by the focal firm in the market and leadership by whether the firm had largest share

Table 5: FRAMEWORK FOR CONSTRUCTING MARKETS AND ORGANIZING BOUNDARIES

Processes	**Claiming a Market**	**Demarcating the Market**	**Controlling the Market**
Level of Action	cognitions	relations	resources
Objective	Become cognitive referent in a distinct market	Determine perimeter and define industry structure and roles	Cover entire market and eliminate rivalry
Dominant Logic	Sensegiving	Co-optation	Ownership
Organizational Process /Dynamic Capability	Shaping identity	Developing alliances	Making acquisitions
Mechanisms	Templates Leadership signals Stories	Equity investments Revenue sharing agreements Anti-leader positioning	Elimination of competing models Increased market coverage Block entry of established firms
Sources of Effectiveness	Combine familiarity and novelty Combine legitimacy and uniqueness Reduce ambiguity for others	Identify potential competitors early Give sufficient incentive to keep partners from straying Delay rivals entry if necessary	Stay alert to expanding market Anticipate entrepreneurial firms with most threatening competing models Disguise intentions to close acquired targets
Potential Pitfalls	Too late in creating identity Identity unfamiliar or boring	Under-estimate threat of established firms Provide little incentives to partners Choose wrong partners (small, new ventures)	Too few financial resources to buy Fail to make blocking acquisitions Targets refuse

BIBLIOGRAPHY

Ahuja, G. and R. Katila (2001). "Technological Acquisitions and the Innovation Performance of Acquiring Firms." Strategic Management Journal 15(3): 103-120.

Aldrich, H. E. and C. M. Fiol (1994). "Fools rush in? The institutional context of industry creation." Academy of Management Review 19(4): 645-670.

Anand, J. and H. Singh (1997). "Asset Deployment, Acquisitions and Corporate Strategy in Declining Industries." Strategic Management Journal 18(Summer Special Issue): 99-118.

Baum, J. A. and J. V. Singh (1994). "Organizational Niches and the Dynamics of Organizational Founding." Organization Science 5(4): 483-501.

Baum, J. C., T. Calabrese, et al. (2000). "Don't go it Alone: Alliance Network Composition and Startups' Performance in Canadian Biotechnology." Strategic Management Journal 21: 267-294.

Brusoni, S., A. Prencipe, et al. (2001). "Knowledge Specialization, Organizational Coupling, and the Boundaries of the Firm: Why do Firms Know More Than They Make?" Administrative Science Quarterly 46: 597-621.

Burton, M. D. and C. M. Beckman (2005). "Leaving a Legacy: Role Imprints and Succession Turn-over in Young Firms." Working Paper.

Capron, L., P. Dussauge, et al. (1998). "Resource redeployment following horizontal acquisitions in Europe and North America, 1988-1992." Strategic Management Journal 19(7): 631.

Chatain, O. and L. Capron (2005). "Acting upon Competitors' Resources through Strategic Actions in Factor and Political Markets." Working Paper: INSEAD.

Chatterjee, S. and B. Wernerfelt (1991). "The Link Between Resources and Type of Diversification." Strategic Management Journal 12(1): 33-48.

Christensen, C. M. and M. E. Raynor (2003). "The Innovator's Solution: Creating and Sustaining Successful Growth." Harvard Business School Press Books.

Corley, K. G. and D. A. Gioia (2004). "Identity Ambiguity and Change in the Wake of a Corporate Spin-off." Administrative Science Quarterly 49(2): 173.

Dougherty, D. (1990). "Understanding New Markets for New Products." Strategic Management Journal 11: 59-78.

Dutton, J. E. and J. M. Dukerich (1991). "Keeping an Eye on the Mirror: Image and Identity in Organizational Adaptation." Academy of Management Journal 34(3): 517-554.

Dyer, J. H. (1996). "Does Governance Matter: Keiretsu Alliances and Asset Specificity as Sources of Japanese Competitive Advantage." Organization Science 7(6): 649-666.

Dyer, J. H. and H. Singh (1998). "The relational view: Cooperative strategy and sources of interorganizational competitive advantage." Academy of Management Review 23(4): 660-679.

Eisenhardt, K. (1989). "Making Fast Strategic Decisions in High-Velocity Environments." Academy of Management Journal 32(3): 543-576.

Eisenhardt, K. M. (1989). "Building Theories from Case Study Research." Academy of Management Review 14: 532-550.

Eisenhardt, K. M. and C. Bingham (2005). "Disentangling resources from the resource based view: A typology of strategic logics and competitive advantage." Managerial and Decision Economics: Forthcoming.

Eisenhardt, K. M. and C. B. Schoonhoven (1990). "Organizational Growth: Linking founding team, strategy, environment, and growth among U. S. semiconductor ventures." Administrative Science Quarterly 35(3): 504-529.

