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CONSTRUCTING MARKETS AND SHAPING BOUNDARIES: ENTREPRENEURIAL POWER IN NASCENT FIELDS

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We examine how entrepreneurs shape organizational boundaries and construct markets through an inductive, longitudinal study of five ventures. Our central contribution is a framework of how successful entrepreneurs attempt to dominate nascent markets by co-constructing organizational boundaries and market niches using three processes: claiming, demarcating, and controlling a market. We propose that power is the underlying boundary logic and indicate the "soft-power" strategies by which entrepreneurs compete in highly ambiguous markets. Overall, we develop a holistic view of organizational boundaries and offer insights into institutional entrepreneurship and resource dependence theories. Our most important contribution is reinvigorating the study of interorganizational power.

Organizational boundaries are fundamental. Every organization needs to establish its boundary to distinguish the organization from the environment and define its domain of action (Aldrich & Ruef, 2006; Scott, 2003). Given this central role, the phenomenon of organizational boundaries has been addressed with a set of rich theoretical perspectives (Santos & Eisenhardt, 2005). A first line of research adopts an exchange *efficiency* view, looking at cost minimization as a key driver of boundaries (Dyer, 1996; Williamson, 1981, 1991). In a second stream, organizational boundaries are examined through a *power* lens, with a focus on how organizations can control their exchange relations (Pfeffer & Salancik, 1978; Thompson, 1967). Other research relies on a *competence* view, in which the evolving resources and capabilities of organizations shape their boundaries (Brusoni, Prencipe, & Pavitt, 2001; Penrose, 1959; Peteraf, 1993). A fourth line of research adopts an *identity* perspective, focusing on the cognitive frames of organization members that define "who we are" as an organization and shape the choice of boundaries (Dutton & Dukerich, 1991; Porac, Thomas, Wilson, Paton, & Kanfer, 1995; Tripsas, 2009).

Yet, in contrast to the richness of these theoretical perspectives, the range of research designs for studying organizational boundaries has been narrow. Indeed, much empirical research represents an *atomistic view* that focuses primarily on the antecedents of single-boundary decisions in cross-sectional samples (David & Han, 2004). The origin of the atomistic view lies primarily in the early influence of exchange efficiency conceptions of boundaries, notably transaction cost economics (TCE), for which the canonical problem is whether to internalize or outsource a specific transaction (Williamson, 1985). This problem formulation has led to the dominant approach of analyzing organizational boundaries as discrete structural alternatives such as *make or buy.* As a result, much empirical research examines boundary decisions in isolation, as if the shaping of organizational boundaries were simply the accumulation of independent boundary decisions in well-structured settings. Although research has moved from efficiency-based theoretical explanations to include other decision drivers, such as competencies (Argyres, 1996; Jacobides & Hitt, 2005; Poppo & Zenger, 1998), the earlier mind-set of focusing on independent bound-

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ary decisions at specific stages in the "value chain" has largely prevailed.

Although understanding single-boundary decisions is valuable, this emphasis neglects potential relationships among decisions, ignores the interplay of different boundary-setting mechanisms (e.g., alliances with key partners, identity positioning, acquisitions), and does not address the evolution of organizational boundaries (Santos & Eisenhardt, 2005). Thus, it constrains understanding of how organizational actors actually conceptualize and execute boundary work. In particular, this atomistic emphasis leads to "losing sight of the forest for the trees" (Jacobides & Hitt, 2005: 1209) by obscuring how individual boundary decisions might fit into overall patterns of strategic action. Thus, research designs that permit exploring the evolution of organizational boundaries and capture the micro details of boundary work may reveal new insights. Our aim is to address this research opportunity by exploring the shaping of organizational boundaries over time by new firms in nascent markets. In this setting, the very beginning of organizational life, boundary work is both crucial for survival and poorly explained by current theories.

Nascent markets are business environments in an early stage of formation, often appearing in emerging "organizational fields" (Aldrich & Fiol, 1994). Nascent markets are characterized by undefined or fleeting industry structure (Eisenhardt, 1989a; Rindova & Fombrun, 2001), unclear or missing product definitions (Hargadon & Douglas, 2001), and lack of a dominant logic to guide actions (Kaplan & Tripsas, 2008; Porac, Ventresca, & Mishina, 2002). Thus, nascent markets constitute unstructured settings with extreme ambiguity. Following organizational theory (Davis, Eisenhardt, & Bingham, in press; Weick, 1995), we define *ambiguity* as lack of clarity about the meaning and implications of particular events or situations. Ambiguity arises from unknown cause-effect relations and lack of recurrent, institutionalized patterns of relations and actions (Aldrich & Fiol, 1994). Ambiguity thus leads to confusion and multiple potential interpretations. It differs from *uncertainty*, which refers to inability to predict the probability of specific outcomes (Davis et al., in press; Weick, 1995), a situation that current boundary theories, especially those based on efficiency and resource dependence logics, can deal with well.

Nascent markets are an intriguing setting in which to explore organizational boundaries because these markets pose unique problems for organizational actors. Executives operating in nascent markets typically lack a clear view of industry structure; they may not know, for instance, which organizations are their best prospects as customers, partners, competitors, and suppliers (Rindova & Fombrun, 2001). Thus, they are often unable to specify cost functions (Gilbert, 2005), primary dependence relationships (Rao, 1994), competencies that are strategically valuable within the industry (Bingham, Eisenhardt, & Davis, 2009), and legitimated industry logics to guide action (Aldrich & Fiol, 1994; Kaplan & Murray, forthcoming). Such markets both enable and reward strategic action by organizational actors (Ozcan & Eisenhardt, 2009), yet it is unclear how existing theories of organizational boundaries might apply in nascent markets where the basic elements of industry structure are ambiguous, evanescent, or nonexistent.

New firms compound the problems of nascent markets. In contrast to established firms, young ventures typically have incipient activities and resources (Burton & Beckman, 2007; Rindova & Kotha, 2001), a fluid or nonexistent identity (Lounsbury & Glynn, 2001; Rindova & Kotha, 2001), and little power to influence other firms (Hallen, 2009; Ozcan & Eisenhardt, 2008). Also, they face major strategic hurdles that make survival, not efficiency, crucial (Graebner, 2004). These characteristics imply a set of firm attributes that are not well addressed by existing boundary theories, with their focus on established firms with substantial resources. Yet, at the same time, it is likely that the vulnerability of new firms makes organizational boundaries pivotal. Given these observations, the research setting of new firms in nascent markets seems likely to provide an excellent opportunity to extend current theories and reveal novel insights.

Scholars have begun to study boundary-related issues for new firms in nascent markets. One theme centers on cognitive and sociopolitical legitimacy (Aldrich & Fiol, 1994; Rao, 1994). Although much of this work explores how institutional actors act collectively to legitimate an emerging set of activities (Leblebici, Salancik, Copay, & King, 1991; Rindova & Fombrun, 2001; Sine & David, 2003), a few studies address how entrepreneurs organize their own firms. For example, Rindova and Kotha (2001) examined how Yahoo executives used identity to shape their actions in the nascent Internet search market. Similarly, Hargadon and Douglas (2001) studied Edison's tactics for establishing the nascent electricity industry by framing it as cognitively proximate to the established gas lighting industry. Although useful, these and other studies of cognitive processes in ambiguous environments neither focus on boundaries per se nor address the rich set of possible boundary theories and available mechanisms (Santos & Eisenhardt, 2005).

A second theme is interfirm relationships (Powell, Koput, & Smith-Doerr, 1996). Much of this work centers on single-boundary decisions using resource dependence and social network logics (Eisenhardt & Schoonhoven, 1996; Gulati & Higgins, 2003), but a few studies examine entrepreneurs as they form holistic patterns of ties. For example, Powell and colleagues (1996) observed that biotechnology ventures that form many ties early on gain valuable resources and attain more central network positions. Similarly, Ozcan and Eisenhardt (2009) found that entrepreneurs who engage in a strategy of forming multiple ties simultaneously create more successful alliance portfolios. Hallen (2009) observed several alternative strategies for forming successive ties in the garnering of resources from venture investors. But like the research on cognitive and sociopolitical legitimacy, these efforts neither focus directly on boundaries nor include a rich set of boundary mechanisms and theoretical logics.

Overall, extant boundary research primarily examines atomistic boundary choices in well-structured organizations and environments. A few studies take a longitudinal view and focus on emerging fields, yet they typically use a single theoretical lens and do not address boundary setting per se. Thus, there is a superb opportunity to develop a more complete and theoretically rich understanding of boundaries. We seek to extend current theory and create new insights by studying the boundary-shaping processes of new firms in nascent markets. We ask, *How do entrepreneurs addressing nascent markets shape their organizational boundaries over time*?

Our research design is a multiple-case, inductive study that uses in-depth archival and field data to track closely how entrepreneurs at five new firms in different nascent markets shaped their organizational boundaries during the initial years of organizational life. This design uses a research setting in which organizational boundaries are crucial, underexplored, and underserved by current theories. It also enables a longitudinal view and addresses a broad range of boundary mechanisms and theories, thus ensuring that we capture the richness and interrelationships of boundary work. As such, our research is consistent with recent calls for strategic and longitudinal studies of boundaries (Jacobides & Billinger, 2006; Santos & Eisenhardt, 2005).

Our central theoretical contribution is a holistic framework of the longitudinal processes by which successful entrepreneurs shape their organizational boundaries and construct new markets. We find that actors rely on multiple boundary mechanisms centered on three processes: claiming a market, demarcating the market, and controlling it. These processes generate cognitive (identity-based), relational (alliance-focused), and resource (acquisition-driven) structures for firm boundaries and nascent markets. We contribute to institutional entrepreneurship by emphasizing novelty and dominance, not just fitting in and legitimacy. We also extend resource dependence theory to ambiguous environments and entrepreneurial actors. Our key insight is that power is the unifying boundary logic. By *power*, we mean the ability of an actor to influence the behavior of others in ways that produce outcomes favored by the focal actor (Pfeffer & Salancik, 1978). In particular, we highlight how entrepreneurs use *soft-power* strategies based on subtle persuasion to dominate new markets, rather than traditional *hard-power* tactics of coercion based on extensive resource control (Nye, 2004). Our key contribution is thus reinvigorating the study of interorganizational power and reaffirming that agency and strategic action often rest on the rationale of power, however subtly exercised.

METHODS

Research Design and Setting

We used an inductive, multiple-case research design (Eisenhardt, 1989b). Multiple cases permit a replication logic in which cases are treated as experiments, with each serving to confirm or disconfirm inferences drawn from the others (Yin, 1994). This process typically yields more robust, generalizable theory than single cases (Eisenhardt & Graebner, 2007). Our design embeds three units of analysis: boundary decision, organization, and market.

