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The Company You Keep: How Young Firms in Different Competitive Contexts Signal Reputation through Their Customers

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This article explores how young firms, across different competitive contexts, signal reputation through their customers. Four distinct competitive contexts were differentiated based on whether the complexity of the customer's purchase process was high or low and whether the product/service was customized or standardized. CEOs of young firms operating in each of the four contexts were interviewed to discern patterns, both within and across contexts, in the reputational signals conferred by customers. Analysis of the interview data yields suggestions for how current theory on the exchange partners of young firms can be refined and extended, as well as propositions related to customer-derived reputation in different competitive contexts.

Introduction

Young firms' relationships with their exchange partners are critical to their survival and growth (Hite & Hesterly, 2001; Larson, 1991; Larson & Starr, 1993; Venkataraman & Van de Ven, 1998; Yli-Renko, Sapienza, & Hay, 2001). These relationships can provide important benefits such as information and capabilities that the firm does not yet possess (Baum, Calabrese, & Silverman, 2000). Additionally, affiliations in and of themselves can be signals of a young firm's reputation. As Stinchcombe (1965) notes, very young organizations typically lack strong commitment from employees and stable relationships with customers and suppliers. Further, their track records are too short to help outsiders evaluate their quality. Outsiders can be expected to question their quality because they have little production experience, and therefore operate with immature and unrefined routines (Stuart, Hoang, & Hybels, 1999). These factors suggest that the market will generally be uncertain about young firms' stability and capabilities. Affiliations with high-status

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exchange partners are valuable for young companies because they signal the endorsement of a reputable, credible organization (Podolny, 1993; Stuart, Hoang, & Hybels, 1999).

Most of the research on how young firms gain reputation through exchange partners has focused on firms in high-technology industries, and, possibly as a consequence, on the venture capitalists and alliance partners that are so important to them. Given the diversity of young firms and the heterogeneity in their growth patterns (Delmar, Davidsson, & Gartner, 2003), such focused attention could limit the extent to which these findings are generalizable to other industries and exchange partners. Since affiliations are signals which reduce uncertainty, we can better understand the limits to the generalizability of previous research by examining young firms across competitive contexts of varying uncertainty. Many industries do not involve venture capitalists or alliance partners, so to compare across competitive contexts, it is useful to examine the exchange partners that most, if not all, young firms have: customers.

Compared with relationships with other types of exchange partners, customer affiliations tend to be more numerous, less discretionary and subject to less prior assessment. Examining how customers signal reputation allows us to study affiliation-based reputational signals across a diverse range of young firms. Addressing this gap in past work is of direct theoretical benefit in that it can broaden our understanding of affiliation-based reputational signaling.

Some entrepreneurship literature does deal with young firms' relationships with their customers (Larson, 1991; Venkataraman, Van de Ven, Buckeye, & Hudson, 1990; Venkataraman & Van de Ven, 1998; Yli-Renko, Autio, & Sapienza, 2001; Yli-Renko, Sapienza, & Hay, 2001). These studies provide valuable insights on how customers affect new companies, but they focus primarily on technology-based firms. They also examine only selected relationships, such as "key customers" (Yli-Renko, Autio, & Sapienza, 2001; Yli-Renko, Sapienza & Hay, 2001), network partners (Larson, 1991) or corporate sponsors (Venkataraman, Van de Ven, Buckeye, & Hudson, 1990), and so our understanding of meanings and roles of different kinds of customer relationships remains limited. Finally, they have not addressed explicitly how reputational signals are derived from customers, which is the focus of this study.

Specifically, the research question addressed in this article is: What are the differences, across competitive contexts, in how young firms signal their reputation to prospective customers through their current customers? Because the objective is to refine and extend existing theory, we use theory-building methodology to analyze semi-structured qualitative interview data collected from CEOs of young firms operating in a variety of industries. The next section of the article outlines previous findings about affiliation-based reputational signals and presents the framework used to differentiate four competitive contexts. The methodology section describes both the sample of respondents from whom data were obtained and the approach used to analyze the data. The findings and discussion section presents the results of data analysis and the propositions it yielded. Implications and conclusions are discussed in the final section.

Literature Review

Deriving Reputation from Exchange Partners

Following Deephouse (2000, p. 1093), we define reputation as "the evaluation of a firm by its stakeholders in terms of their affect, esteem, and knowledge." Reputation is a firm-level resource that, like legitimacy (Suchman, 1995), is socially constructed but objectively held. A firm's reputation is a favorability assessment made by outsiders. It is this external assessment which primarily differentiates reputation from two other closely related socially constructed organizational resources, organizational identity (which is usually defined as what insiders think about their organization (Gioia & Thomas, 1996)) and organizational image (which is usually defined as what insiders believe that outsiders think about it (Dutton, Dukerich, & Harquail, 1994)).

A good reputation contributes to a firm's performance because it attracts and reassures exchange partners (Fombrun & Shanley, 1990; Oliver, 1988). From an economic perspective, the premiums that reputable firms earn induce them to perform reliably and well, to maintain their reputations (Shapiro, 1983). From a sociological perspective, more-reputable actors receive greater rewards than less-reputable actors for identical outcomes (Podolny, 1993). However, it is important to acknowledge that a young firm's reputation will not be the only factor influencing the behavior of exchange partners. A young firm's reputation reflects outsiders' attitudes about it (Fischer & Reuber, 2003). Attitudes are most usefully thought of as predispositions to respond favorably or unfavorably, more directly related to behavioral intentions than to actual behaviors (Ajzen & Fishbein, 1980). Just as other factors besides attitude are expected to influence behavior, factors in addition to reputation are expected to influence exchange decisions involving a young firm.

Outsiders cannot see all of a firm's reputation-building activities when they make reputational assessments (Roberts & Dowling, 2002) and so must rely on signals (Fombrun & Shanley, 1990). Signals can take a wide variety of forms, some of which are under management control, such as pricing and advertising (Nelson, 1974; Weigelt & Camerer, 1988) and some of which are less so, such as media coverage (Deephouse, 2000). Signalling reputation through affiliation with high-status exchange partners is under management control to the extent that management has discretion over which current exchange partners will be identified to prospective exchange partners and other audiences.