Eisenhardt, K. M. and C. B. Schoonhoven (1996). "Resource-based view of strategic alliance formation: Strategic and social effects in entrepreneurial firms." Organization Science 7(2): 136-150.

Finkelstein, S. and J. Haleblian (2002). "Understanding Acquisition Performance: The Role of Transfer Effects." Organization Science 13(1): 36.

Gavetti, G. and D. Levinthal (2000). "Looking Forward and Looking Backward: Cognitive and Experiential Search." Administrative Science Quarterly 45: 113-137.

Gilbert, C. (2005). "Change in the Presence of Residual Fit: Can Competing Frames Coexist?" Organization Science: Forthcoming.

Glaser, B. and A. L. Strauss (1967). The Discovery of Grounded Theory: Strategies for Qualitative Research. London, Wiedenfeld and Nicholson.

Golden, B. R. (1992). "The Past Is the Past-or Is It? The Use of Retrospective Accounts as Indicators of Past Strategy." Academy of Management Journal 35(4): 848.

Graebner, M. and K. Eisenhardt (2004). "The other Side of the Story: Seller Decision-making in Entrepreneurial Acquisitions." Working paper.

Graebner, M. E. (2004). "Momentum and Serendipity: How Acquired Leaders Create Value in the Integration of Technology Firms." Strategic Management Journal 25(8/9): 751-777.

Graebner, M. E. and K. M. Eisenhardt (2004). "The Seller's Side of the Story: Acquisition as Courtship and Governance as Syndicate in Entrepreneurial Firms." Administrative Science Quarterly 49(3): 366.

Gulati, R. (1995). "Social Structure and Alliance Formation Patterns: A Longitudinal Analysis." Administrative Science Quarterly 40: 619-652.

Gulati, R. (1998). "Alliances and networks." Strategic Management Journal 19(4): 293-317.

Hargadon, A. B. and Y. Douglas (2001). "When Innovation Meets Institutions: Edison and the Design of the Electric Light." Administrative Science Quarterly 46(3): 476-501.

Harris, S. and R. I. Sutton (1986). "Functions of Parting Ceremonies in Dying Organizations." Academy of Management Journal 29(1): 5-30.

Heath, C., C. Bell, et al. (2001). "Emotional Selection in Memes: The Case of Urban Legends." Journal of Personality & Social Psychology 81(6): 1028-1041.

Helfat, C. E. (1997). "Know-How and Asset Complementarity and Dynamic Capability Accumulation: The Case of R&D." Strategic Management Journal 18(5): 339-360.

Huber, G. P. and D. J. Power (1985). "Retrospective Reports of Strategic-level Managers: Guidelines for Increasing their Accuracy." Strategic Management Journal 6(2): 171.

Jacobides, M. G. (2005). "Industry Change through Vertical Disintegration: How and Why Markets Emerged in Mortgage Banking." Academy of Management Journal 48(3): 465.

Jacobides, M. G. and L. M. Hitt (2005). "Losing Sight of the Forest for the Trees? Productive Capability and Gains from Trade as Drivers of Vertical Scope." Strategic Management Journal 26(Forthcoming).

Kaplan, S. and M. Tripsas (2004). "Thinking about Technology: Understanding the Role of Cognition and Technical Change." Harvard Business School Working Paper Series (No. 04-039).

Karim, S. and W. Mitchell (2000). "Path-Dependent and Path-Breaking Change: Reconfiguring Business Resources Following Acquisitions in the U. S. Medical Sector, 1978-1995." Strategic Management Journal 21(11): 1061-1081.

Kirzner, I. M. (1997). "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach." Journal of Economic Literature 35(1): 60-85.

Kumar, N., L. W. Stern, et al. (1993). "Conducting interorganizational research using key informants." Academy of Management Journal 36(6): 1633.

Larsson, R. and S. Finkelstein (1999). "Integrating Strategic, Organizational, and Human Resource Perspectives on Mergers and Acquisitions: A Case Survey of Synergy Realization." Organization Science: A Journal of the Institute of Management Sciences 10(1): 1.

Lounsbury, M. and M. A. Glynn (2001). "Cultural Entrepreneurship: Stories, Legitimacy, and the Acquisition of Resources." Strategic Management Journal 22(6/7): 545.

Markides, C. and P. A. Gerosky (2005). Fast Second: How Smart Companies Bypass Radical Innovation to Enter and Dominate New Markets. San Francisco, Jossey-Bass.

Miles, M. B. and A. M. Huberman (1994). Qualitative Data Analysis: An Expanded Sourcebook. Thousand Oaks, CA, Sage Publications.

Miller, C. C., L. B. Cardinal, et al. (1997). "Retrospective reports in organizational research: A reexamination of recent evidence." Academy of Management Journal 40(1): 189.

Miller, D. and J. Shamsie (1996). "The Resource-Based View of the Firm in two Environments: The Hollywood Film Studios From 1936 to 1965." Academy of Management Journal 39(3): 519-543.