The research setting is the confluence of computing, electronics, and telecom industries in the mid nineties. At this time, many innovations, such as distributed computing, electronic messaging, and Internet commerce, began to gain widespread acceptance. This setting was attractive because of the emergence of numerous nascent markets in this industry confluence and the related burst of entrepreneurial foundings. Our focus is the evolution of the organizational boundaries of five new firms. These firms were selected in mid 2000 from the population of U.S. firms founded in late 1994 and early 1995. This timing was attractive because it corresponded to the period of highest ambiguity—that is, just prior to the take-off of the Internet-related sector (Sine, Mitsuhashi, & Kirsch, 2006). This period was sufficiently distant to allow longitudinal patterns to emerge and yet sufficiently recent to allow accurate, detailed data collection at the time of our study.

Having defined the study's population, we then created a diverse sample. We selected firms addressing five distinct types of nascent markets: virtual marketplace, digital services, online commerce, distributed enterprise software, and networking hardware. We also selected firms with distinct founding contexts, founding teams, and initial funding. The entrepreneurs ranged from a lone engineer who stumbled serendipitously into an opportunity, to entrepreneurs who owned a technology and were searching for a market opportunity, to seasoned executives with detailed business plans and strong ties to professional investors. Table 1 summarizes the diverse characteristics of the sampled firms. Studying such a diverse set of firms offered firmer grounding of theory than studying a more homogeneous one (Harris & Sutton, 1986).

Given our aim of understanding how organizational actors shape boundaries, we employed a longitudinal design that comprehensively tracks multiple boundary decisions during the firms' initial five years. This design required that we study firms with rich archival histories and willingness to grant diverse, multiple interviews. These criteria further narrowed our choice to the five firms that we selected. Although our firms may be longer-lived than many new firms, a sufficient history for each firm was necessary to understand the temporal dynamics of setting boundaries. This requirement outweighed having a random sample, especially in a process-focused and theory-building study such as ours (Siggelkow, 2007). Similarly, although our firms were more successful than most new firms, they nonetheless exhibited much variation in their boundary decisions and outcomes, such as failed actions and major mistakes, bringing useful variance to our theory building.

Data Collection

We focused data collection on tracking the boundary decisions of each firm during its first five years. In keeping with our interest in a rich and

TABLE 1
Description of Sample Firms and Case Data[a]

Characteristic	Haven	Secret	Magic	Midway	Saturn
Domain	Virtual marketplace	Digital services	On-line commerce	Enterprise software	Networking hardware
Founding team	Single entrepreneur	Team of four engineers	Single entrepreneur	Team of three seasoned executives	Technologist and top-tier VC
Founding context	Stumbled into an opportunity	Possessed technology looking for an opportunity	Focused a diffuse opportunity	Acquired technology to address an opportunity	Created technology to address an opportunity
Initial funding	Self-funded	Corporate VC	Self, friends, and family funding	Private equity	Top-tier VC
Archival data					
Number of audio/video	4	4	5	4	6
Internal sources	1,700 pages	1,600 pages	1,800 pages	1,400 pages	1,300 pages
External sources	1,100 pages	800 pages	1,400 pages	1,000 pages	1,000 pages
Number of interviews	11	7	8	13	7
Internal informants	General manager Functional executives	CEO General manager Functional executives VC	General manager Functional executives	CEO/founder General 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

[a] All firms were founded between late 1994 and mid 1995 in the United States and eventually went public. The names used here are pseudonyms.

longitudinal understanding of organizational boundaries, we broadly defined a *boundary decision* as an organizational choice that shapes the demarcation of an organization relative to its environment (Santos & Eisenhardt, 2005; Scott, 2003). This broad definition allowed us to focus our inquiry on shaping boundaries while avoiding a restrictive theoretical or empirical lens. For example, this expansive approach includes boundaries specified by a firm's resource portfolio (Brusoni et al., 2001), sphere of influence (Pfeffer & Salancik, 1978), organization members' cognitive mind-set (Tripsas & Gavetti, 2000), and governance of activities (Williamson, 1991). Examples of boundary decisions are acquiring a firm, ending an alliance, redefining organizational identity, and making an outsourcing choice.

We relied on two primary data sources: archives and interviews. We began data collection by gathering extensive archival data from both internal and external sources. The internal sources included all press releases since firm founding (about 50 per year per firm), Securities and Exchange Commission (SEC) filings and initial public offering (IPO) prospectuses (approximately 1,000–1,200 pages per firm), internal reports and presentations (about 70–150 pages per firm), as well as video and audio archives of presentations made by firm executives at various points in time (an average of four per firm). The external sources included media articles about each firm identified using ABI Inform. We located about 80 to 200 articles per firm, using the firm name as a keyword. We complemented these sources with analyst reports, books about each firm when available, and media articles about competitors and the relevant nascent markets. Using these very extensive archival data, we developed chronological case histories for each firm. Each case was about 60 pages long and took about two months to write. We began by developing a chronological list of boundary decisions for each firm and then used these decisions to structure the case histories. We organized the cases by year, detailing the relevant boundary decisions. We developed tables and graphs for each case, including tracking key metrics (e.g., revenue, market share, employees, and growth rates) and changes in the composition of the executive team (Miles & Huberman, 1994).

We continued data collection using a second primary source: semistructured interviews with internal and external informants. We conducted an average of 9 interviews per firm, accumulating a total of 46 interviews from early 2001 to mid 2002. Our first interview was typically with the CEO and/or founder and lasted several hours. We used this interview to identify major boundary decisions, which we then matched with those identified in the archival material, thus triangulating the data. We defined a boundary decision for our informants using our formal definition (given above) and added conceptually consistent lay language, describing such decisions as "choices that shape firm scope and its domain of action." These first interviews were very helpful in validating the initial list of boundary decisions. A key advantage was identifying decisions that were unavailable in archival sources (e.g., major acquisitions not consummated, alternative identities not chosen, and outsourcing opportunities not pursued). After these initial interviews, we identified 13 to 15 major boundary decisions for each firm and at least three internal informants who could provide firsthand accounts of how each decision evolved.

We based selection of internal informants on three criteria: (1) long tenure in their firm, which would provide a temporal perspective on the firm's boundaries; (2) direct involvement in at least some major boundary decisions, which would provide deep, first-hand knowledge; and (3) functional and hierarchical variety, which allowed us to obtain a variety of perspectives. We complemented these internal informants with four types of external informants: former employees, business partners, competitors, and industry experts. Use of multiple informants mitigates the potential biases of any individual respondent by allowing information to be confirmed by several sources (Golden, 1992; Miller, Cardinal, & Glick, 1997). Use of multiple informants also enables inducing richer and more elaborated models because different individuals typically focus on complementary aspects of major decisions (Dougherty, 1990; Schwenk, 1985).

The interviews ranged from 45 minutes to two hours in length. We recorded and transcribed them, generating about 800 double-spaced pages. The interview guide had two main sections. The first section was composed of open-ended questions that enabled the informants to provide a broad view of the evolution of the relevant nascent market, the focal firm, and its boundaries. The second section focused on specific boundary decisions in which the informant was directly involved. We asked informants to relate the chronological story of the decision as they observed it, prompted by probing questions from the interviewer. At this stage the questions concentrated on facts, events, and direct interpretations, rather than hearsay or vague commentary (Eisenhardt, 1989b). We further reduced the potential for retrospective bias by triangulating data, matching real-time archival data with the retrospective accounts. Our epistemological approach was thus to understand the meaning making and conceptualizations of informants, while ensuring that those interpretations had substantively informed behaviors and were not a product of later impression management.

The informants usually agreed about the facts and events of a given boundary decision. But they often also revealed complementary information. This allowed reconstruction of the histories of boundary decisions in rich detail from various viewpoints. Often informants described extensive conflicts related to given boundary decisions. These accounts of conflicts were invaluable for our exploring the roles of different boundary conceptions in shaping boundaries. A key strength of our design is that these interviews revealed details and motives for decisions that were unavailable in the archival data. Another strength is the use of external informants who offered an outsider perspective on boundary decisions and brought a "reality check" to the internal accounts.

Over six months, we then blended the interview data into the archive-based cases. The final case chronologies are about 100 pages long for each firm. We analyzed the context, decision process, implementation, and outcome of each boundary decision and assessed its impact on firm and market boundaries. Overall, the combination of archival sources and interview data from internal and external informants enabled a rich, triangulated, and relatively accurate understanding of the phenomena (Kumar, Stern, & Anderson, 1993). For example, media articles identified key organizational events and clarified the industry context affecting each boundary decision, while interview data revealed debates within the firms, hidden intents, and decision processes. The result is a relatively complete, robust understanding of the emergence and evolution of boundaries.

Analysis

We began with an in-depth analysis of each case through the lens of our research question (Eisenhardt, 1989b): *How do entrepreneurs addressing nascent markets shape their organizational boundaries over time*? We had no theoretical preferences or a priori hypotheses. We read the cases independently to form our own views of each case. The goal was to identify independently the theoretical constructs, relationships, and longitudinal patterns within each case and with respect to our research question. We used tables and graphs to facilitate analyses (Miles & Huberman, 1994). We each developed an understanding of the major boundary decisions, which we reconciled by going back to the data and, occasionally, back to the informants. We also identified interactions among boundary decisions and found connections among emerging categories, which led to the specific patterns of decisions that emerged from the data.

We then turned to cross-case analysis, in which the insights that emerged from each case were compared with those from other cases to identify consistent patterns and themes (Eisenhardt & Graebner, 2007). Focal firms and decisions were grouped randomly and by variables of potential interest to facilitate comparisons and develop propositions. Comparisons were initially made between varied pairs of cases. As patterns emerged, other cases were added to develop more robust theoretical concepts and causal relations. Discrepancies and agreements in the emergent theory were noted and investigated further by revisiting the data. We followed an iterative process of cycling among theory, data, and literature to refine our findings, relate them to existing theories, and clarify our contributions. The data analyses took another six months and resulted in a theoretical model of how entrepreneurs shape boundaries in nascent markets.

RESULTS: CONSTRUCTING MARKETS AND SHAPING BOUNDARIES

Our data suggest that successful entrepreneurs in nascent markets adopt a strategic approach to shaping organizational boundaries. For them, setting boundaries is central to the challenge of succeeding in highly ambiguous, competitive markets. We find that, to address this challenge, entrepreneurs intertwine organizational boundaries with market construction to achieve market leadership and a defensible position. That is, they adopt an almost monopolistic imperative of dominating a distinct market that they construct. As a CEO explained, "These are the times that new technology franchises are being built and the way you win is that you have to be #1 by a long shot."