The literature suggests that CEOs of young firms will value this affiliation-based signal in order to reduce concerns about its performance. Current and potential stakeholders believe high-status exchange partners have both expertise in due diligence and a desire to avoid affiliation with lower quality firms that could reflect poorly on them (Stuart, Hoang, & Hybels, 1999). Thus, high-status affiliations signal that the young firm has credible, and even high-quality, products and processes (Baum & Oliver, 1991; Oliver, 1990; Lee, Lee, & Pennings, 2001; Podolny 1993, 1994; Yli-Renko, Sapienza & Hay, 2001). Although we could find no studies that explicitly considered the status of new firms' *customers* as a signal, it makes sense to examine the reputational value of customers, since this is one kind of exchange partner nearly all firms will have at, or shortly after, start-up.

Because the objective of this study is to refine and extend extant theory, previous findings are a useful starting point. They highlight four aspects of how reputation is developed through signals associated with exchange partners. First, previous work suggests that the average status across *all* affiliates is relevant in signaling quality (Podolny 1993, 1994; Stuart, Hoang, & Hybels, 1999). These results stem from studies of exchange partners that can be seen and counted by outsiders, such as strategic alliances. The extent to which these findings generalize to customers is questionable, particularly in the case of firms with a large customer base, because many customers will not be visible to the market. It is therefore possible that customer-based reputational signals will involve selective disclosure of only a few customers with high status.

Second, previous work also indicates that assessments of firms have a dual foundation in both exchange partner status and demonstrations of high quality (Podolny, 1993). This raises the question of whether demonstrated quality and high-status affiliations are substitutes: whether one can compensate for a lack of the other. In sectors with a long lead time for product development and/or an industry structure where inter-firm collaborations are common, such as biotechnology, the status of a young firm's exchange partners may be the primary reputational signal (Stuart, Hoang, & Hybels, 1999). However, even for young firms, these two types of signals might substitute for each other in other types of industries. In sectors without a lengthy product development process, companies may be able to place products in many different customer sites within a year or two of start-up, and a record of demonstrated quality might substitute for high-status customers. Thus, it is worthwhile to examine the comparative value of these reputational signals across competitive contexts.

A third relevant finding from prior research relates to the domain of endorsement. A young firm's affiliation with an exchange partner need not necessarily affect outsiders' perceptions of all of its activities. Rather, affiliations may signal reputation in particular domains of endorsement, those areas in which high-status affiliates are perceived to have expertise (Goode, 1978; Stuart, Hoang, & Hybels, 1999). A customer known to be technologically advanced may be perceived as better able to judge a young firm's technology than a customer seen as having little such expertise. This is consistent with findings that different types of alliance partners provide different kinds of signals about, and resources to, a young firm (Baum, Calabrese, & Silverman, 2000).

Finally, and related, a young firm's affiliation with an exchange partner need not send the same reputational signal to all audiences (cf. Ager & Piskorski, 2000). Different aspects of a firm are likely to interest different groups of outsiders (Fombrun & Shanley, 1990; Freeman, 1984; Rao, 1994) and so it is expected that not every audience cares about a particular affiliation signal or finds it persuasive. Furthermore, audiences and sectors are likely to vary considerably in how they interpret affiliations. For example, investors in general and customers in highly connected networks, such as in the biotechnology industry, are likely to have a greater shared understanding of the meaning associated with different customer affiliations than buyers who are not familiar with each other. Thus, the value of particular customer-related reputational signals might vary across audiences.

This review of the literature on how young firms derive reputation from exchange partners provides the foundation for the study presented below. In addition to a grounding in the prior literature, the study requires a framework for differentiating among competitive contexts. The framework adopted is described next.

Differentiating Competitive Contexts

In distinguishing among the different competitive contexts in which young firms operate, we draw on the framework of Storper and Salais (1997), who argue that producers and consumers operate within distinctive logics of action (Bacharach, Bamberger, & Sonnenstuhl, 1996). Logics of action are collective action frames, shared by members of groups in specific social and economic settings, which invigorate behavior (Benford & Snow, 2000; Goffman, 1974; DiMaggio, 1994). They are the largely taken-for-granted understandings about what links means to ends, and entail sociological, cultural and economic components (DiMaggio, 1994). The action frames of managers have been shown to influence a wide variety of strategies and behaviors (Bacharach, Bamberger, & Sonnenstuhl, 1996; Dutton & Duncan, 1987; Gioa & Thomas, 1996).

We selected the Storper and Salais framework for three reasons. First, its emphasis on differentiating the logics of action among competitive contexts is consistent with our focus on managerial understandings of customer-based reputational signals. Second, the dimensions on which it differentiates competitive contexts are relevant to producer-customer relationships. Finally, and most importantly, given the theoretical arguments that affiliation-based reputational signals reduce the uncertainties associated with young firms, we wanted to use a framework that differentiates the nature of uncertainty among different competitive contexts.

A central idea in Storper and Salais' work is that the nature of uncertainty in given product-markets will lead actors within them to share certain logics of action (1997). Product-markets can be classified along two dimensions. The first is the customization of the product/service: the extent to which the product-market serves customized vs. standardized needs. For example, a consulting firm and a job shop would be classified as serving customized needs, with offerings tailored to individual customers, while a courier service and a software producer would be classified as serving standardized needs, with the needs of large numbers of customers defined in a similar way. The distinction is not always clear-cut. A firm offering cleaning services could offer standard packages, but be willing to customize them for a large national client. In classifying the firms participating in this study on this dimension, we maintained consistency with the logics of action perspective, and categorized them based on the CEO's perceptions of whether they primarily offered customized or standardized products/services.

The second dimension is the complexity of the product/service purchase process.[1] It is similar to the construct of "decision structure" used in the management information systems literature (Gorry & Scott Morton, 1971). Purchase processes are more complex when they are non-routine, when multiple decision makers are involved, when the cost is high, and when requirements are difficult to specify in advance or are likely to change with technology. For example, purchasing an intranet or a sales force training program is high in complexity, while purchasing an assembly function or printing services is lower in complexity. Again, we used CEOs' perceptions to classify the firms participating in this study if purchase complexity varied among a firm's product/service offerings.

These two dimensions are combined to form a matrix differentiating four competitive contexts, as shown in Figure 1. The nature of uncertainty faced by a young firm, and the corresponding basis of competition, is different in each context. Starting with Cell A, the top left-hand cell of the matrix in Figure 1, firms offer complex products and services to satisfy standard, or generic, customer needs. Here innovation is the basis of competition because the greatest uncertainty surrounds the development of new and generic product/service qualities. Examples include firms developing wireless or biological technologies. Moving to Cell B, the bottom left-hand cell of the matrix, customized and complex exchanges create dependency between parties and the need for coordination (Jones, Hesterly & Borgatti, 1997; Storper & Salais, 1997), and so firms compete on the basis of personal relationships and flexibility. Examples include consulting firms and large-scale service providers.

