

Substantive and Evaluative Media Reputations Among and Within Cognitive Strategic Groups

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ABSTRACT

We integrate theory and findings from the strategic groups and reputation literatures to examine the consequences of cognitive strategic group membership and positioning within strategic groups on the media reputations of firms. We extend past discussions of media reputation to examine substantive media reputations based on the attributes that the media focus on when reporting on a firm and evaluative media reputations based on the favorability of this reporting. Overall, we find that differences in substantive media reputations reflect cognitive strategic group structure. Further, we find evidence that the strategic recipes of certain groups result in more favorable evaluative media reputations than other groups. Within a strategic group, we find that core firms conforming closely to the group's strategic recipe have more favorable coverage than firms that are more peripheral members of the group. These results speak to both the consequences of strategic group membership and the likely reputational consequences of conformity to versus differentiation from the core strategies within an industry. We offer several suggestions for future research on reputation and strategic groups. Corporate Reputation Review (2006) 9, 225–242. doi:10.1057/palgrave.crr.1550031

KEYWORDS: *banking; cognitive strategic groups; media reputation*

INTRODUCTION

Corporate reputation has received considerable academic and practitioner attention because of its relationship with performance, a central concern of strategic management (Rumelt *et al.*, 1994). Following Hall (1992) and Fombrun (1996), we view reputation as the perceptions held by stakeholders concerning a firm. Reputation can apply at multiple levels, such as the individual firm or the entire industry, and it can be assessed by different stakeholders (Fombrun, 1996; Carter and Deephouse, 1999). One important level in strategy is the strategic group, which represents a distinct group of firms within an industry that differ systematically from other firms along certain strategic dimensions (Caves and Porter, 1977; Hatten and Hatten, 1987). As such, strategic groups represent an intermediate level of analysis related to competitive behavior and performance that sits between industry- and individual firm-level analyses (Caves and Porter, 1977; Ketchen *et al.*, 1997). Ferguson *et al.* (2000) applied reputation to strategic groups using identity and domain consensus



theories. They found that different strategic groups of US property/casualty insurers formed using cluster analysis had different reputations for stability from the perspective of financial analyst stakeholders.

We extend this inquiry in three ways. We first consider a different type of reputation than that conferred by financial analysts, namely media reputation. Whereas existing research has considered the opinions of actors with expertise in an industry (Ferguson *et al.*, 2000), media reputation is linked to the attitudes and opinions of multiple stakeholders in the general public (Carroll and McCombs, 2003; Deephouse, 2000). This allows us to examine how external actors may use strategic groups as referents when assessing firm reputation. Further, we extend the concept of media reputation by analyzing two different types, not only evaluative attributes (Deephouse, 2000) but also substantive attributes in the content of media reports (Carroll and McCombs, 2003). Second, we examine media reputations in cognitive strategic groups, that is, those formed on the basis of managerial perceptions of competitors (Reger and Huff, 1993). This addresses concerns about validity and reliability of strategic groups identified through the use of cluster analysis of archival data (Barney and Hoskisson, 1990; Hatten and Hatten, 1987). Third, while we examine reputation at the strategic group level, we also extend the inquiry to include an assessment of reputational effects associated with positioning within a multi-firm strategic group as well as effects associated with staking out a unique market position. We do this by focusing on two firms in our sample that had staked out solitary strategic positions as well as by examining the effects of firms who are seen as core versus secondary members of a strategic group (Ketchen *et al.*, 1993; Reger and Huff, 1993). Based on this, we extend current literature by examining the reputational consequences of strategic differentiation within an industry and within

cognitive strategic groups. Our empirical site is the Minneapolis-Saint Paul commercial banking industry from 1993 to 1995.

Our paper is structured as follows. We begin by presenting an overview of research on strategic groups and reputation. Next, we develop hypotheses concerning differences we expect in the media reputations of different cognitive strategic groups and the effects we expect group membership to have on the media reputations of individual firms. After this, we discuss the methods we used to test our hypotheses and present our results. Our final section offers implications for research based on the strengths and limitations of our study.