Our data indicate that entrepreneurs enact this monopolistic imperative using patterns of interrelated boundary decisions that are organized into three processes: *claiming, demarcating,* and *controlling*. That is, they attempt to: (1) *claim* a new and distinct market space and become its "cognitive referent" through identity-based actions; (2) *demarcate* this market by specifying firm and market boundaries through alliances with established firms; and (3) *control* the market by overlapping the boundaries of the firm and market over time through acquisitions that eliminate entrepreneurial rivals. Underlying these processes is the unexpected use of power tactics, such as creating illusions, using strategic timing, and exploiting the tendencies of others, that form the strategic arsenal of entrepreneurs in nascent markets. Together, these processes enable a new firm with limited initial resources and potentially high dependence on established firms to construct a distinct market and achieve dominance in it. We develop each process in detail next.

Claiming the Market

Entrepreneurs in nascent markets face an ambiguous environment with unclear customers, undefined product attributes, and no well-established industry value chain. Our data suggest that, in light of this ambiguity, entrepreneurs in nascent markets often devote significant effort to claiming the market—that is, defining a distinct identity for both the firm and market so that the two become synonymous. If entrepreneurs are successful, their firm becomes the cognitive referent for the claimed market: the organization that relevant others (e.g., customers, partners, analysts, and employees) automatically recognize as epitomizing the nascent market. For example, Google is widely seen as the cognitive referent for Internet search.

Our data indicate that entrepreneurs use three identity mechanisms to claim a market: *adopt templates*, *signal leadership*, and *disseminate stories*. "Adopt templates" is defined as using well-known cognitive models from other domains (either in isolation or combination) to convey a unique identity. This identity simultaneously makes a firm and its nascent market distinct, yet also familiar and understandable to market audiences. "Disseminate stories" is defined as spreading symbolic narratives (real or fictitious) to raise awareness about the firm and its market, and communicate the firm's identity. "Signal leadership" is defined as taking concrete actions that convey superior power and expertise within the market.

A good example is Secret, one of the firms we studied. Secret's founders began with a sophisticated cryptography technology, but without a clear identity or a well-defined product or customer set. They experimented with several ideas before gaining traction with an unexpected service: providing a secure environment for digital communications. But although this idea seemed promising, it was also very ambiguous. As the venture capitalist (VC) who backed the firm put it,

> There was a product out there but it was not very well-defined and it was searching for a market.

A Secret executive concurred:

> At the time, it was the wild wild west—there was no playbook for the Internet or our space—we created the playbook.

Secret's executives spent considerable time trying to hone this idea by grappling with questions such as: What are we selling? Who are we? Who's the customer? In particular, they debated "security" versus "trust" as the core element of their identity. One executive describes the decision in favor of trust, which was an unusual identity in this nascent market:

> 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.

Though Secret's executives designated trust as central to the firm's identity and conception of the 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 Secret executives struggled to define their identity, they began adopting templates from seemingly distant but cognitively related areas to describe their activities for would-be customers, other stakeholders, and even themselves. They used well-known terms such as "ID card," "wallet," and "passport" as part of their vocabulary. Secret's VC backer described how they explained their market: "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 as the cognitive referent of the nascent market, Secret executives also began to signal leadership. For example, they hired a high-profile lawyer to convert the venture's emerging operating procedures into a "best practices" framework that was promoted at numerous venues. This framework became the market standard, serving to further clarify the meaning of the nascent market to Secret's advantage and bolster the perception of the venture as the market expert. Secret's CEO explained:

> 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 . . . on encryption, digital signature law, what we call certificate authority practices. And we created the first set of industry practices. 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 website.

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 image of trust through features such as armed personnel and bunker-like facilities. Secret executives brought together players from the offline (e.g., notaries) and online (e.g., network security executives) "trust worlds" to attend the ceremonies. Given the novelty of these ceremonies, Secret succeeded in enticing the media into covering the venture in detail. For example, one reporter observed:

> 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.

A year later, Secret executives adjusted their identity by adding the template of a "public utility" that conveyed the ubiquity and high reliability of a trusted service. This identity guided later boundary decisions such as which activities to pursue. They shunned even profitable activities that rivals actively pursued if those activities fell outside Secret's identity boundary. An example is the boundary decision to *not* engage in software sales. As a Secret vice president (VP) explained:

> 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's 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 succeeded in making the venture's identity synonymous with the nascent market. By combining a trust vocabulary with the public utility template, disseminating stories through symbolic ceremonies and press releases, and signaling leadership by setting online certification standards for the market, the entrepreneurs both clarified their venture's identity and intertwined it with their conception of a market for trust services (a conception that was distinct from competing market conceptions such as selling security products). This reinforcing pattern of boundary actions helped Secret to become the cognitive referent for the nascent online certification market. Media reports from the period confirm this, calling Secret "the leading authority for certifying Web server encryption keys."

Magic, another sample firm, is a second example. Secret's identity was initially poorly defined, but Magic began with a sharp sense of identity. The core of this identity was "customer-centric online shopping." Nonetheless, Magic executives still had to convince relevant others (e.g., customers and financial backers) that theirs was a winning identity. Indeed, when Magic was founded, online shopping was a novel concept and one that was difficult to understand because it involved a very different user experience than did traditional retail shopping. There was confusion even around basics, such as how to evaluate products and how to pay. Although the new technology offered striking features that were not available offline, Magic's executives nonetheless *adopted templates* from the broad domain of offline shopping that were very familiar to end users. For example, Magic's user interface was based on well-known, offline retailing concepts such as "shopping cart" and "check out." Their purpose was to reduce ambiguity and accelerate user adoption.

Magic executives also *signaled leadership* by purposefully offering the world's widest selection in their product category. They also located a few far-flung customers so that they could accurately claim to be sending products to 45 countries and all 50 U.S. states in their first month. They widely broadcasted this achievement to the media, proclaiming Magic to be the largest retailer in the world in their category. But although this claim was symbolically true in terms of geographic and product breadth, actual revenue was miniscule. Magic executives continued signaling leadership by launching ads featuring high-profile figures from academia, business, and sports comfortably using Magic's offering. These actions supported Magic's identity as "customer-centric" and the venture's positioning as the leading company in the nascent market.

Magic was also active in *disseminating stories* that reinforced its identity. For example, executives released stories about the founder's personal passion for the customer (for instance, a story about a customer with an unusual need that the founder insisted that Magic satisfy) and corporate frugality (e.g., cheap office furniture) that reinforced the identity of favoring customers over employee perks. They also widely disseminated another story that used a vocabulary that drew an analogy to U.S. history, portraying the founder as a "pioneer moving west" to open up "a new frontier." This story further emphasized the venture as familiar, yet novel.

This combination of identity mechanisms increased the likelihood of Magic becoming the cognitive referent for a distinct nascent market. In fact, media and analyst reports from the time strongly support the view that Magic became the cognitive referent of its new market. As an outside expert confirmed, "Magic has become the default name when you think of buying on the Net." Moreover, it was clear from the interviews and internal archival data that Magic executives purposefully crafted these strategic actions to shape outsiders' cognitive understanding of their venture. As a senior executive noted,

> We knew that by the end of 2000, we would pretty much have defined what the company stood for in customers' minds. . . . So you have to do that stuff pretty fast otherwise by the time you get around to do it you're done! You can't change people's perceptions about what you are.

Although all firms engaged in practices aimed at claiming a market, they were not equally effective. An example is Haven. Haven's founder stumbled upon the nascent market of online marketplaces when his hobby unexpectedly became a success. He personally valued egalitarianism highly. One observer described the founder as seeking "a fair, open, honest marketplace." Another noted, "Haven was capitalism for the rest of us." To coalesce these personal values into an organizational identity, the founder adopted a "community" template, emphasizing related vocabulary such as how "friends" could connect, share information, and trade in a "safe neighborhood." Haven even installed "street signs" at the firm's office to reinforce the community identity.

However, though this identity became very clear within Haven, it was unclear whether the identity would become the cognitive referent. One challenge was communicating this identity. An industry expert recalled, "It was a totally different animal; they [customers] didn't know what to make of it." A second challenge was winning against dozens of competing market conceptions. For example, while Haven's identity was a community of friends trading with one another, Haven's leading competitor (an older, larger firm) conceptualized its identity as "Las Vegas style shopping excitement" and offered a gambling format aimed at men. It was unclear which (if any) of these very disparate identities and related market conceptions would win in the nascent market.

Haven's founding team tried to gain traction in the media with their identity by promoting a very rational (and factual) account for the firm's existence based on a balanced, fair marketplace for buyers and sellers. When this approach failed, a frustrated employee came up with the idea of disseminating a story about the company's founding that illustrated Haven's "community identity." Unlike the rational account, this story had warm, personal (albeit fictitious) details about the founder and illustrated how customers might use the service. This unusual and romantic story was picked up by the press, embellished, and repeated in many articles featuring Haven. This media attention reinforced the firm's community identity and sharpened understanding of how customers could use its services. Haven executives followed up with marketing initiatives that further reinforced the core identity features of the story.

In addition, Haven executives then signaled leadership through preemptive litigation threats that blocked potential competitors' access to Haven's customers. Although they justified this hostile action in the media as protecting the "security" and "privacy" of the "community," they were also signaling aggressive defense of Haven's claim on the market, despite its having lower resources than some competitors. Overall, although Haven's late start in claiming the market probably precluded the firm from becoming the cognitive referent in its first years, these persistent efforts helped to construct a distinct market and enabled Haven to be a leading firm within it. A media report confirmed that the "consumer-to-consumer online model is a new niche that Haven was able to foster."

Finally, as Saturn illustrates, entrepreneurs were sometimes unable to construct a distinct market in which they became the cognitive referent. Saturn's founders targeted an "empty space" located near the telecom equipment and networking markets. The founder explained:

> 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 did not use identity mechanisms well. For example, they did not adopt a template from a distant but cognitively related area. Rather, they followed the template and vocabulary of the nearby networking market. They also kept their technology secret early on, which impaired their ability to signal leadership. Although they created a rationale for the firm, it took the form of a "theory" to explain the existence of their market. As such, it was similar to Haven's failed initial rationale. Haven executives, however, then created a memorable story with compelling characteristics; Saturn executives did not. Moreover, they narrowly disseminated their "theory" to industry analysts. Overall, less effective use of identity mechanisms limited Saturn's ability to become the cognitive referent in a distinct nascent market. Saturn executives and investors strongly believed that the firm was creating a distinct market; for instance, its CEO argued, "We have a combination of a fortunate timing equation and a focused objective in what will become, when history is written, a fundamentally different market." Yet market audiences considered Saturn's market to be an extension of an existing market. As a media report of the period noted, "Saturn is widely perceived as a threat to [the market leader's] hold on the networking market."

Overall, our data indicate much variation in the use of identity mechanisms to claim a market. Table 2 summarizes our data on claiming the market. More significantly, entrepreneurs who proactively use reinforcing identity mechanisms (i.e., adopt templates, disseminate stories, and signal leadership) are more likely to become the cognitive referents in the distinct markets that they claim. Thus, claiming is a "sensegiving" process by which an entrepreneur can achieve cognitive dominance in a nascent market.