On the right-hand side of the matrix, the purchase processes are less complex. In Cell C, at the lower right, are firms that offer customized products or services. The low level

1. This second dimension differs somewhat from the second dimension identified by Storper and Salais (1997). Their second dimension emphasizes the nature of production inputs, given their focus on production. Here, where the focus is on customers, there is greater conceptual consistency in classifying firms on an equivalent customer-related attribute.

Figure 1

The Four Competitive Contexts and Sample Description

Customization of Product/Service Offering	***Complexity of Customer Purchase Process*** *High complexity of purchase*	 *Low complexity of purchase*
Standardized offering	***A: High Purchase Complexity / Standardized Offering*** Number of firms: 8 Product firms: 3 Combined product & service: 5 Average age: 6 years Average size: 188 employees Average annual sales: $9.7 million	***D: Low Purchase Complexity / Standardized Offering*** Number of firms: 9 Service firms: 1 Product firms: 3 Combined product & service: 5 Average age: 7 years Average size: 63 employees Average annual sales: $9.7 million
Customized offering	***B: High Purchase Complexity / Customized Offering*** Number of firms: 6 Service firms: 2 Combined product & service: 4 Average age: 7 years Average size: 81 employees Average annual sales: $12.8 million	***C: Low Purchase Complexity / Customized Offering*** Number of firms: 4 Product firms: 1 Combined product & service: 3 Average age: 9 years Average size: 36 employees Average annual sales: $4.3 million

of complexity is often a result of process standardization, with requirements expressed in terms of industrial standards. Firms compete on the basis of price, but also on how well they reduce output uncertainty by adhering to standards such as response times and measurable indicators of quality. Examples include manufacturers of industrial components and special-purpose equipment. Finally, in Cell D, at the top right of Figure 1, are firms that offer standardized products or services and a purchase of low complexity. This makes differentiation particularly difficult. Competition is largely price-based and firms need to guard against imitation. Manufacturers of industrial footwear and dot com recruiting agencies fall into this competitive context.

Methodology

We used a theory-building methodology to study variations in how young firms derive reputation from customers because it is ideally suited to elaborating, extending and refining theory from the existing literature (Glaser & Strauss, 1967; Strauss, 1987; Strauss & Corbin, 1998). This research approach both builds on the past literature, and provides contextually grounded new insights that can generate theory amenable to subsequent testing. The approach seemed particularly appropriate given that earlier work on emerging companies and their relationships with exchange partners can help researchers generate relevant theoretical concepts, but has not yet examined how customers provide reputational signals in diverse contexts.

Sample and Data Collection

The sample included 27 firms, identified primarily in cooperation with a government agency that has, for several years, been amassing a database of the high-growth ventures in its region. To be included in the data base, firms needed sales growth of more than 50 percent per annum for at least three consecutive years, meaning that they had been operating for at least four years. Three additional firms that were younger but rapidly growing were identified through media sources and personal networks. We focused on high-growth firms because their acknowledged success had given them strong reputations among multiple audiences. We believed that their CEOs could understand and articulate how they signaled reputation better than CEOs of firms with weaker reputations.

Consistent with prior research on customer relationships in new firms (Yli-Renko, Sapienza, & Hay, 2001), companies invited to participate in this study were no more than ten years old. For the sample to span diverse competitive contexts, information in the data base was used to identify firms from a wide range of industry settings. Figure 1 describes, within each of the four competitive contexts, the firms of the CEOs who agreed to be interviewed. Figure 1 shows that both products and services represented a significant share of revenue for 17 of the 27 firms. Of the remaining ten, seven were predominantly product-based and three service-based. Out of the 27 firms, 25 were purely B2B and while the remaining two firms (both in Cell D) were both B2B and B2C, most of their revenue came from the B2B side. All the companies' headquarters were within a three hour drive of Toronto, Canada, and the interviews were done during the spring and summer of 2001.

The CEOs were contacted by fax, with a follow-up phone call within 48 hours. They were told the general purpose of the study (to understand the roles of customers in growing firms) and asked to give a one- to two-hour interview at their office. During the interview, a member of the research team asked questions about the firm's business, its history, and past and current customers.

The interview guide was developed through a series of preliminary interviews with a convenience sample of six founders of young firms. Analysis of the data collected at this preliminary phase led to the creation of a three page interview guide containing general "grand tour" questions and "prompts" under each general heading (cf. McCracken, 1988). For example, an opening, nondirective question in the interview guide was: What kinds of customers in what market segments do you serve? This allowed respondents to express their understandings in their own terms, reflecting their own logics of action. However, to ensure coverage of concepts the literature suggests might be relevant but that a respondent had not introduced, the interview guide had planned prompts associated with this question, such as questions about pricing, customization and repeat purchases. If a respondent had not mentioned one of the prompt concepts, the interviewer would ask about it before moving on. The authors and a research assistant conducted the interviews. All were tape-recorded and transcribed, producing more than 500 single-spaced pages of data.

Data Analysis

Data analysis began as soon as transcripts from the first few interviews were available. Data analysis and data collection were iterative: findings from initial data led to the inclusion of new prompts in the interview guide for later sessions, so that emerging ideas could be pursued. Data collection continued to the point of theoretical saturation, meaning that concepts and dimensions identified at an early stage of the analysis had been explored in multiple interviews, and that no new concepts surfaced in analysis of later transcripts.

Our approach to data analysis involved coding the data to identify concepts related to the phenomena of interest, identifying properties or dimensions of concepts and subcategories of concepts that give them clarification and specification. Coding is a dynamic, fluid and iterative process that begins with categorization of data and returns repeatedly to re-classify data as new concepts and dimensions are identified. A goal is to ensure that concepts are grounded in the data, but also that they resonate with relevant prior literature (cf. Eisenhardt, 1989). Thus concepts and dimensions that arise from the literature form a framework that can facilitate, but does not constrain, data analysis. That is, using this methodology, categories and concepts can emerge from the data through inductive analysis, not just from previous research.