THEORY

Strategic Groups

Strategic groups are sets of industry competitors that have similar characteristics (Caves and Porter, 1977; Ketchen *et al.*, 2004). Within an industry, there may be multiple strategic groups pursuing distinct strategies (Reger and Huff, 1993). Also, within a strategic group, there may be firms that conform closely to the group's strategy (core firms), and others that conform to some aspects of its strategy but not to others (secondary firms) (Ketchen *et al.*, 1993; McNamara *et al.*, 2003; Reger and Huff, 1993).

Researchers in strategic management have long debated the existence and importance of studying strategic groups (eg Barney and Hoskisson, 1990; Hatten and Hatten, 1987). Many argued that focusing on only the individual firm and the aggregate industry leaves out an important sub-industry aggregation, the strategic group (Caves and Porter, 1977; McNamara *et al.*, 2003). Literature suggests that firms within these groups will act similarly to each other (Fiegenbaum and Thomas, 1995), have different performance characteristics than firms in other groups (Cool and Schendel, 1987)

and may collude with each other (Caves and Porter, 1977). Empirical research is somewhat mixed but mostly supportive. Studies have found that group membership affects firm actions (Nair and Filer, 2003) and that moderate performance differences exist across groups (Ketchen *et al.*, 1997; Nair and Kotha, 2001). There is little evidence, however, of active collusion within groups (Cool and Dierickx, 1993).

Others argued that strategic groups are little more than analytical conveniences and there is little evidence that they actually exist (Barney and Hoskisson, 1990; Hatten and Hatten, 1987). These criticisms are especially acute given that the primary method used to identify strategic groups, cluster analysis, is biased to find groups even where they do not exist and produces unstable groups that vary dramatically with alterations in the variable set used in the clustering procedure (Barney and Hoskisson, 1990; Johnson, 1993). Supporters of cluster analysis responded by recommending a judicious selection of archival variables that captured product market and resource commitments, often in industry-specific studies, and careful application of cluster analysis (Cool and Schendel, 1987; Ketchen and Shook, 1996). Ferguson *et al.* (2000) used these recommendations in their research design that found that reputation differed by strategic groups.

To address the general concerns about cluster analysis, researchers have also examined the strategic groups concept using a cognitive lens and have concluded that the concept is valid and strategically important. Drawing from research in cognitive and social psychology, these researchers proposed that managers use grouping templates to simplify their perceptions of the industry landscape, resulting in what are called cognitive strategic groups (Porac and Thomas, 1990; Reger and Huff, 1993). Numerous studies have found that managers in a wide range of industries, such as knitwear

manufacturers, grocery stores and commercial banks, categorize firms in their markets into cognitive strategic group structures (McNamara *et al.*, 2003; Porac and Thomas, 1994; Porac *et al.*, 1989; Reger and Huff, 1993). Further, researchers have found performance differences across cognitive group boundaries in some industries (Osborne *et al.*, 2001; Reger and Huff, 1993).

While this research has identified a potentially important basis for understanding competitive groupings that develop in industries by illuminating the role of managers' cognitive group structures, few studies have explored much beyond examining the existence and basic structure of the groups. In one of the exceptions, Porac *et al.* (1995) examined the firm attributes that drive the structure of the groups. Also, Reger and Palmer (1996) and Hodgkinson (1997) assessed the degree to which individuals appear to alter their perceptions of group structures in response to environmental turbulence and found that these perceptions are resistant to change. Finally, McNamara *et al.* (2002) found that the complexity in the strategic group knowledge structures held by top managers has performance implications for the firm. Research to date has not, however, examined some key questions about these group structures, most notably how actors outside the industry use these structures as referents to guide their perceptions of firms in the industry, and the value of various strategic group positions (Ketchen *et al.*, 2004). This study contributes to addressing these concerns. By examining media reputation, we examine how actors outside of an industry may use strategic groups as referents when assessing firm reputation. We also investigate the reputational consequences of positioning within an industry by examining two firms that have staked out solitary strategic positions, and within a strategic group by examining core and secondary firms within a strategic group.