The claiming process is effective for several reasons. First, adopting templates exploits the tendency of individuals to be attracted to the blend of novelty and familiarity (Davis, 1971). In keeping with prior research, we observe that adoption of familiar templates makes it easier for outsiders to understand a firm and its innovations (Hargadon & Douglas, 2001) and for insiders to grasp their firm's identity (Rindova & Kotha, 2001). But we also contribute the insight that having a distant template is important as well. Adopting templates and related vocabulary from very proximate markets makes it less likely audiences will be intrigued and perceive a firm as having a distinct market and identity (e.g., Saturn). In contrast, templates drawn from seemingly distant contexts, related by analogy, are more likely to be understood and remembered (e.g., Secret). Adopting a template that combines the familiar and the distant thus enhances the likelihood of acceptance and so developing a winning identity for a distinct market.

Second, stories are effective because they exploit a second tendency of individuals—that is, to overvalue vivid stories. Research shows that *stories* are particularly effective because they memorably convey information. Individuals are much more likely, for example, to remember the implications of simple, emotionally charged stories than to remember facts and quantitative information (Heath, Bell, & Sternberg, 2001; Nisbett & Ross, 1980). Moreover, our research contributes insight into the story characteristics that are especially helpful for promoting understanding of a new firm or nascent market. When stories take the user perspective, portray a firm or its members in unusual situations, and contain intriguing personal information, they are more likely to become sensegiving devices that are amplified by the media. Interestingly, even fictional stories are effective if then enacted and made part of the perceived reality (e.g., Haven).

Third, leadership signals are effective because they convey firm importance while also often being relatively inexpensive (e.g., Secret's lawyer; Magic's few distant customers). As such, entrepreneurs create illusions that they are more prominent, larger, and important than they actually are. Although Zott and Huy (2007) found that effective entrepreneurs use symbols to convey their quality, we add that symbols such as leadership signals can also be illusory exaggerations that are nonetheless highly influential for gaining the attention and support of market audiences.

Overall, the claiming process is a reinforcing blend of sensegiving activities that define the identity of a new firm as synonymous with the nascent market. As suggested by the research in "institutional entrepreneurship," these types of identity-defining activities can enhance legitimacy (Hargadon & Douglas, 2001; Lounsbury & Glynn, 2001). Institutional entrepreneurship research emphasizes creating legitimacy, whereby an organizational form or institution becomes "desirable, proper, and appropriate" (Suchman, 1995: 574). We, on the other hand, emphasize creating cognitive dominance, whereby an *individual firm* constructs a market and becomes its cognitive referent. By rely-

TABLE 2
Claiming the Market

	Overall Rating[a]	Identity Mechanisms: Adopt Templates	Identity Mechanisms: Signal Leadership	Identity Mechanisms: Disseminate Stories	Result[b]
Definition		Use of cognitive models from other areas, together with values, practices and vocabulary.	Concrete actions that convey superior expertise and/or power.	Spreading of symbolic narratives about the company and/or market (fictitious or real).	
Rationale		Sensegiving by analogy to help internal and external actors understand venture and market.	Create legitimacy and perception of leadership in the eyes of internal and external actors.	Raise awareness of firm, reinforce its identity, and convey connection to concrete user needs.	
Magic	++++++	++ Adopted "shopping" template for 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."
Haven	++++	++ Adopted "community" template, vocabulary, and related social values.	+ Reactive use of litigation against would-be rivals.	+ After early misstep, 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	++++	+ Late adoption of the template of "operating system for the Internet."	++ Acquired several high-profile firms.	+ Created new category of end users, the "E-generation," but did not promote it much.	*Not cognitive referent, distinct market* "The company has carved out a marketplace that has proven crucial to computing."
Saturn	++	Did not adopt a distinct template from another area.	+ Belatedly secured three flagship clients. Kept technology secret for two years.	+ 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 [market leader's] hold on the [existing] networking market."

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

[b] We measured becoming the *cognitive referent* for a market by whether the firm was portrayed in the media as the market reference three years after founding. We measured the existence of a *distinct market* by whether the market was described in the media as unique and independent of related markets.

ing on soft-power strategies of nuanced influence based on early timing, self-serving illusions, and exploitation of others' tendencies, entrepreneurs transform an ambiguous, contested opportunity into a winning claim.

Demarcating the Market

Although cognitive dominance is crucial, competitive dominance is also imperative. Even as entrepreneurs begin establishing their identities and claiming their nascent markets, they also face considerable ambiguity regarding key dependencies and exchange partners. Moreover, they are usually surrounded by powerful established firms that may define the nascent market as part of their own existing market or as an attractive new market to enter (Markides & Gerosky, 2005). It is often unclear how executives in these large, established firms may ultimately perceive their roles in a nascent market. If they choose to be competitors, they can become a significant threat.

Anticipating this threat, our data suggest that entrepreneurs in nascent markets attempt to avoid competition with powerful firms from nearby markets by co-opting them with alliance mechanisms. These mechanisms create viable industry roles (e.g., supplier, complementer, buyer) for these potential competitors. In so doing, entrepreneurs delineate the perimeters of their firms and shape the surrounding industry structure to gain clarity and support for their constructed market and avoid competition from powerful firms. It is this process that we call "demarcating the market."

Our data indicate three alliance mechanisms that entrepreneurs use to entice powerful firms to accept industry roles other than that of competitor: *revenue-sharing agreement, equity investment*, and *antileader positioning*. A "revenue-sharing agreement" is an alliance mechanism by which a partner firm benefits from a nascent market through distribution, advertising, or supplier contracts with a focal venture. Such agreements provide the partner with an industry role and revenues from the nascent market without directly participating. Thus, established firms have an incentive (and often a legal obligation) to support the new firm and nascent market.

"Equity investment" is an alliance mechanism by which entrepreneurs allow partner firms to purchase financial stakes in their ventures. Again, this enables these firms to benefit from the nascent market without participating directly. Thus, although entrepreneurs sacrifice ownership and may need to share private information, they also reduce the incentive of powerful firms to become competitors.

"Antileader positioning" is an alliance mechanism used when there is a very strong firm dominating a proximate market. Entrepreneurs seek other established firms to join an alliance opposing this leader. For such an invitation to be credible, the market claimed by the venture must be seen as attractive for the leader to enter. If that is the case, the other established firms will support the new firm in order to distract and counter the leader's dominance. The downside is that entrepreneurs often alienate this dominant firm and are likely to become its rival.

Saturn is an excellent example. As noted earlier, Saturn began in a nascent market that was proximate to the networking and telecom equipment markets. Saturn anticipated competitive threats from established firms in both markets. These firms might regard the nascent market either as an extension of their own market or as an attractive market to enter, especially if Saturn succeeded. Therefore, Saturn executives proactively attempted to define their organizational boundary and that of the nascent market by pursuing alliances with five established firms. Saturn's enticement was twofold: It offered equity investment to give these firms a financial stake in the nascent market while leaving them free to focus their time and resources elsewhere. Then, in addition to this important lure, Saturn was willing to be the antileader to the dominant firm. This willingness was key. The potential partners feared the leader and battled this dominant firm in multiple markets (e.g., optical, landline, wireless). As Saturn's CEO explained: "All of them were worried about [the leader] and we were the anti-[leader], so it was a chance for them to team up with somebody that was taking [the leader] on." To the surprise of Saturn executives, all five target partners agreed to ally. Two then agreed to equity investments. When the others found out, they clamored to invest as well. These alliances were costly to Saturn because they required disclosure of private information and diluted ownership when the firm already had sufficient financial resources. However, the goal of demarcating a clear perimeter that clarified Saturn's boundary relative to threatening firms outweighed the drawbacks. Antileader positioning and equity investment thus transformed five very large firms from potential competitors into partners and further defined the industry structure. An industry expert noted:

> 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.

As the market grew, successful co-optation of Saturn's partners required continual attention and further incentives to keep them from becoming competitors. For example, a year later, Saturn executives deepened their alliances with several partners via revenue-sharing agreements. These were distribution ties 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 products' revenues. An industry expert commented on the success of one of these agreements: "Saturn's partner was selling a remarkable amount, like a hundred million dollars, of their gear. That was a great partnership."

Overall, Saturn was successful in demarcating the market by using alliance mechanisms to create viable industry roles for potential competitors and deter their market entry. Of course, Saturn did not deter the market leader, which became a competitor. Still, the combination of a strong technology, growing awareness of Saturn by key market audiences, and the transformation of some potential competitors into partners enhanced Saturn's competitive strength, leading to a duopoly between Saturn and the leader. As an analyst noted, "The market became a two-horse race."

Secret is a second example. As noted earlier, its executives were constructing a nascent market focused on trust services in digital commerce. They anticipated that several large firms in the banking, telecom, and software markets might become competitors, especially if Secret succeeded. Soon after the firm's founding, Secret's executives organized several brainstorms to identify the firms most likely to become competitors in order to try to deter their entry. Secret's CEO explained:

> 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.

Secret's executives chose equity investment as their initial alliance mechanism to co-opt these firms. They spent a few months negotiating a round of equity financing with several of them. Much like Saturn's executives, those at Secret were not particularly concerned with young firms that were perceived by others as their rivals. An executive confirmed: "We were not afraid of our [entrepreneurial] competitors. We were always afraid of the bigger people . . . whether it's First Data or IBM or Microsoft." So, their strategy was to anticipate the future moves of these established firms before their executives recognized the promise of the nascent market. They hoped that an equity stake in Secret would encourage these potential competitors to focus elsewhere. As Secret's VC explained:

> 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.

A few months later, Secret announced an equity investment round that included several large potential competitors from proximate markets. Although these alliances provided attractive resources and prestige for Saturn, our interview and archival data clearly reveal that Secret executives were strategically focused on deterring competition and demarcating the nascent market. They wanted Secret's position clarified and wanted these potential competitors to take on supporting industry roles. Thus, their actions were designed to set the organizational boundary, demarcate the market perimeter, and define nonrival industry roles. The CEO explained: "We have kind of also created a demilitarized zone for ourselves. I think that was very important." Secret's VC went further: "They [the equity investment alliances] did have material consequences. They established us as the leader."

Anticipating that the effectiveness of equity investments to deter competition might wane if the nascent market grew, Secret executives proactively continued to discourage competition by offering revenue-sharing agreements. For example, Secret successfully sought an alliance with a leading potential competitor by redirecting some of Secret's activities so that this firm became a supplier, not a competitor. Secret executives also created an affiliates program to entice potential international competitors to sign revenue-sharing agreements. Secret gave these firms a portion of in-country revenues and a complementer role in their geographic regions. According to the CEO, "The affiliate model was put out so that we could get into bed with phone companies." As a result, Secret avoided competition with another group of powerful established firms. Overall, Secret's alliances deterred competition. In fact, no established firm chose to compete directly with Secret. As one industry expert noted, "Secret has little direct competition."