To ensure the quality of this data analysis, a multi-person team collected and interpreted the data. The process of classifying portions of the text, of identifying concepts, and of refining concepts and dimensions, involved debate between team members and repeated revisions. Also, versions of the analysis were shared with practitioners who have experience as CEOs of young firms and their feedback was incorporated into revisions. Comments were sought from colleagues knowledgeable in the fields of marketing and entrepreneurship. As is true in any research, these three steps by no means ensure that the analyses are an unbiased representation of the logics of action in different competitive contexts; they can only help to reduce the chance that biases go unchallenged. The findings from this process are described below.

Findings and Discussion

As prior research suggests, CEOs of young firms in all four competitive contexts believed that their current customers were valuable reputational signals to prospective customers. However, across the four competitive contexts there were underlying differences in what types of signals were perceived as most valuable. Only CEOs operating in a context that was high in purchase complexity and low in customization perceived that the mere name of a high-status (large, internationally recognized) customer was the most important reputational signal. CEOs in a complex, customized context valued customer status in a similar way, but, perhaps because of the uncertainties inherent in customization, perceived both a customer's name and their effective use of the product/service offering as important. For CEOs in contexts with purchase processes of lower complexity, customer status in this sense held less relevance. These CEOs were more concerned with having larger numbers of "representative" customers in specific domains to provide reputational signals.

Table 1 shows that this underlying difference was related to different assumptions among the competitive contexts about how customers imitate each other in the suppliers they consider. Haunschild and Miner (1997) differentiate between trait-based, outcome-based and frequency-based imitation, and state that some organizations may use a combination of imitation modes. Trait-based imitators follow organizations with a particular characteristic, such as high status. Outcome-based imitators follow firms that have successful practices, and frequency-based imitators follow large numbers of organizations. The CEOs' responses indicated systematic variation among the four competitive contexts in their assumptions about which imitation modes their customers used.

Further, Figure 1 shows that the underlying difference among the cells with respect to the importance and sufficiency of customer status was also associated with differences in CEO perceptions of effective reputational signaling. Specifically, perceptions varied about the four aspects of affiliation-based reputation signaling found in prior research: the importance of the average status of a customer base in signaling reputation; the

Table 1

Differences in Building Reputation through Customers across Different Competitive Contexts

CEO Perceptions of Reputational Signaling Through Customer Affiliation	A: High Purchase Complexity and Standardized Offering	B: High Purchase Complexity and Customized Offering	C: Low Purchase Complexity and Customized Offering	D: Low Purchase Complexity and Standardized Offering
How relevant is customer status?	Very relevant. A high-status customer is large, established and internationally recognized by name.	Very relevant. A high-status customer is large, established and internationally recognized by name.	Of little relevance. Names of high-status customers are often withheld.	Of little relevance. Customer recognizability and comparability are relevant.
On what bases do customers imitate each other in the customers they consider?	Trait-based imitation	Trait-based and outcome-based imitation	Frequency-based and outcome-based imitation	Frequency-based imitation
What kind of customer base is necessary to signal the desired reputation of the firm?	Having several high-status customers. The average status of the customer base is of little relevance to CEOs.	Having several high-status customers. The average status of the customer base is of little relevance to CEOs.	Having large numbers of satisfied customers. The average status of the customer base is of less relevance to CEOs than having relevant, representative customers in different market niches.	Having large numbers of customers who are recognizable and comparable, within different market niches. The average status of the customer base is of less relevance to CEOs than having relevant, representative customers in different market niches. Customers who might detract from reputation are salient.
To what extent do firms rely on customer status vs. demonstrated output in signaling reputation?	High-status customers are the most important signal of reputation.	High-status customers alone are not sufficient. The firm also needs to demonstrate that high-status customers obtain positive outcomes from the firm's products or services.	Demonstrations of previous work completed for comparable customers are the most important signals of reputation.	Customers that are recognizable and comparable provide the most important signals of reputation.
To what extent are customers thought to signal reputation in specific domains of endorsement?	There is no evidence that signals are domain specific.	High-status customers signal reputation only in domains where they have used the firm's product/services offerings effectively.	Reputation is signaled through demonstrated work, which is relevant to specific domains.	Customers signal reputation in the domain of the price/value ratio of the firm's product/service offerings.
To what extent are customers thought to signal reputation to specific audiences?	There is no evidence that signals are audience specific, except in the case of foreign markets.	High-status customers signal reputation only to audiences consisting of similar or comparable firms.	Customers signal reputation only to audiences consisting of similar or comparable firms.	Customers signal reputation only to audiences consisting of similar or comparable firms.

reliance on demonstrated outputs vs. customer status to signal reputation; the extent to which customers convey reputational signals in particular domains; and the extent to which customers convey reputational signals to particular audiences. These differences and their implications are discussed below. After the discussion of the four competitive contexts are propositions summarizing the findings.

High Purchase Complexity / Standardized Offering (Cell A)

In this competitive context, innovation is the basis of competition, and the greatest uncertainty surrounds the development of new and generic product/service qualities. Firms in this context operate in the technology-based, venture capital backed sectors that were emphasized in previous research on affiliation-based reputation signals. Analyzing the responses of CEOs in this cell both confirms and extends prior research on how young firms can develop reputations through exchange partners. Consistent with earlier findings, CEOs perceived that having high-status customers made their firm more attractive in the market. This perception was based on the assumption that customers imitated high-status organizations (cf. Haunschild & Miner, 1997) in the suppliers they consider. Consistent with Stuart, Hoang, and Hybel's assertion that in such a competitive context affiliations may be the primary reputational signal available (1999), there was no evidence that the CEOs perceived alternative signals, such as demonstrated output quality, to be as effective. CEOs saw high-status customers as proving the overall worth of their firm; there was no evidence that they saw them as signaling reputation in only particular domains of endorsement. Likewise, there was no evidence that they saw high-status customers as signaling reputation differently to different audiences, except in foreign markets, where CEOs felt that prospective buyers paid particular attention to a high-status customer in their own market.

Extending previous literature, the CEOs articulated an ancillary benefit from reputational signals based on high-status customers: the ability to be more selective with future exchange partners. It is interesting that in exercising this selectivity, the CEOs emphasized the functional benefits of potential customers, rather than their status. This suggests that the average status of the firm's customer base was less important than affiliation with several high-status customers who would confer sufficient reputational favorability to allow choices. Evidence for these conclusions is now presented.