Reputation

Both academics and practitioners have had increasing interest in reputation. Following Hall (1992) and Fombrun (1996), we view reputation as the perceptions stakeholders have of a firm. An important factor in the growth of reputation research is the recognition that reputation can be a strategic resource leading to competitive advantage (Barney, 1991; Deephouse, 2000; Weigelt and Camerer, 1988). Moreover, surveys of corporate executives indicated that reputation is a key factor in attaining corporate objectives (Hall, 1992; Kitchen and Laurence, 2003).

Reputation has been most commonly measured using published rankings, custom surveys of key stakeholders, and media reports (Fombrun, 1998; Kitchen and Laurence, 2003). Each method captures a different aspect of reputation and has its own strengths and weaknesses. Published rankings of reputation, such as *Fortune* magazine's list of America's Most Admired Companies, offer measures of the reputation of major corporations among particular stakeholder groups, such as business elites. These rankings, however, only assess the reputations of large, publicly traded corporations and typically are based on data from one particular stakeholder or demographic group. Researchers can also use custom surveys of reputation, but these are difficult to conduct for a large number of firms. Additionally, longitudinal examinations of reputation are currently limited with this type of measure.

To allow us to examine the reputational consequences of the positioning of firms of varying size within a single industry, we focus on media reputation. Media reputation is an especially valuable measure when trying to assess the general reputation of the firm among a range of stakeholder groups since research indicates that media coverage is closely linked to public opinion (Carroll and McCombs, 2003; Lippmann, 1922; Schramm, 1949). Since many stakeholders do not have regular direct contact with a firm, they rely

on information intermediaries ('infomediaries'), such as rating agencies and the media, which help them make sense of a company's complex activities and thereby affect its reputation (Fombrun, 1996; Gotsi and Wilson, 2001). The media have a special place in the reputation process because they incorporate the perspectives of, and communicate to, many different stakeholders (Deephouse, 2000). Reflecting the key role of the media as an infomediary, Deephouse (2000: 1099) treated media reputation as a distinct component of reputation and defined it as 'the overall evaluation of a firm presented in the media'. In order to investigate how media reports reflect strategic group structures, we expand this definition in a manner consistent with mass communications literature. Specifically, agenda setting theory argues that there are substantive and evaluative attributes in media coverage (Carroll and McCombs, 2003; McCombs and Reynolds, 2002). Substantive coverage is descriptive and focuses on the activities and traits of an individual or business, whereas evaluative coverage is normative and conveys feeling and tone. We measure and compare substantive *and* evaluative media reputations in this study.

Cognitive Strategic Groups and Media Reputation

In this section, we integrate the research discussed above to develop hypotheses linking firms, cognitive strategic groups and media reputation. Specifically, we examine differences in substantive and evaluative media reputations among and within strategic groups.

At the firm level, identity, strategy and reputation have been connected theoretically and empirically. Strategic choices define and reflect the identity of a firm (Andrews, 1980; Ashforth and Mael, 1996). This identity is then communicated to stakeholders through images projected by the firm. This informs stakeholder evaluations of the firm, and ultimately their perception of its

reputation (Whetten, 1997). Evidence suggests that a similar identity–strategy–reputation link exists among strategic groups.

According to Peteraf and Shanley (1997), members of strategic groups often develop strong social identities with the group. Additionally, managers use these groups as referents with which to make sense of strategic actions and profiles of their competitors, categorizing firms in their industry based on similarities and dissimilarities in their strategies (Reger and Huff, 1993). This shared identity and common strategy are central and distinctive features of the group (Albert and Whetten, 1985). As such, a high degree of congruence can be expected in the reputations of cognitive strategic group members. Furthermore, to the degree that strategic groups differ in their strategic recipe, these groups will project different images to stakeholders and possess different reputations (Ferguson *et al.*, 2000). We anticipate that these factors will result in different substantive and evaluative media reputations among cognitive strategic groups.