Saturn and Secret executives anticipated competitive threats from established firms and proactively blunted them; other entrepreneurs were neither as prescient nor as effective. Nonetheless, even modest attempts at demarcating often sharpened organizational boundaries, further defined markets, and delayed competition. Haven illustrates these points. Haven executives began using alliances to deter competition and demarcate the firm's market several years after founding (in contrast, Secret and Saturn began much earlier). Because of this delay, the nascent market was less ambiguous and more attractive for established firms. Haven executives identified three powerful established firms that were significant competitive threats because of their well-known aggressiveness and proximate markets. These firms possessed crucial resource advantages (including much larger customer bases, deeper pockets, and more reliable technologies). Although Haven's executives approached all three firms with revenue-sharing agreements, they were successful with only one. Even that deal was painful for Haven. It deeply divided the executive team because it required Haven to sign an agreement that included an expensive advertising contract (the initial down payment consumed half of Haven's annual marketing budget) in exchange for exclusive access to that firm's customers and a "noncompete" 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 Haven was already gaining customers. The deciding factor was their belief that blocking competition from this leading firm was worth the price. As a board member put it: "We were paying that amount to prevent [the large potential competitor] from entering the business." As in the other ventures, a power-driven, monopolistic logic was decisive in shaping organizational and market boundaries.

Simultaneously, Haven executives were also negotiating alliances with the two other possible competitors. Unfortunately, executives at these firms perceived Haven's nascent market as a very attractive extension of their own markets. After several months of secret negotiations, they each offered to acquire Haven instead of allying. Haven executives deliberately prolonged the subsequent acquisition talks to gain more time to establish Haven in the market. They had no intention of being acquired. Eventually the acquisition offers were withdrawn. The CEO of one of those firms described his final negotiating instructions: "OK, then let's stop talking to them because we really want to build our own. Then we'll go kill them!" These two firms intensely competed against Haven for two years. Nonetheless, the alliance with the first firm and the negotiation delays with the others gave Haven a lead. This lead, coupled with fortuitous network effects and an increasingly compelling identity (see the prior section), helped Haven win over the competition.

As in claiming, in demarcating the market our sample exhibits useful variation: not all the sampled entrepreneurs engaged in market demarcation. At Magic, for example, executives were aware of established firms that might compete with their venture, but they did not pursue alliances to deter their entry. Instead, when several large firms proposed alliances, Magic's executives rudely rejected them. A Magic VP noted, "We thought that those companies were old-fashioned and that they could never really compete with us." Rather, Magic invested in equity alliances with small ventures. Unfortunately, two rejected suitors entered the market and competed surprisingly well against Magic. They forced the company into price wars and high expenditures that brought four years of losses. Ironically, not only did Magic fail to avoid strong competition from established firms—the venture also lost most of its investment in its small allies when many of these firms failed.

Table 3 compares the firms' use of alliance mechanisms to demarcate markets. As shown, entrepreneurs who proactively use a mix of alliance mechanisms (i.e., equity, revenue sharing, antileadership) to define their organizational boundaries are likely to face less competition from established firms and create a more delineated industry structure around their markets. Thus, though claiming activities help entrepreneurs to achieve cognitive dominance, demarcating is a powerful *co-opting* process that helps firms achieve competitive dominance. Demarcating alliances cancel or at least delay competition from established firms, thus favorably shaping competitive dynamics.

The demarcating process is effective for several reasons. First, alliances exploit the natural tendency of large firms to delay entry into nascent markets until these markets are well defined (Ozcan & Eisenhardt, 2009). Executives in established firms often believe (and rightly so) that they can delay entry and still be effective competitors (Markides & Gerosky, 2005). Moreover, they often prefer to approach nascent markets by creating "real options" such as ties to new firms that provide learning opportunities and potential steppingstones to accelerated market entry.

Second, these alliances are also effective because they enable entrepreneurs to use self-serving illusions. For example, entrepreneurs were more effective in demarcating their markets when they created the impression that they were open to being acquired by their partners even when they were not. Similarly, when alliance attempts failed, entrepreneurs sometimes pretended that they wanted to be acquired when they were actually delaying their would-be buyers to postpone competition and increase their own strength.

Third, the demarcating process relies on timing. We observe that demarcating is most effective when entrepreneurs anticipate threats early, pre-

TABLE 3
Demarcating the Market

	Overall Rating[a]	Mechanisms for Co-opting Alliances: Equity Investment	Revenue-Sharing Agreement	Antileader Positioning	Result[b]
Definition		Sale of equity stake to established players in nearby markets.	Contract that gives payments to players in nearby markets for advertising, supply or distribution.	Frame venture as main adversary of the dominant established firm in a nearby market.	
Rationale		Deter entry by giving indirect participation in success of firm.	Deter entry by giving direct participation in success of firm.	Deter entry of lesser firms by confronting leading firm for them.	
Secret	++++	++ Round of financing with ten key potential entrants. Structured industry roles.	++ Co-opted largest player in nearby market. Created affiliates program for potential carrier entrants.		*Low competition* Five major firms became partners. No market entry by established players. "*Secret has little direct competition.*"
Saturn	++++	++ Round of financing with five potential entrants. Did not approach leader.	+ Co-opted three major players with distribution agreements.	+ Attracted five 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.*"
Haven	++		++ Approached three 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, and then entered. "*Competitive intensity between the companies is rising dramatically.*"
Midway	++		+ Co-opted two 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* Limited early competition. Then much competition. "*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 small players in nearby markets.		*Highest competition* Powerful players entered. Intense price wars, high investment, and losses. "*In the midst of a furious battle between Magic and competitor for hegemony.*"

[a] To rate use of mechanisms for co-opting alliances, we assigned each firm a "+" for each mechanism used and a "++" if a firm used the mechanism early and proactively.

[b] We measured *level of competition* by the strength of rivalry in a market four years after founding, using external archival sources. "Low" refers to no significant competition; "medium" refers to a duopoly; "high," to an oligopoly; and "highest," to an oligopoly in which the focal firm was forced into strong price wars.

emptively approach the established firms, and offer something very significant (e.g., an equity stake, revenue sharing, and/or strategic value against a leading firm that often becomes an enemy) to entice potential competitors to be partners. Moreover, effective demarcating is a continuous process. As nascent markets become successful, established firms become more interested in market entry.

Thus, co-optation incentives need to be enhanced. For example, Midway (a venture establishing a new software market) was able to form demarcating alliances with major firms, turning potential competitors into complementers and buyers. But Midway did not enhance the enticements for these firms over time. As the market blossomed, their partners became competitors.

Finally, the demarcating process relates to the role of alliances in theories ranging from transaction cost economics and resource dependence to the resource-based view of the firm. Advocates of these theories often regard alliances as a means to access resources (Dyer & Singh, 1998; Gulati, 1998; Hallen, 2009; Katila, Rosenberger, & Eisenhardt, 2008). Although our data confirm that gaining resources can be a rationale for alliances, it is not always the driving force. Rather, alliances can be used to delay competition and define a favorable industry structure by deterring the entry of strong potential competitors, clarifying a firm's boundaries vis-à-vis others, and creating supporting roles for potential competitors as suppliers, complementers, and buyers. Thus, we assert that power and co-optation, not just resources, are central to why firms seek alliances.

Controlling the Market

Entrepreneurs in nascent markets typically face entrepreneurial rivals, and these may have different resource combinations and alternative market conceptions. Given high ambiguity, entrepreneurs are usually unable to anticipate whether these entrepreneurial rivals will outcompete them, be irrelevant, or be acquired by established firms as stepping-stones into the market. Given the possible competitive threat from these rivals, our data indicate that entrepreneurs try to control the market by overlapping their organizational boundary with the market boundary in such a way that their firm occupies as much of the market space as possible. This is achieved through acquisition (and often destruction) of the resources of entrepreneurial rivals.

Our data indicate that entrepreneurs use three types of acquisition mechanisms to control markets: *elimination of competing models, increasing coverage,* and *blocking entry.* "Elimination of competing models" is an acquisition mechanism aimed at destroying the resources of threatening rivals. These rivals usually have resources or business models that could be superior or otherwise damaging to a focal entrepreneur's control of a nascent market. After the acquisition, these resources are destroyed or blended into the acquiring firm to make its resource portfolio more robust. "Increasing coverage" is an acquisition mechanism that expands an acquirer's presence into emerging areas of a nascent market (e.g., new geographical regions, new categories of users) so that the boundaries of the market and firm continue to be aligned as the market expands. "Blocking entry" is an acquisition mechanism aimed at removing possible stepping-stones into a market. The possibility that established firms could easily enter the market by acquiring these rivals is the main concern being addressed, not fear of the rivals per se. This type of acquisition often concludes with disposal of the acquired resources.

An example is Midway. Its founders addressed a nascent market related to "middleware" (software that functions in the area between an operating system and applications), and they adopted the identity of "operating system of the Internet." As discussed earlier, Midway executives tried to ally with several established firms that were potential competitors. However, they also faced entrepreneurial rivals that were addressing roughly the same nascent market. Therefore, they took several steps to control the market. First, they increased coverage of the market by acquiring several small rivals in different geographic locations. This acquisition spurt enhanced Midway's market coverage and greatly reduced the possibility of viable rivals emerging in these locations. Later, Midway phased out the acquired products and dispersed their resources, except sales and service staff.

Having increased their market control, Midway executives next contacted their main rival. This firm had a similar technology but a different distribution model (i.e., a third-party sales channel) that was not working well. Its sales were stagnant. Although it was clear that Midway was gaining against this rival and did not need its resources (Midway possessed similar technology, better marketing resources, and its own sales force), Midway executives still wanted to make a blocking entry acquisition to prevent established firms from easily entering the market by buying this rival. Since the two ventures owned the only software products based on a critical technology, this acquisition would also allow Midway to block access to key patents. Indeed, Midway's CEO acknowledged the intentional obstruction of two specific established firms:

> The primary reason to make this acquisition 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 service people to their own software product. As a result, Midway became the undisputed market leader and significantly delayed the entry of the two threatening firms. These established firms needed an additional 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 eliminating competing models via acquisition was worth the cost. Although doing so was expensive, they decided to acquire two ventures with threatening technical resources. These acquisitions gave Midway executives time to upgrade their own technology, using in-house resources plus resources from the acquired firms. Overall, Midway executives enhanced their market control through aggressive acquisitions that gave the firm broad coverage, eliminated competing resources, and removed stepping-stones into the market. Despite the strong challenge from the leader in a proximate market and the breakdown of its demarcating alliances over time (see the prior section), Midway's proactive use of acquisitions to control the market helped the firm to reach roughly 60 percent market share five years after founding.