The definition of a "high-status" customer as a large, well-established and internationally recognized organization is reflected in one CEO's answer when asked if any customer characteristics were relevant in signaling his firm's reputation: "*If the customer is credible—I mean big, big in terms of making money—you know that's the strongest*." This definition of status also underlies a second CEO's response: "*We are fortunate in that we've been able to bring in companies that have very well known brands. So that's huge, the value of a brand is just ginormous.*"

Consistent with the literature on affiliation-based status, CEOs believed the reputational signal sent by affiliation with a high-status customer enabled young firms to obtain other high-status affiliations. One CEO called it "*the ticket to the ball game*": once the young firm had a relationship with one high-status customer, it was seen as more credible and so other high-status customers were more likely to be attracted. According to one CEO: "*We're working with Company A and it's a joint venture. It's a small company. They may have two hundred employees, but all of the staff are on loan from [Company B—a globally recognized company] and [Company C—also well-known] so it has a huge pedigree to it. . . . Instantly we get the market's attention.*" Another CEO stated simply, "*[Customer B] probably would not have talked to us if we weren't selling to [Customer*

A]." Thus, the CEOs' logic of action was that customers used trait-based imitation (cf. Haunschild & Miner, 1997) in the suppliers they considered. Because the greatest uncertainties relate to the potential of new technology and standards, prospective customers are seen as following high-status peers who have the resources and capabilities to make good decisions.

The "*ticket to the ball game*" metaphor succinctly captures the broad nature of the reputation that high-status customers were believed to confer. Affiliation-based signals were seen as relating to the young firm as a whole, rather than to its individual aspects, such as technology, R&D capabilities, or management. They were also seen as relating to the outside world as a whole, rather than to a specific audience, perhaps because in this context the players tended to know of each other. The only case in which customers were thought to provide an audience-specific signal was that of foreign markets, in which the young firm would be less known to foreign customers, and linguistic and cultural barriers were likely to increase the uncertainty of the purchase process. Having a high-status customer in a foreign market was seen as a more specific and valuable reputational signal than having customers of equal, or even higher, status closer to home. For example, one CEO described his firm's entry into a distant market: "*[Customer A] was our first customer in Korea. . . . It ends up that [Customer A] was a calling card in Korea in terms of potential reps and distributors that already have [Customer A] as a customer. . . . They're chasing me around*."

The words "*they're chasing me around*," reflects the finding that CEOs in this competitive context felt it necessary to select among customers strategically. They believed that having large, well-established and brand name customers provided access to other players, but that a second order issue was choosing them. When they assessed the characteristics of customers, high status was seen as a necessary, but not a sufficient, characteristic of a customer base. The CEOs of the young firms realized that they could not afford customers that would not take them where they wanted to go. One CEO, when assessing potential customers, asked them "*How can we go to market together? How can we take what you do and what we do, bundle, and attack a segment of the market*?" The CEO who said that "*value of a brand is ginormous*," went on to say that he looked for "*companies that have got large customer bases where they want to add more products to their offerings to those customers to keep those customers locked in. As well, companies that are feverish about getting to market quickly in the web space, so these are companies that would be very very likely to have a strong business plan to move into the web space*." Thus, CEOs felt that they needed to be selective in developing a customer base, and having high-status customer affiliations could make a young firm attractive enough to be in a position to do so.

High Purchase Complexity / Customized Offering (Cell B)

In this second competitive context, customized and complex exchanges create dependency between parties and the need for coordination (Jones, Hesterly, & Borgatti, 1997; Storper & Salais, 1997), and so firms compete on the basis of personal relationships and flexibility. Although the nature of competition differs from that of the previous context, the CEOs here perceived customer status to be equally important in signaling reputation. They saw prospective customers as facing the uncertainty of a complex purchase process and relying on high-status customers for guidance. Thus, prospective customers were assumed to use trait-based imitation (cf. Haunschild & Miner, 1997) in the suppliers they considered.

However, unlike in the previous context, the firms in this cell operate in a customized product-market, which involves additional uncertainty about how effectively a young firm can manage the process of customizing product/service offerings. Accordingly, these CEOs perceived an additional reputational signal as being necessary. Not only did they rely on the power of high-status customers' names, they asked high-status customers to provide tangible evidence that they could provide high quality output. Thus, they assumed that prospective customers used outcome-based imitation as well as trait-based imitation (cf. Haunschild & Miner, 1997).

The belief that two types of customer-related signals are critical to reputation-building underlies perceptions about the four aspects of affiliation-based reputation transfer found in earlier work and discussed in the literature review. There was no evidence that the average status of the customer base was a relevant signal; instead, the CEOs perceived that they needed several high-status customers with demonstrably positive outcomes. Accordingly, the CEOs believed that the reputations of their firms were based on both affiliations and proven output quality. Additionally, in emphasizing the importance of demonstrable results as a reputational signal, the CEOs perceived reputational signals to be both domain- and audience-specific. Evidence for these conclusions is now presented.

The perception that both affiliations and a demonstrated track record are important in signaling reputation is reflected in a CEO's response, when asked how he targeted his first customers: ". . . *it was important to us that we had companies whose names were recognized by others. [Company A], for example, every Canadian knows. If we were going to use such and such a company as a case study or testimonial there had to be credibility and some meaning . . . We wanted people who would act as champions for us. And who we felt had credibility and respect.*" Not only did he want his first customers to be broadly recognized and respected, he also planned to use the outcomes from work with them as signals to future customers. The importance of customer status is the same as in the previous context, but with an additional emphasis on the need to show positive results.