Substantive media reputation

We expect to find that the substantive attributes in media reports reflect differences among cognitive strategic groups because journalists may use groups as referents when reporting on firms. Literature suggests that in order to make sense of complex phenomena, actors employ categorization schemes to simplify their cognitive environment (Weick, 1995). Studies drawing on categorization theory have shown that actors group objects based on perceived similarity, most notably that managers perceive strategic groups (Porac and Thomas, 1994; Reger and Huff, 1993). Evidence suggests that journalists may be especially susceptible to this type of cognitive simplification because of the time and information pressures they face (Berscheid *et al.*, 1976; Hall, 1973). Thus, journalists may categorize firms according to perceived similarities and use these

categories as a common cognitive lens for interpreting their actions (Ashforth and Mael, 1996). This may lead journalists to cover different cognitive strategic groups in different ways. Based on these factors, when analyzed at the *group level*, we hypothesize that:

H₁: *Different cognitive strategic groups will have different substantive media reputations.*

Additionally, we anticipate that the factors that lead to different reputations among cognitive strategic groups will influence the substantive media reputations of firms within these groups. Studies drawing on categorization theory have shown that individuals associate specific attributes with specific categories (Mervis and Rosch, 1981). Moreover, individuals use these attributes to make inferences about objects within a category (Sujan, 1985; Sujan and Dekleva, 1987; Urban *et al.*, 1993). Thus, we predict that when analyzed at the *firm level*:

H₂: *A firm's cognitive strategic group membership will affect its substantive media reputation.*

In addition to the differences in the substantive media reputations we anticipate among cognitive strategic groups within an industry, research shows that differences may also exist within groups pursuing similar strategies (Porter, 1979). Within a multi-firm strategic group, there may be both core and secondary firms. Core firms conform closely to the strategic recipe of the group, while secondary firms follow the recipe to a lesser degree (Ketchen *et al.*, 1993; McNamara *et al.*, 2003; Reger and Huff, 1993). Secondary firms are likely to exhibit somewhat different strategies than the core members of the group (McNamara *et al.*, 2003) and perceive a looser level of social identification with the

group (Peteraf and Shanley, 1997). Based on these differences, journalists may employ different categories when interpreting core and secondary firms (Ashforth and Mael, 1996). Thus, when analyzed at the *group level*, we hypothesize that:

H₃: *Subgroups of core and secondary firms within a cognitive strategic group will have different substantive media reputations.*

Parallel to H₂, we also anticipate that a firm's membership as a core or secondary member of a cognitive strategic group will influence how the media reports on it. Thus, when analyzed at the *firm level*, we predict:

H₄: *A firm's position as a core or secondary firm within a cognitive strategic group will affect its substantive media reputation.*

Evaluative media reputation

In addition to differences concerning the substantive content of media reputations, we expect that different strategic groups will be evaluated more or less favorably by the media. Categorization theory suggests that actors use categories to make evaluative inferences about objects (Mervis and Rosch, 1981; Sujana and Dekleva, 1987). Differentiation may be a factor that influences how positively a strategic group is portrayed in the media. According to Fombrun (1996: 393), 'The more a company pursues a strategy that differentiates it from rivals with each of its major constituent groups, the more likely are constituents to ascribe a strong reputation to the company'. Further, the media tend to focus on firms that take bold or unusual actions (Schrum, 2002), and such differentiation may be associated with better reputations (Rindova *et al.*, 2006). Within an industry, there can be single firm strategic groups which follow different strategies

than firms in other groups (McNamara *et al.*, 2003; Reger and Huff, 1993). Firms which stake out these solitary strategic positions may enjoy more favorable media reputations.