Nickerson, J. A. and B. S. Silverman (2003). "Why Firms Want to Organize Efficiently and What Keeps Them from Doing So: Inappropriate Governance, Performance, and Adaptation in a Deregulated Industry." Administrative Science Quarterly 48(3): 433-465.

Nisbett, R. and L. Ross (1980). Human Inference: Strategies and Shortcoming of Social Judgment. Englewood Cliffs, NJ, Prentice Hall.

Ozcan, P. and K. M. Eisenhardt (2005). "Start-ups in Nascent Markets: Building a Strong Alliance Portfolio from a Low-Power Position." Working Paper: IESE.

Penrose, E. (1959). The Theory of the Growth of the Firm. Oxford, Basil Blackwell.

Peteraf, M. A. (1993). "The Cornerstones of Competitive Advantage: A Resource-based View." Strategic Management Journal 14: 179-191.

Pfeffer, J. and G. Salancik (1978). The External Control of Organizations: A Resource Dependence Perspective. New York, Harper & Row Publishers.

Porac, J. F., H. Thomas, et al. (1995). "Rivalry and the Industry Model of Scottish Knitwear Producers." Administrative Science Quarterly 40: 203-227.

Porac, J. F., M. J. Ventresca, et al. (2002). Chapter 25: Interorganizational cognition and interpretation. Companion to Organizations. J. C. Baum, Blackwell Publishing: 579-598.

Porter, M. E. (1980). Competitive Strategy. New York, Free Press.

Powell, W. W., K. W. Koput, et al. (1996). "Interorganizational Collaboration and the Locus of Innovation: Networks of Learning in Biotechnology." Administrative Science Quarterly 41: 116-145.

Rao, H. (1994). "The Social Construction of Reputation: Certification Contests, Legitimation, and the Survival of Organizations in the American Automobile Industry: 1895-1912." Strategic Management Journal 15(8): 29.

Rindova, V. and S. Kotha (2001). "Continuous "Morphing": Competing through Dynamic Capabilities, Form and Function." Academy of Management Journal 44(6): 1263-1280.

Rindova, V., T. Pollock, et al. (2005). "Celebrity firms: The social construction of market popularity." Academy of Management Review.

Rindova, V. P. and C. J. Fombrun (2001). Entrepreneurial Action in the Creation of the Specialty Coffee Niche. The Entrepreneurship Dynamic. C. B. Schoonhoven and E. Romanelli. Stanford, CA, Stanford University Press: 236-261.

Santos, F. M. and K. M. Eisenhardt (2005). "Organizational Boundaries and Theories of Organization." Organization Science 16(5): 491-508.

Schoonhoven, C. B. and E. Romanelli (2001). Emergent Themes and the Next Wave of Entrepreneurship Research. The Entrepreneurship Dynamic. C. B. Schoonhoven and E. Romanelli. Stanford, CA, Stanford University Press: 383-408.

Schwenk, C. R. (1985). "The Use of Participant Recollection in the Modeling of Organizational Decision Process." Academy of Management Review 10(3): 496.

Scott, W. R. (2003). Organizations: Rational, Natural and Open Systems. Upper Saddle River, NJ, Prentice Hall.

Selznick, P. (1949). TVA and the Grass Roots. Berkeley, University of California Press.

Sull, D. N. (1999). "The Dynamics of Standing Still: Firestone Tire & Rubber and the Radial Revolution." Business History Review 73(Autumn): 430-464.

Teece, D. J. (1980). "Economics of Scope and the Scope of the Enterprise." Journal of Economic Behavior and Organization 1: 223-247.

Thompson, J. D. (1967). Organizations in Action. New York, McGraw Hill.

Thornton, P. (2002). "The Rise of the Corporation in a Craft Industry: Conflict and Conformity in Institutional Logics." Academy of Management Journal 45(1): 81-101.

Tripsas, M. (1997). "Surviving Radical Technological Change through Dynamic Capability: Evidence form the Typesetter Industry." Industrial and Corporate Change 6(2): 341-377.

Tripsas, M. and G. Gavetti (2000). "Capabilities, Cognition and Inertia: Evidence from Digital Imaging." Strategic Management Journal 21: 1147-1161.

White, H. C. (1981). "Where do Markets come From?" American Journal of Sociology 87(3): 517-547.

Williamson, O. E. (1991). "Comparative Economic Organization: The Analysis of Discrete Structural Alternatives." Administrative Science Quarterly 36(2): 269-296.

Yin, R. K. (1994). Case Study Research - Design and Methods. Thousand Oaks, CA, Sage Publications.

Zald, M. N. (1970). Political economy: A framework for comparative analysis. Power in Organizations. M. N. Zald. Nashville, TN, Vanderbilt University Press.

Zott, C. and Q. Huy (2005). "Symbolic Emphasizing: How Entrepreneurs Use Symbolism to Acquire Resources." Working Paper: INSEAD.