The CEOs discussed three types of track record signals: word-of-mouth, product/service demonstrations, and formal testimonials. Word-of-mouth refers to informal communications regarding the company's products or services within the customer's social networks (Brown & Reingen, 1987; Goldenberg, 2001). When peers are regarded as trustworthy and credible, existing customers function as opinion leaders (Arndt, 1967; Rogers, 1995), influencing prospective buyers to have favorable beliefs and attitudes (Herr, Kardes, & Kim, 1991). As one CEO put it: "*They can pick up the phone, they all belong to associations . . . They don't mind sharing information about [Process A]. They might not want to share new products with each other, or where they are opening up the next store, but they're always picking each other's brains on how to save money.*" Here, the CEO's focus was on leveraging the relationships among major players in an industry. It was not just the customer name that he thought carried weight. It was also the customer's description of how the young firm's services had resulted in cost savings. At start-up, another CEO targeted particular individuals within high-status organizations to maximize the value of word-of-mouth referrals: individuals who "*belonged to networking groups and associations, and had the business acumen to grasp the value of what we were selling almost immediately.*"

When customers showed completed work to prospective customers, they provided a track record signal in the form of a product demonstration. Demonstrations provide direct experience with the company's offerings, which has been shown to be highly influential in forming favorable attitudes (e.g., Singh, Balasubramanian, & Chakraborty, 2000). For example, one CEO described the process leading up to a major contract: "*When we were marketing to [Customer B] we asked [Customer A] whether they would allow [Customer B] in to see. We had done a facility for [Customer A], so [Customer A] invited those people and gave them the red carpet treatment on our behalf, and it's one of the reasons why we got the [Customer B] job. Well, it's one of the reasons why they started to like us."* Both customers are internationally recognizable. However, the signal of having Customer A in itself was not a sufficient reputational signal to attract Customer B. It was also necessary for Customer B to inspect the facility the young firm built.

The third, and most common, way to signal a track record was to ask for a formal, written testimonial to use in promotional material. When promotional material contains endorsements from product users, the perceived quality of the advertiser is increased (Dean & Biswas, 2001). In starting a (now successful) new product line involving training services, one CEO made up a list of individuals within high profile potential customer organizations and offered them free three-day training sessions, bluntly explaining the rationale to them as follows: "*What we want out of it is a win-win. We would like to use your testimonials and use you as a case study to help us grow our business*." Another CEO, believing that his customers were concerned primarily with cost savings, explained what he regarded as the value to potential customers of a testimonial from a brand name firm: "*If a company the size of [Customer A] is utilizing these people, I'm sure they have done due diligence. I'm sure these people can provide the results that they are saying they will provide.*" Note, again, that the signal here includes not only having a particular high-status customer, but also positive results.

Although testimonials are relatively impersonal, they do offer advantages over the previous two types of track record signals. Compared with word-of-mouth referrals, they can span more quickly a wider audience than a particular customer's social network, and the new firm has greater control over their content. Compared with site visits, they do not tie up a customer's time, and, indeed, a site visit is often unlikely to yield meaningful information when the product/service is more intangible than the design of a physical facility. All three types of track record signals, though, and the quotations used here to describe them, suggest that CEOs perceive reputational signals as domain-specific. High-status firms were seen as being experts in assessing cost savings or the value of a physical facility, but not necessarily as authorities on other aspects of these young firms.

Due to the high degree of customization and purchase complexity, it was considered difficult for customers to be confident that results in one setting could be repeated in another. Accordingly, CEOs felt that it was important to show potential customers that these outcomes were obtained in a setting similar to their own. For example, one CEO explained why one customer is a particularly valuable exemplar: "*[Customer A] is recognized as a large entity. We have other large organizations who tell us that they want to know how this worked in a large complicated environment.*" A second CEO obtained a testimonial from the most prominent customer in each of his firm's three major markets. Thus, there was a perception that the value of a particular reputational signal varied across audiences (cf. Frank, 1985; Ager & Piskorski, 2000).

Low Purchase Complexity/Customized Offering (Cell C)

In this third competitive context, firms offer customized products/services as in the previous context, but the purchase is less complex, often due to standardization of process and product specifications. Firms compete on the basis of price, but also on how well they reduce output uncertainty by adhering to standards such as response times and measurable quality indicators.

Acquiring customers that prior literature characterizes as "high-status" did not seem to matter to the CEOs in this competitive context. They perceived that naming a prestigious customer as a reputational signal yielded little advantage, probably because of the emphasis on adhering to specifications. Instead, they saw a few significant signals as less important than proving that they could meet process and product specifications for many ordinary, but satisfied, customers in specific domains. Thus, they assumed that their customers used both frequency-based and outcome-based imitation (cf. Haunschild & Miner, 1997) in the suppliers they considered.

With respect to the four aspects of affiliation-based reputation transfer found in previous work, the CEOs in this cell perceived the average status of the customer base to be of little relevance as a reputational signal; instead, they preferred large numbers of satisfied and representative customers. They believed that their firm's reputation was based on customer affiliations and track record, but that the number and representativeness of the affiliates mattered more than their status. Finally, in emphasizing the importance of demonstrable results as a reputational signal, the CEOs perceived reputational signals to be both domain- and audience-specific. Evidence for these conclusions is now presented.

The perception that it was unimportant to name high-status customers in signaling reputation is shown in the following quotation from a CEO who was asked whether he would name current customers when approaching others. He answered affirmatively, but in the following way: "*You use them in terms of promotion . . . These are the types of companies you're dealing with, [but] you're dealing with four to five hundred companies*." Similarly, a CEO commented on the growth in his customer base: "*Mostly it's reputation, where people will come to us and say we've heard from somebody that you can do this, or somebody that's worked for somebody that's bought parts from us goes to somebody else and says to try us."* The emphasis here is not on identifying large, brand name companies or showing testimonials, but on signaling that the firm has satisfied a large number of customers in domains relevant to prospective customers. It is unlikely that customer characteristics are not factors in this process at all; the credibility of the individual or firm making a referral is likely to impact the credibility of the signal (Reingen & Kernan, 1986). However, when these CEOs talked about referrals, they tended to use non-specific terms, such as "people" and "somebody," rather than name specific well-known firms, as was the case in the two previous contexts. Customer status, as defined in terms of large, well-established and internationally recognized companies, held little salience.

Like the CEOs operating in a context of high complexity and high customization (Cell B), CEOs operating in this context signaled reputation by demonstrating the work they could do. When purchase complexity was high, the status of the identified customer was important, but, here, with low purchase complexity, the identity of the customer was often unknown and sometimes deliberately withheld. Firms that sold private label products were reluctant to name customers. If they couldn't put their own label on a product or a component, CEOs felt that they couldn't publicize the fact that they manufactured it. CEOs also felt prohibited from telling a prospective customer that they sold to a competitor: "*We sell to all the guys that sell these [Product As]. At a trade show last week, all of these guys are in the same building and they're all next to each other almost. I have to talk to all of them, but I can't say that I sold a big system to your top competitor*."