Another example is Haven. Three years after founding, Haven was becoming a leading firm in its market. But it was not the cognitive referent, had allied with only one established potential competitor, and faced competitive challenges from two other established firms (see prior sections). Simultaneously, numerous new firms were vying for roughly the same market space. Thus, Haven executives decided that controlling the market was crucial to their survival. They set up a "war room" in their headquarters, complete with camouflage decorations and military items, where they would regularly discuss the moves of their most important rivals. This militaristic mind-set translated into aggressive acquisition of entrepreneurial rivals to control the market. First, Haven executives acquired a rival that was second only to Haven in number of users. This company was not a threat by itself, since it was much smaller than Haven. But established firms could have easily used it as a stepping-stone into the market because its technology and customer base would have been valuable for a quick market entry. Haven's press release benignly framed the acquisition as a synergistic move to add valued resources: "We believe that [the acquisition] will ultimately bring a great deal of value to our communities." Yet internal informants revealed a strategic logic very different from that in the firm's press releases and media coverage. For example, an executive stated, "The move [the acquisition] was as much defensive as it was offensive." Another expanded:

> The real concern was the prospect that a larger company might buy this venture and use it to launch a competing service. These concerns were well founded. Haven did not know it, but a large player was making such an overture to the venture at the same time.

Not surprisingly then, Haven gave the acquired firm little postacquisition attention and quickly phased it out. Nevertheless, the acquisition blocked the entry of the two major firms with which Haven had failed to ally 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 this firm began to grow, Haven executives decided to make an acquisition to eliminate a competing model, a model that would be particularly threatening if acquired by a powerful player. An executive at Haven said, "We also felt that there were some companies interested in [the alternative firm] and that could be a way for them to build the competing business model." After the acquisition, Haven executives added some aspects of that business model to their main offering and so enhanced their resistance to similar threats in the future.

Shortly after this acquisition, Haven executives realized that their market was becoming global when they saw several entrepreneurial rivals imitating their business model in Europe and Asia. These firms, they saw, might eventually become large and control their local markets, or be acquired by a powerful firm looking to compete with Haven. Given the strong network effects present in their business, timing was of the essence. Therefore, Haven executives made several acquisitions that increased the size of the firm's footprint in the expanding global market. In one country, they transferred the customers to Haven's services while they disposed of other acquired resources. In the others, they left the acquisitions as stand-alone businesses. Overall, by using acquisitions to block entry, eliminate competing models, and increase coverage, Haven executives strengthened their control of the nascent market and overcame their early failures in becoming the cognitive referent and coopting powerful players. With these moves, coupled with helpful network effects, they gained market control, taking an 80 percent market share five years after founding.

Midway and Haven were particularly aggressive in attempting to control their markets; the other sampled firms were less so. For example, after their early success in claiming the market, Magic's executives were too confident in their ability to defeat established firms. As a former employee recalled:

> He [the founder] suffered from the classic problem of overconfidence . . . now, you need some of that if you want to be an entrepreneur and want to build any level of success. You need unbridled ambition and you need to be confident of yourself. What can trip you up is if you're overconfident.

So while Magic executives, led by their founder, considered acquisitions to block the entry of established firms, they did not pull the trigger. In one crucial case, they decided that the price for a failing rival was too high. Unfortunately, an established firm bought this rival, used its resources to enter successfully, cut prices, and gained market share at Magic's expense. Although Magic executives made a few small acquisitions, these were aimed at internalizing new technologies. Overall, Magic's weak attempts to control the market were instrumental in eventually capturing only a 30 percent market share.

The most extreme case is Saturn, where executives initially were philosophically opposed to acquisitions. Saturn's CEO said, "I am very conservative because I still think you build companies the old fashioned way and you cannot cheat [i.e., grow by acquisition]." As noted earlier, Saturn had initially developed strong alliance relationships with five major established firms that helped to demarcate the market. Although two of these firms remained partners, the others decided to compete with Saturn when they saw its success. Since Saturn had not attempted to acquire any of the new ventures that had also sprouted in the market, these ventures were readily available as stepping-stones for Saturn's erstwhile partners. The former partners bought several of Saturn's entrepreneurial rivals, fueled them with new resources, and quickly established market presence. One of these acquired rivals became a very significant competitor. Unfortunately, this occurred just as the leading firm (the dominant one against which Saturn had used anti-leader positioning) launched an aggressive attack against Saturn. Faced with the possibility of slipping into third place in the market, Saturn executives finally began to use acquisitions to control the market. But the price was high. For example, Saturn had to make a very rich cash-based offer of 30 percent of Saturn's market capitalization to buy a fast-growing rival that other firms were also pursuing. Although late and expensive, this drastic move enabled Saturn to maintain a market duopoly.

Overall, our data indicate much variation in the use of acquisitions to control the market. Table 4 presents these data. More significantly, entrepreneurs who acquire entrepreneurial rivals to control a market are likely to achieve a higher market share. Thus, we identify controlling as an ownership-based process by which entrepreneurs favorably structure competition. By using acquisitions to eliminate alternative resources, cover expanded market areas, and remove stepping-stones, entrepreneurs are able to reduce rivalry (a key feature of industry structure and predictor of profitability) and enhance competitive advantage by making their own resources rarer (Peteraf, 1993).

The controlling process is effective for several reasons. First, acquisitions exploit the tendency of entrepreneurs to prefer acquisition by other ventures to acquisition by established firms. Indeed, research focusing on the seller side of acquisitions (Graebner & Eisenhardt, 2004) indicates that entrepreneurs prefer to be bought by other entrepreneurs (even at a lower price) because they perceive greater cultural fit and a higher likelihood that their venture will add value inside the buying firm. Although these sellers may later be disappointed (Graebner, 2009), this tendency to prefer entrepreneurial buyers makes it easier for entrepreneurs to engage in controlling acquisitions because targets are more likely to acquiesce and sell for a lower price, thus making them willing and affordable sellers.

Second, acquisitions are often effective because they enable entrepreneurs to engage in self-serving illusions. Since acquisitions are usually negotiated in secret, entrepreneurs can more easily disguise their intentions. Graebner (2009) found that buyers often create the illusion that they want to capitalize on synergies and that they intend to "grow" the acquired firm. Indeed, our data indicate that public statements of entrepreneurs are often benign, but their private statements and later actions are clearly predatory. Buyers often also emphasize the cultural fit between their firm and a target, although again this may be illusory (Graebner, 2009). Such use of illusions improves the chances that the target will agree to be acquired.

Finally, the controlling process has implications for the resource-based view of the firm and the acquisitions literature. The resource-based view emphasizes using acquisitions to obtain resources (Ahuja & Katila, 2001; Capron, Dussauge, & Mitchell, 1998) and achieve synergies (Graebner, 2004; Larsson & Finkelstein, 1999). Although we saw this logic (e.g., Magic), we also observed that well-timed acquisitions were often used to cancel rivals and block the entry of established firms. The destruc-

TABLE 4
Controlling the Market

	Overall Rating[a]	Controlling Acquisitions: Elimination of Competing Models	Controlling Acquisitions: Blocking Entry	Controlling Acquisitions: Increased Coverage	Result[b]
Definition and rationale		Acquisition of threatening rival firm 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).	
Outcome of acquisition		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	++++++	++ Two acquisitions of ventures with competing technology (one closed, one combined). "*We could potentially be sideswiped by the emergence of this technology.*"	++ One acquisition to control all patents (closed). "*The primary reason was that neither A or B ended up with the technology.*"	++ Seven 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
Haven	+++++	++ One acquisition of threatening business model (combined). *"We could learn as much from them as they could learn from us."*	++ One acquisition to block entry by acquisitive established firms (closed). *"The real concern was that a larger Internet company might buy firm and use it to launch competing service."*	++ Six acquisitions in both new types of customers and geographies (combined). *"We did not integrate immediately because they were growing fast."*	Leadership ~80% share
Secret	++++	++ One acquisition of competing technology (closed). *"Their technology did not have the same dependence as ours."*		++ Four acquisitions to add new types of customers (combined). *"It was really just to give us a beachhead in the enterprise market."*	Leadership ~80% share
Magic	++	+ One small acquisition of threatening business model (closed down and relaunched as new complementary service).	Failed to make a key blocking acquisition that became a stepping-stone.	+ Two acquisitions to add geographic coverage. "*We bought companies because it was a quicker way to get off the ground.*"	Leadership ~30% share
Saturn	++	+ One late, very expensive acquisition (combined).	Failed to make key blocking acquisitions that became stepping-stones.	+ Two late acquisitions to add new customer types. "*What we wanted to do was to get a foothold into the cable operators.*"	Second place ~20% share

[a] To rate use of controlling acquisitions, we assigned each firm a "+" for each acquisition mechanism used and a "++" if a firm used that mechanism early and proactively.

[b] We measured *market share* by the percentage of total sales obtained by a focal firm in its market five years after founding and *leadership* by whether the firm had largest share. External archival sources were used for data.

tion of acquired resources is a particularly striking feature that we observed but that is largely ignored in the resource-based literature. This finding supports recent calls to examine decisions about resources using a power perspective (Chatain & Capron, 2008). It also implies that the widely noted high failure rate of acquisitions may be overstated because it neglects this resource-destroying rationale. In fact, many acquisitions in our data were portrayed as failures in the media because they did not lead to new business initiatives. Yet our data clearly show that these acquisitions helped ventures to control their markets, making them actually quite successful.

A MODEL OF ENTREPREURIAL ACTION IN NASCENT FIELDS

In prior sections, we sketched the processes that emerged from our data through which entrepreneurs in nascent fields shape their organizational boundaries and construct their markets. These processes suggest three corresponding propositions:

Proposition 1. Firms that proactively use identity-claiming mechanisms (i.e., templates, stories, and leadership signals) are more likely to become the cognitive referents in distinct markets.

Proposition 2. Firms that proactively use demarcating alliances with established firms (i.e., revenue sharing, equity investment, antileader positioning) are more likely to face lower levels of competition.

Proposition 3. Firms that proactively use controlling acquisitions of entrepreneurial rivals (i.e., elimination, market coverage, entry blocking) are more likely to have higher market share.

More broadly, our findings offer a holistic (i.e., relatively complete and integrated) view of how entrepreneurs shape organizational boundaries. Rather than optimizing atomistic boundary decisions of limited importance, successful entrepreneurs interrelate decisions to form patterns of boundary processes. These boundary processes are reinforcing because they operate in interrelated domains—cognitions in the emerging field, relations of key players with the nascent market, and resource distribution in the market. By operating in multiple domains, entrepreneurial actors broaden their repertoires of strategic actions to shape the market and achieve dominance. For example, alliances parry *potential* competitors that are too large to acquire, while acquisitions eliminate *actual* smaller rivals that are affordable. Since both mechanisms restrict competition and create a favorable industry structure, they enhance the competitive position of the young firm.