H_{5a}: *Solitary cognitive strategic groups will have more favorable evaluative media reputations than other cognitive strategic groups.*

Institutional theory suggests, however, that positioning as a solitary firm within an industry may result in less favorable media reputations. Institutional research argues that in order for a firm to be seen as legitimate, it must conform to strategic norms within its industry. If a firm moves too far away from these norms, it may face challenges whereby its legitimacy, reliability and rationality are questioned (Ashforth and Gibbs, 1990; Deephouse, 1996; DiMaggio and Powell, 1983). Since solitary firms deviate from an industry's strategic norms more than firms in other groups, they may face legitimacy challenges which result in less favorable media coverage. Reflecting this, Loomis (1992) reported in *Fortune* how Bankers Trust New York was challenged by regulators because it did not conform to accepted banking strategies. Thus:

H_{5b}: *Solitary cognitive strategic groups will have less favorable evaluative media reputations than other cognitive strategic groups.*

While there is conflicting evidence concerning the expected favorability of the media reputations of solitary firms, secondary firms within a cognitive strategic group may effectively balance demands for legitimacy and differentiation (Deephouse, 1999). As such, these firms may pursue distinctive strategies that result in more favorable coverage while

avoiding legitimacy challenges by conforming to aspects of their group's strategic recipe. This is supported by empirical research by Deephouse and Carter (2005) who found that firms needed to conform to some degree to maintain legitimacy yet stand out to achieve better reputations. We extend this argument to strategic groups. As noted above, secondary firms stand out somewhat yet maintain their legitimacy (Deephouse, 1999; McNamara *et al.*, 2003), and this could lead to more favorable media reputations than for core firms. Thus, at the *group level*, we hypothesize:

H₆: *Within a cognitive strategic group, the subgroup of secondary firms will have a more favorable evaluative media reputation than the subgroup of core firms.*

Further, if the media has a more favorable evaluation of secondary firms, the evaluative media reputations of individual firms should benefit from being included in this category. Thus, at the *firm level*, we predict:

H₇: *Within a cognitive strategic group, secondary firms are more likely to have favorable evaluative media reputations than core firms.*

METHODS

Our hypotheses were tested in a sample of 26 large commercial banks in Minneapolis-Saint Paul (Twin Cities) metropolitan area between 1993 and 1995. This area had well defined and geographically isolated markets in both banking and media. By state law, banks could only be organized by metropolitan area, although holding companies could own multiple banks both within the state and elsewhere. We used the data on the cognitive strategic groups within the industry in 1994 as reported by McNamara *et al.* (2003). To assess media reputation, we

analyzed each bank's coverage in the *Minneapolis StarTribune*, the dominant newspaper in the market. Based on the evidence that strategic group structure is fairly stable over time (Hodgkinson, 1997; Reger and Palmer, 1996), we analyzed each bank's coverage from 1993 to 1995 in order to gain more robust measures of media reputation than would have been obtained by analyzing articles from 1994 alone.

Cognitive Strategic Groups

The set of cognitive strategic groups were created based on the responses of senior managers of Twin Cities' banks with assets over \$40m. Of the 64 banks in the initial sample, we discussed the study with the CEOs of 60 banks, and 54 of them agreed to participate. The CEOs were asked to identify the members of the top management team (TMT) of their bank, yielding a total of 189 individuals, including themselves. We then mailed a cover letter and questionnaire to each TMT member. We received responses from 145 managers, or 77 per cent of our sample. This is a very high response rate for TMT samples (cf. Gupta and Govindarajan, 2000; Stimpert and Duhaime, 1997). Moreover, responses came from 52 of the 54 banks (96 per cent).

A two-step process was used to develop the cognitive group structure of the Twin Cities banking industry. In our first step, we elicited the strategic group structures as perceived by each individual respondent as unobtrusively as possible. Consequently, we designed the questionnaire to allow as much flexibility as possible in managers' responses. We asked managers to identify in their own words the primary general strategic positions banks could employ in this market. They could list as few or as many strategies as they saw fit. Managers were then given a list of the largest 30 banks in Twin Cities area. This number was selected to keep the questionnaire to a manageable length in order to reduce the likelihood of respondent fatigue

and to improve the response rate (Sudman, 1976). We examined and found no performance differences between the firms included and excluded in our study ($p < 0.10$). We used size as a cutoff since we considered it unlikely that most managers would be familiar enough with the strategies of smaller banks to meaningfully categorize them. Using a size cutoff also allowed us to be sure that we captured the bulk of the market in our study. The 30 banks in our sample controlled over 94 per cent of the deposit base in the Twin Cities area. We then asked the respondents to categorize these banks according to the set of general strategies which they had previously identified. Managers were given the option to not categorize any banks with which they were not familiar.