CEOs developed ways to signal reputation by demonstrating what they did for past customers, without disclosing their names. For example, in discussing a promotional package recently developed, one CEO deliberately withheld the name of the customer: "*We got a great response . . . In the package we put some sell sheets, and we also put a couple of drawings of previous jobs we've done. We had the layout of the actual systems. We took out the title blocks saying who it went to. We weren't sharing that information with them.*" Thus, the demonstrable quality of the work was seen as a more important reputational signal than the status of the customer. Further, the salient aspects of the work were detailed and domain specific: drawings and layouts.

The perception that reputational signaling was domain-specific is illustrated even more strongly in the words of a CEO who, after mentioning that a high-status Asian firm was a customer, was asked whether the affiliation affected his own firm's reputation. His response was: "*When I say our guys are over in Malaysia installing a system for [Process A], they go, Oh, you are the guys that just started making [Product A] that goes in a store, are you? . . . You guys obviously ship equipment around the world.*" He perceived that the firm's work for the Asian customer signaled process, retail and shipping capabilities. This comment is notably different from the comment of the CEO in Cell A on the implications of having a high-status Korean customer. In that case, he perceived that the status of the customer signaled the quality of his whole firm and attracted new Korean affiliations.

Low Purchase Complexity/Standardized Offering (Cell D)

In this final competitive context, firms offer standardized products or services and the purchase is of low complexity. This makes differentiation particularly difficult. Competition is largely price-based and guarding against imitation is necessary.

CEOs operating in this competitive context had similar perceptions to those from the previous context in that acquiring and publicizing high-status customers were not important reputational signals. Instead, they saw having large numbers of representative, satisfied customers as effective. With a high degree of substitutability, a focus on price, and a tendency to differentiate on the basis of intangibles such as service quality, CEOs perceived that customers used frequency-based imitation (cf. Haunschild & Miner, 1997) in the suppliers they considered, paying attention to the decisions of large numbers of firms in comparable situations. Unlike CEOs in the previous context with a customized product-market, these CEOs perceived outcomes of high quality to be relatively unimportant reputational signals. However, they were very concerned about customers that might use their products/services improperly and send signals of low quality.

With respect to the four aspects of affiliation-based reputation transfer found in prior work, the CEOs perceived the average status of the customer base to be of little relevance as a reputational signal; they preferred large numbers of satisfied and representative customers. They believed that their firm's reputation was based on customer affiliations, but the number and representativeness of the affiliates mattered, rather than status. Thus, they perceived reputational signals to be audience-specific. Finally, and consistent with the importance of price-based competition here, these CEOs perceived reputational signals as domain-specific, in that they indicated a desirable price/value ratio for the firm's products/services. Evidence for these conclusions is now presented.

The CEOs' perception that high-status customers were largely irrelevant reputational signals is reflected in this comment from one whose firm did have high-status, internationally recognizable customers: *"I think the banks [as providers of credit] are always happy to receive big names, but [his customers] couldn't care*." A second CEO, again with internationally recognizable customers, when asked how customers found out about his firm, replied: "*You'll find us in the top ten search, the web is a key*." Although this firm's web site outlines sample solutions provided for distinct customer segments, such as banks, airports and retail outlets, it provides neither the customer names nor the testimonials that are common on web sites of firms operating in contexts of higher purchase complexity. A third CEO, also with high profile customers, recognizes the possibility of reaping benefits from having a high-status customer, but then plays it down: "*Let's say we have [Customer A]. They usually choose reliable suppliers and yes it does give you some prestige. It gives you confidence as well. But I believe that we have to move very quickly to have a lot of customers*."

As in the previous (low purchase complexity, customized offering) context, reputation in this competitive context was seen as being established through word-of-mouth referrals from many satisfied domain-specific customers: "*We need to rely on reputation and word-of-mouth to grow our business . . . So reputation is making sure that the client couldn't be happier with the level of service we provided and the knowledge that we went out of our way to make sure that they had a good experience*." Given the availability of substitutes, CEOs perceived that the domain of endorsement need not encompass the whole firm; prospective customers were more interested in the price/value ratio of the firm's offerings, reflected in this last quote as service quality, than in the firm's overall reputation.

More important for referrals than customer status, was customers' recognizability and comparability. This is consistent with arguments that reputational signals vary across audiences (Ager & Piskorski, 2000; Frank, 1985). For one CEO, the relevant communities were industry-specific. When asked if he cited the names of particular customers in acquiring sales, he replied: "*We use the same industry. If we go to a hospital, for example, we use two or three big hospitals. We're not going to mention the retail stores no matter how big they are because it's not very relevant. They want to know what we can do for them*." Another CEO narrowed it down to neighborhoods. He refused to allow sales representatives to use written testimonials, believing that potential customers would be wary of them because they were solicited. Instead, he stated that: "*I encourage our sales reps to say to them, by the way, do you want some names of people right in your neighborhood that use us? Do you know ABC Printing over there? Call up ABC and ask for the president Bill Smith*." Again, the reputational signal is constructed to emphasize that the prospective customer knows, and is comparable with, current customers.

Somewhat paradoxically, although high-status customers were not terribly salient as a reputational signal for CEOs operating in this competitive context, the CEOs did express concern about possible damage from affiliation with the "wrong" kinds of customers. These included companies that used their products/services improperly, which they believed could reflect poorly on them. Several CEOs refused to do business with such customers. As one CEO told a large and high-profile organization that wanted a cheaper and low quality version of a product: "*We can't come in and sell you that [product]. . . . We don't make that [product]. We make quality products that do the job."* Another CEO dropped three customers that used his product improperly, with the explanation "*it's a bad image for us*." A third CEO, who tried to differentiate his firm by developing a very sanitized, standardized, "*McDonald's approach*" in a traditionally dirty industry, described the customers that he did not want: "*They've got rings and they look like Elvis Presley and they've got gold things coming out of their ears. I don't want to do business with this guy. He scares me visually*."

Ties to these undesirable customers were seen as detracting from the new firm's reputation, as suggested by Blau (1964). This selectivity is different than under the logic of action of the competitive context of Cell A, where CEOs were selecting, for strategic reasons, among high-status customers. Here, CEOs were actively weeding out customers whose images or practices could diminish their reputation. The price-based competition, standardized product-market, and ease of imitation in this competitive context explain why CEOs were more concerned about customers that could harm the firm's reputation than CEOs in the other three competitive contexts. Although the presence of a high-status customer was unlikely to influence others' choices given the availability of substitutes and the focus on price, association with a customer who used the firm's offerings improperly was likely to lead to doubts about the firm's quality standards and price/value ratio.