Interestingly, combinations of these boundary processes are often synergistic. For example, the successful claiming activities at Secret enhanced the market profile of the firm and so increased the likelihood of enticing established firms to form alliances that demarcated the market. In turn, successful alliance formation made Secret a more central actor in the nascent market, reinforcing its claiming activities. Acquisitions carried out to control the market were made easier by the claiming activities that made Secret a more attractive buyer. Its demarcating alliances also eliminated some rival buyers for the targeted ventures. Thus, the three boundary processes were closely intertwined and enabled Secret to achieve a dominant position in a distinct market. In contrast, Magic executives did not support their successful claiming process with either demarcating alliances or controlling acquisitions. As a result, they faced intense competitive pressures and pricing wars. Only their very large IPO war chest, which was substantially aided by their claiming process, prevented failure.

In summary, this holistic view suggests that boundary processes depend on and reinforce each other, operating in different but interrelated domains of the institutional fabric (e.g., cognitions, relations, and resources). As a result, they are interactive and synergistic, not atomistic.

Proposition 4. Entrepreneurs that intertwine boundary processes are more likely to (a) become the cognitive referents in distinct markets, (b) face lower levels of competition, and (c) have higher market share.

Further, our analysis points to the key insight that power is the unifying boundary logic. Although other logics are present in our data, power is dominant. For example, though claiming activities can sometimes enhance legitimacy, which is consistent with an identity-based logic (Lounsbury & Glynn, 2001), our findings emphasize the power logic of achieving dominance by becoming the cognitive referent in a market. Similarly, while acquisitions and alliances add resources and are sometimes undertaken with competence and/or efficiency logics in mind, they too are often motivated by a strategic interest in competitive dominance. An informant confirmed the role of power in driving decisions:

> We felt that we were going to get more market power, which was our goal, and pick up the scale economies. But we wouldn't have done it just for

scale economies [efficiency logic]. Market power was the driving reason.

Our inductive analysis reveals that entrepreneurs actually wield power by relying on a strategy of using soft power. Recent work in political science (Nye, 2004) distinguishes "hard power," which is based on coercion, direct rewards, and extensive resource deployment to force others' behaviors, from "soft power," which is based on subtle influence mechanisms that cause others to willingly behave in ways that benefit the focal agent. Management scholars have used this distinction to describe effective behavior toward complementers (Yoffie & Kwak, 2006). Similarly, we adopt the concept of soft power because it captures well the strategy and underlying tactics that entrepreneurs in young ventures use to construct and dominate nascent markets.

One such power tactic that we observed is *illusion.* Illusion is the use of deception, such as shielding intentions and exaggerating one's importance to gain advantage. For example, emitting leadership signals (for instance, Secret's active setting of industry standards despite having only 20 employees and one lawyer) portray a firm's accomplishments and resources as greater than they actually are. Alliances are used to pretend to established firms that ventures are real options and open to a later acquisition when entrepreneurs have no intention of selling. Similarly, in acquisitions an illusion-wielding buying firm emphasizes synergy and common culture while obscuring its predatory intent.

A second power tactic is *exploitation of the tendencies of others.* Rather than attempting to force other actors to act in a desired way, entrepreneurs exploit their natural tendencies. For example, stories (e.g., the romantic story about Haven's founding) exploit people's tendency to be overly influenced by vivid stories with personal details (Nisbett & Ross, 1980; Rindova, Pollock, & Hayward, 2006). Similarly, offering their firms as partners to established firms in alliances that demarcate the market exploits the tendency of established firms to delay entry until market attractiveness is established (Markides & Gerosky, 2005). Likewise, the use of acquisitions to blunt the competitive impact of young rivals exploits the preference of entrepreneurs to be bought by other entrepreneurs (Graebner & Eisenhardt, 2004).

A third power tactic is *timing* (either preemptive or delaying). Like the executives of established firms (Katila & Chen, 2008), entrepreneurs strategically use asynchronous timing to their advantage. For example, preemptive use of templates can lock in a focal firm as the cognitive referent in its nascent market before other firms take action (e.g., Magic). Preemptive alliances can tie up would-be competitors in contractual obligations before they fully realize the market's potential (e.g., Secret). Preemptive acquisitions can eliminate steppingstones into the market before others can use them. Similarly, delaying can be advantageous (for example, Midway used acquisitions to buy rivals and gain patents that delayed entry by large competitors; Haven delayed negotiations with potential buyers to gain position).

Taken together, these soft-power tactics offer insight into *why* the boundary processes that we observe are effective, and *how* they enable new firms in nascent markets to gain advantage and even dominance over established firms and entrepreneurial rivals:

Proposition 5. Firms that use soft-power tactics to shape boundaries (i.e., illusion, exploiting others' natural tendencies, timing) are more likely to achieve (a) cognitive dominance (become the cognitive referent in a distinct market) and (b) competitive dominance (face a lower level of competition, have greater market share).

Finally, our emergent theoretical model suggests that these boundary processes enable firms to construct distinct markets in which they sustain near monopolies. By combining processes from different domains of action (i.e., cognitions, relations, resources) and intertwining market and firm boundaries, entrepreneurs can structure a market space to their advantage and develop a dominant, sustainable position. For example, Secret's proactive use over time of claiming, demarcating, and controlling processes contributed substantially to its ability to develop and sustain a near-monopoly position in its constructed markets, becoming the cognitive referent, with very few competitors and an over 80 percent market share after five years. In contrast, Saturn's less consistent and effective use of these same processes hampered its ability to establish a distinct market and remain its clear leader.

Proposition 6. Firms that, over time, proactively combine claiming, demarcating, and controlling boundary processes are more likely to sustain near-monopoly positions in constructed markets.

A key issue is whether post hoc "sensemaking" influences our findings. As noted earlier, we reduced this possibility by triangulating real-time information with retrospective accounts and by using a data collection approach that reduces informant bias (Huber, 1985; Huber & Power, 1985). In fact, only a few informants could describe the “big picture” of what had occurred at their firms. Thus, it seems unlikely that informants with different information, focused on different decisions at varied times, and at very different firms with diverse starting positions, would have exhibited similar retrospective sensemaking. Finally, our findings do not require hyperrationality among the entrepreneurs. Although they shared the central challenge of succeeding in nascent markets, our entrepreneurs often approached this challenge by taking actions as events unfolded and learning from mistakes. Thus, our entrepreneurs plausibly described a blend of emergent and deliberate actions, together with mistakes and serendipitous learning that occurred while they were trying to succeed in nascent markets.

DISCUSSION

We add to the study of organizational boundaries and market construction. Our core theoretical contribution is a holistic framework of the longitudinal processes by which successful entrepreneurs shape organizational boundaries and construct new markets. Table 5 summarizes this framework. These processes rely on boundary mechanisms operating in three distinct domains: cognitions (i.e., shaping meanings and becoming the cognitive referent in a market), relations (i.e., bounding and defending the market by creating industry roles for powerful others), and resources (i.e., owning as much of the market space as possible). Collectively, they explicate how entrepreneurs interrelate decisions over time to shape boundaries and construct markets to their advantage.

A more fundamental contribution is the reinvigoration of interorganizational power. We find that power is the underlying theoretical logic—that is, successful entrepreneurs adopt a monopolistic imperative of dominating a market that they construct. They approach this imperative by linking their organizational boundaries with market construction using soft-power strategies. As Alvarez and Barney (2007) argued, a central debate in entrepreneurship is whether new markets constitute opportunities waiting to be discovered by alert entrepreneurs (Kirzner, 1997; Shane & Venkataraman, 2000) or whether new markets are actually willed into existence by savvy entrepreneurs (Rindova & Fombrun, 2001; Sarasvathy, 2001). Although opportunities matter, we find that entrepreneurs engaging in power-based, firm-centered strategies can play a critical role in shaping new markets.

Ties to Institutional Entrepreneurship

Responding to calls for studying interest and agency (DiMaggio, 1988; Fligstein, 1997), scholars have extended new institutional theory from conformity to entrepreneurial action. In particular, institutional entrepreneurs are those individuals and organizations that engage in creative activities to produce or change existing institutional arrangements (Hwang & Powell, 2005). Thus far, institutional entrepreneurship research has focused on collective actions by which industry groups (Rao, 2004), state actors and nongovernmental organizations (Maguire & Hardy, 2006), corporate elites (Greenwood & Suddaby, 2006), and social movements (Sine & David, 2003) legitimate new organizational forms and institutions, often using the media (Kennedy, 2005; Rosa, Porac, Runser-Spanjol, & Saxon, 1999). Our contribution is to emphasize how individual entrepreneurial firms (*not* collectives) that are peripheral (*not* central or elite) in existing institutional fields use a broad range of boundary mechanisms to construct new markets and become dominant (*not* just legitimate) firms.

Our model is consistent with elements identified in institutional research, namely, the importance of (1) analogies for “sensegiving” in nascent markets (Gavetti et al., 2005; Leblebici et al., 1991), (2) a balance between familiarity and novelty (Hargadon & Douglas, 2001; Maguire & Hardy, 2005), and (3) the role of stories (Lounsbury & Glynn, 2001). Like the models of others (Suddaby & Greenwood, 2005), our model emphasizes language and rhetorical framing. However, while institutional theory focuses on *legitimacy* and cognitive-based strategies, we focus on *dominance* and integrate cognitive and competitive strategies. In particular, legitimacy centers on winning a contest to become the appropriate institutional field or organizational form (Suchman, 1995); dominance centers on how an individual firm wins both cognitive and economic competitions. Our contribution is thus a holistic view that infuses new institutional theory with themes of power, self-interest, and dominance at the firm level, themes that ironically began in the often neglected “old” institutional theory (Selznick, 1949). We show how seemingly disparate boundary strategies are interrelated, why they are effective, and how actors use them strategically to become dominant firms, not just legitimate forms.

The Role of Ambiguity in Market Creation

The entrepreneurial actions that we identify are facilitated by the ambiguity of nascent markets. The fluid social structure and multiple possible mean-

TABLE 5
Framework for Constructing Markets

Scope conditions: High-ambiguity environment (e.g., nascent or destabilized market)

- Audiences are trying to make sense of the market situation and may be open to the structuring actions of entrepreneurs who try to enact a particular market conception.
- Nonexistent or fluid structure facilitates the moves of entrepreneurs to shape cognitions, relations and resources in the market to their advantage.

Elements	Claiming a Market	Demarcating the Market	Controlling the Market
Domain of actions	Cognitions	Relationships	Resources
Objective	Become cognitive referent in a distinct market.	Determine market perimeter, and define industry structure and roles for powerful players.	Cover market space, and eliminate or delay rivalry.
Dominant logic	Sensegiving	Co-optation	Ownership
Organizational capability	Shaping and promoting identity	Developing alliances	Making acquisitions
Mechanisms	Templates Leadership signals Stories	Equity investments Revenue-sharing agreements Antileader positioning	Eliminate competing models Increased market coverage Block entry of established firms
Quotes illustrating entrepreneurial mind-set in nascent markets	*"At the time, it was the wild west—there was no play book for the Internet or our space—we created the playbook."* *"Because we knew that by the end of 2000, we would pretty much have defined what the company stood for in customers' minds. . . . You have to do that stuff pretty fast otherwise by the time you get around to do it . . . you can't change people's perceptions about what you are."* *"We had a combination of a fortunate timing equation and a focused objective in what becomes—when history is written—a fundamentally different market."*	*"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."* *"So we have kind of also created a demilitarized zone for ourselves. We won't go above this area and get in their face on their mainstream product line. I think that was very important."* *"We were not afraid of our competitors. We were always afraid of the bigger people. . . . We tried to get them as customers because we didn't want them to say: "Hey, this is a lucrative market, let's get in there and compete against them."*	*"We felt that we were going to get more market power, which was our goal, and pick up the scale economies. We would not have done it just for scale economies. Market power was the driving reason."* *"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."* *"The real concern was the prospect that a larger company might buy this venture and use it to launch a competing service. These concerns were well founded. Harbor did not know it, but a large player was making such an overture to the venture at the time."*

ings of events in nascent markets make audiences receptive to new interpretations that reduce ambiguity. Interestingly, Weick argued that two reactions to ambiguity are possible: "Ambiguity understood as confusion created by multiple meanings calls for social construction and invention. Ambiguity understood as ignorance created by insufficient information calls for more careful scanning and discovery" (1995: 95). Building on this insight, we suggest that it is in the nature of entrepreneurs to deal with ambiguity through social construction, and it is in the nature of executives in established firms to react to ambiguity by scanning for more information. Thus, the latter may be open to and even seek the "sensegiving social construction" proposed by entrepreneurs. This notion leads to an intriguing view of nascent markets as competitive fields for alternative conceptions espoused by young firms vying for dominance, even as established firms wait on the sidelines for the outcome.

Yet establishing a winning market conception is a broader endeavor than, for example, establishing a new product concept (Garud & Rappa, 1994). A market conception includes structuring industry roles around an ambiguous market through negotiation of boundaries with powerful incumbents in proximate markets. This "structuration" differs from that suggested by others. For example, White (2002) argued that the key to understanding economic action is that producers seek market niches to maximize profit and minimize competition, a view that is consistent with our model. However, White argued that firms construct these markets by finding roles in relation to rivals to create a pecking order of quality (White, 1981, 1992). Instead, we find that entrepreneurs largely ignore their close rivals and proactively focus on establishing a structure of roles (e.g., suppliers, customers, investors, complementers) for powerful but more distant firms. In this regard, entrepreneurs become active shapers of a new industry architecture by defining boundaries and division of labor (Jacobides, Knudsen, & Augier, 2006; Ozcan & Eisenhardt, 2009). These actions, of course, require sharing information and regular resource exchanges, and can lead to dependence. Still, the key insight is that, despite often weak initial resources, entrepreneurs have the ability to engage established players, construct a market with a favorable industry structure, and achieve dominance. This ability is surprising and rests on the clever use of power.

Power as Dominant Logic

A key contribution of our work is a reinvigorated view of interorganizational power. Unexpectedly, we identify *power* as the dominant logic for boundary formation in nascent markets. The theoretical foundations of interorganizational power stem from classical work in organizational sociology and industrial organization. Work such as Selznick's (1949) study of co-optation, Thompson's insights on interdependence (1967), Zald's (1970) focus on open systems, and Pfeffer and Salancik's (1978) resource dependence theory emphasizes how organizations attempt to control key exchange relations to reduce the uncertainty they face. Work in industrial organization (IO) economics, such as Bain's (1956) analysis of barriers to competition and entry deterrents, and Porter's conversion of these ideas into a manual for strategic action (Caves & Porter, 1977; Porter, 1980), emphasizes how the manipulation of market structure by powerful firms can create sustainable advantage. Despite the strength of these ideas, as Mizruchi and Yoo noted in their review (2002: 602, 614), research on interorganizational power has stalled. They argued that contemporary research rests on distant, archival data that offer little insight into how firms actually exercise power. An in-depth field study such as ours thus provides an opportunity to reinvigorate power. Interestingly, we found that our private interview data, which were consistent with the actions taken by the firms, often revealed an anticompetitive power logic that was missing from archival data, like media reports and press releases, where boundary decisions were benignly framed using value creation arguments. This bias in archival data may help explain the novelty of our insights regarding the monopolistic imperative of entrepreneurs.

We contribute to a reinvigorated view of power in three ways. First, we extend theories of power to *ambiguous environments*. Resource dependence and IO economics focus on managing uncertainty in structured environments—that is, reducing the dependence of a focal firm on external forces. In contrast, we focus on ambiguous environments where there is little or no market structure, no clear meaning, and unknown dependence. Here, entrepreneurs attempt to reduce ambiguity while shaping a favorable market structure *before* others do it (Davis et al., in press). But to succeed, entrepreneurs must engage powerful others, and so often increase dependence. Of course, the traditional strategy of reducing dependence (Pfeffer & Salancik, 1978) would just isolate a venture and probably doom it. Thus, entrepreneurs need first to trade ambiguity (i.e., lack of meaning and structure) for uncertainty (i.e., dependence on others in a known structure that they help shape). Addressing the resulting uncertainty may then involve using traditional resource dependence mechanisms (Casciaro & Piskorski, 2005; Gulati & Sytch, 2007; Katila et al., 2008). In summary, we extend resource dependence to ambiguous settings by noting (1) an initial strategy of reducing ambiguity through favorable market structuring and (2) a later strategy, enacted after the market crystallizes, of managing the resulting uncertainty as suggested by current theory.

Second, we extend current theories of power to *entrepreneurial firms*. A key conundrum in IO economics and resource dependence theories is that they are one-sided and so do not fully resolve the issue of why one firm would accept reducing the dependence of another, particularly when dependence is asymmetric (Casciaro & Piskorski, 2005). Theorists have usually advocated hard-power tactics feasible for resource-rich firms in established markets, such as making major resource commitments to create entry barriers, threatening predatory pricing strategies that cut profits for all, and interlocking boards with powerful peers (Caves &

TABLE 6
Framework for the Use of Power by Entrepreneurs in Nascent Markets

Lacking traditional "hard" sources of power such as large scale, deep pockets, and a strong customer base, entrepreneurial firms can influence other market actors using "soft" sources of power that reduce market ambiguity and influence the actions of others.

	Claiming a Market	Demarcating the Market	Controlling the Market
Power logic	Identity-based actions can be used as sensegiving devices.	Alliances can be used to co-opt powerful players, not just gain resources.	Acquisitions can be used to cancel smaller rivals and block stepping-stones for larger ones.
Mechanisms	Adopting templates. Providing leadership signals. Disseminating stories.	Equity investments. Revenue sharing agreements. Antileader positioning.	Eliminate competing models. Increase market coverage. Block entry of established firms.
Underlying power strategies and why effective			
Timing	Enter early to reduce ambiguity for others.	Identify potential competitors early to preempt their entry.	Anticipate ventures with most threatening competing models.
Illusion	Provide symbols of legitimacy and power.	Provide illusion of being a "real option" for partners.	Disguise intentions to shutter acquired targets.
Exploit tendencies of others	Add familiarity into a novel product or service as users trust what is familiar.	Give sufficient incentive to keep partners from straying given their preference to focus on their own core markets.	Take advantage of ventures preference for entrepreneurial buyers, and established players preference for market entry through acquisitions.
Potential implementation pitfalls	Too late in creating identity. Identity is unfamiliar or boring. Identity is too close to nearby established market.	Underestimate threat of established firms. Provide too little incentive to partners to stay loyal. Choose wrong partners, e.g., small, young ventures.	Too few financial resources to buy most threatening targets. Too late to make blocking acquisitions. Targets refuse to sell.

Porter, 1977; Pfeffer & Salancik, 1978; Porter, 1980). These tactics are unrealistic for entrepreneurial firms. Rather, ventures usually begin with few resources, suffer from a "liability of newness," and have a "strategic manual" that advises conformity to established recipes and legitimating ties with high-status firms. Our contribution to resource dependence and other theories of power is to highlight the soft-power tactics of entrepreneurs—illusion, timing, and exploitation of others' natural tendencies—and to explain their effectiveness in shaping and dominating nascent markets.

Third, we note that *well-known mechanisms* (i.e., identity, alliances, and acquisitions) that are not often associated with power are actually part of a firm's strategic arsenal for creating dominance. For example, although identity can be a sense-making device for organization members (Corley & Gioia, 2004; Dutton & Dukerich, 1991), it can also be a sense-giving device to help a firm win the contest to be the cognitive referent in a market. Similarly, although alliances can access resources (Eisenhardt & Schoonhoven, 1996; Gulati, 1998), they can also co-opt potential rivals and favorably shape an emerging industry structure. Although acquisitions can bring in valuable resources (Ahuja & Katila, 2001; Capron et al., 1998), they can also block others' access to resources, destroy threatening resources, and eliminate competition. This latter finding brings a fresh perspective on acquisition performance. Acquisitions are often seen as failures when they do not lower costs or yield new businesses. Yet this reasoning fails to include what is clear using a power lens: acquisitions can be very successful when they help firms to dominate their markets. We thus offer a reminder that these common mechanisms (i.e., identity, alliance, and acquisition) often have power as a key strategic rationale. Table 6 outlines our framework for the use of power by entrepreneurs in nascent markets.

Overall, we contribute to a reinvigorated view of interorganizational power by offering a strategic theory of power that blends institutional (cognitive) and resource dependence (competitive) lenses. Our model is based on specific strategic actions that rest on the nuances of soft power. It is thus uniquely suited to understanding entrepreneurial actors with high aspirations in ambiguous settings and may explain how young firms are able to dominate nascent markets. This repertoire of actions may, in fact, constitute their primary strategy.

Conclusion

Our aim was to gain a holistic, longitudinal understanding of boundary work. We thus studied firms that were longer-lived, more visible, and more successful than many ventures. With regard to generalizability, it is critical to note that these firms operated in distinct areas and had very different starting conditions. In addition, not all firms began with superior resources, and most made major mistakes that added useful variance to our study. More significantly, the processes and underlying soft-power strategies that we observed are realistic for many entrepreneurs, albeit at a more local scale (such as claiming a market in a metropolitan area or small niche, allying with other neighborhood businesses, or consolidating with like-minded small firms). Thus, although we studied unusual firms, the strategic approach that we unveil may generalize to other ventures with high aspirations in nascent markets. The next step is empirical testing.

To conclude, our most important contribution is bringing power back into the discourse on strategy and organizations, particularly for entrepreneurial firms in nascent markets. Although recent research has emphasized social networks, dynamic capabilities, legitimacy, and innovation, we offer a strong reminder that agency and strategic action often rest on the rationale of power.

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