Propositional Inventory

The differences among the competitive contexts suggest that both the degree of complexity of the purchase process and the degree of customization of the product-service influence what kind of reputational signals CEOs of young firms want to derive from customers. Now that the findings for all four competitive contexts have been described, they can be expressed in the form of propositions. These propositions reflect the summary of findings in Table 1, and they highlight the impact of the two environmental dimensions on expected relationships.

Complex purchases, compared with those that are less so, are non-routine and expensive, involve multiple decision makers, and have requirements that are difficult to specify in advance or likely to change with technology. In short, complex purchases involve greater commitment, greater ambiguity and a longer-term perspective than less complex purchases. Consistent with the prior literature, CEOs operating in such contexts believed that having high-status customers would reassure prospective customers that their firm was of high quality and worthy of a long-term commitment. In contrast, CEOs operating in contexts with lower purchase complexity wanted to signal to customers that they could satisfy current, known requirements at a competitive price. Thus, they were more concerned with having large numbers of satisfied, representative customers that signaled reputation in specific domains of activity and to particular audiences. This leads to the following propositions:

P1: The higher the complexity of the purchase process, the more important is customer status in signaling the reputation of a young firm.

P2: The lower the complexity of the purchase process, the more important is the number of satisfied, comparable customers in signaling the reputation of a young firm.

P3: The lower the complexity of the purchase process, the more relevant reputational signals are to specific domains of endorsement rather than to the entire firm.

P4: The lower the complexity of the purchase process, the more relevant reputational signals are to specific audiences rather than across audiences.

Our findings indicate that the degree of customization of the product/service was also systematically related to CEO perceptions about customer-based reputational signaling. Prospective customers are less able to assess customized offerings prior to purchase than standardized ones, given that uncertainty about both product/service and process outcomes is greater. CEOs with customized offerings, to a greater extent than those with standardized offerings, believed that demonstrations of work would reduce these uncertainties for prospective customers. Further, they believed that the most effective reputational signals based on demonstrations of past work were those done in specific domains of relevance to prospective customers, and for past customers that were comparable to prospective ones. This leads to the following propositions:

P5: The more customized the product/service offering, the more important are effective demonstrations of previous work in signaling the reputation of a young firm.

P6: The more customized the product/service offering, the more relevant reputational signals are to specific domains of endorsement rather than to the entire firm.

P7: The more customized the product/service offering, the more relevant reputational signals are to specific audiences rather than across audiences.

Implications and Conclusions

Before discussing the implications and conclusions of this research, it is important to note its key limitations. First, the aim of the study is to refine and extend existing models and insights; testing is a task for future research. We have analyzed the CEOs' logics of action, but have not tested the extent to which their perceptions are consistent with how prospective customers actually interpret their reputational signals. When perceptions of outsiders differ from the perceptions of insiders, these inaccurate insider perceptions could lead to ineffective signalling decisions. Thus, empirical testing of the propositions should include perceptions of both insiders and outsiders. Second, as with any qualitative investigation, subjective biases and interpretations cannot be entirely eliminated. Despite the steps taken to limit these biases, they still affect research methods, and only testing of the theoretical insights developed can address them thoroughly. Finally, all of the firms in our sample sold primarily to other organizations, rather than to consumers. CEOs of young firms selling to consumers might have different perceptions of how current customers signal reputation, and so caution is warranted in generalizing these results.

With these limitations in mind, the study indicates that for young firms, the development of reputation through customers varies considerably across competitive contexts. The theory developed here is relevant to future research on the development of reputation in emerging companies. This research also contributes to entrepreneurship research more generally by illustrating the value of examining the boundaries to generalizing from findings developed in specific competitive contexts. These contributions are discussed in turn.

In advancing our understanding of how affiliations signal reputation for young firms, the findings refine and extend theory in several important ways. First, the study provides evidence that affiliations with customers matter in reputation-building across competitive contexts, extending the prior literature that has focused largely on affiliations with other types of exchange partners. While the focus of this article is on the reputational signals that current customers send to prospective customers, future research should consider the extent to which customer affiliations signal reputation to other types of audiences, such as investors and R&D partners. Second, the differing relevance of the status concept for CEOs across the four contexts suggests that affiliation with high status is not always necessary or sufficient for the development of reputation.

Third, at a theoretical level, our study of affiliations with customers highlights an aspect of reputation that has thus far been at best tacitly acknowledged in the literature on status and reputation (e.g., Benjaman & Podolny, 1999; Podolny, 1993, 1994; Stuart, Hoang, & Hybels, 1999): this is the fact that, particularly for young firms, reputation signaling through affiliation is not strictly about establishing hierarchical status relative to other companies, but is also about establishing "positioning" in the marketplace as the provider of certain kinds of products or services to particular customer markets. Young firms that lack a track record may not only suffer from ambiguity about the quality of their offerings, but also from ambiguity about whom they effectively serve. This is not a question simply of their capability relative to competitors in a hierarchical sense, but rather one of determining in what niche they should be categorized. Our study highlights that, at least in some contexts, CEOs perceive their customers as crucial signals of their firms' enacted strategies in terms of their target markets. Recognizing that affiliation with exchange partners (including customers) can affect a firm's categorization as a competitor within a certain segment, in addition to its quality ranking, should help scholars develop additional outcome measures and/or control variables when studying the link between young firms' known affiliations and perceptions in the market.

The present study also has wider implications for entrepreneurship research. The approach developed for understanding the role of the setting, or context, in which a young firm competes is relevant not only to research on customers or reputation. Our use of the Storper and Salais (1997) framework is of value to others interested in building upon earlier work in a topic area and taking into account the limits to generalizing insights gained in specific competitive contexts. If the field of entrepreneurship is to advance, it is crucial to have an appreciation for the diversity of contexts in which young firms operate and a manageable approach to studying it. The specific framework used for comparing and contrasting firms in this study is of value in that, while it allows comparison, it facilitates grouping firms in a manner that is parsimonious. Further, while it highlights important commonalities in the institutional structures of competition that firms face, it is not overly deterministic but rather recognizes that entrepreneurs are not forced to comply with the dominant logic of action in their firms' competitive context. The approach taken here, in classifying fields of competition and examining the extent to which previous findings apply in different fields, is of value for researchers seeking to understand the boundary conditions for generalizing research results, whether they use the specific framework adopted for this study or another.

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