The second step was to construct an aggregate cognitive strategic group structure for the industry. Each of the 435 possible dyads between the 30 banks was examined to see what percentage of respondents perceived the banks in the dyad to be employing the same general strategy. Banks were put in the same strategic group if a majority of respondents who chose to categorize both banks identified them as following the same strategy. This method produced the industry structure reported in Table 1. There were three completely separate groups and two solitary banks that were not linked to any other bank in the industry, implying they had unique strategies and were positioned in their own groups. Two of the groups included three banks each. The third group had 21 members. The thirtieth bank was

Table 1: Cognitive Strategic Group Structure of Large Twin Cities Commercial Banks

Group 1 (Super Regionals)	Group 3 (Community Banks)	Group 4 (Solitary Firm Group)
First Bank	Ameribank	Marquette Bank
Firststar Bank	Americana Bank	
Norwest Banks	Cherokee State Bank	Group 5 (Solitary Firm Group)
	Citizens Independent Bank	Midway National Bank
	First American Bank	
Group 2 (Business Banks)	FNB of Chaska	
American National B&T	FNB of Waconia ¹	
Commercial State Bank	FNB of Wayzata	
National City Bank	Liberty State Bank	
	Mid-America Bank	
	Northstar Bank	
	Northeast State Bank	
	Signal Bank	
	State Bank of Belle Plaine ¹	
	Vermillion State Bank ¹	
	Western State Bank	
	Eastern Heights State Bank (secondary)	
	Fidelity Bank (secondary)	
	Park National Bank (secondary)	
	Richfield B&T (secondary)	
	Riverside Bank (secondary)	

¹Bank did not have media coverage.

Adapted from McNamara *et al.* (2003: 172).

dropped from the analysis because it was acquired by another bank, negating our ability to collect subsequent data. While our analysis found groups with an unequal number of members, this is consistent with past studies of strategic groups. For example, in a study of the insurance industry, Fiegenbaum and Thomas (1995) found one group with 19 members, over three times more than any other group, and three firms with solitary positions. Similarly, Mascarenhas (1989) found that one group accounted for over 80 per cent of the firms in the oil well drilling industry.

To test our hypotheses regarding position within the group structures, we needed to identify core and secondary firms in the groups. Within the two smaller groups, every bank was linked to the other two group members. Thus, we concluded that all banks within these groups were core firms. Within Group 3, we concluded that 16 of the 21 banks were core firms. Each of these 16 was linked to at least 14 of the remaining 15 core firms in the group. The other five were less closely tied to the other banks in this group than the core firms were, but were not linked to any banks in the other groups. These comprised the secondary firms.

The validity of the grouping was assessed in two ways. First, the membership of each group was reviewed for descriptive validity (Thomas and Venkatraman, 1988). Group 1 includes three large banks owned by super-regional holding companies. Group 2 includes three small regional banks that focused on commercial and industrial business. Group 3 includes a set of 21 community banks. Thus, the groups separate the market by bank size and market focus. Second, we assessed the degree to which we could find support for the cognitive groups by examining archival data. Following past research, we used measures of bank size, an indicator of market power (Berger, 1995) and their degree of focus on major deposit and loan categories (Santomero, 1984;

Swamy *et al.*, 1996). We used a cross-validation technique within discriminant analysis for assessing the error rate in coding (Lachenbruch and Mickey, 1968). We found that 85.2 per cent of the banks for the industry analysis and 90.5 per cent of the banks in Group 3 were placed in the same group or sub-group classification. Such consistency between archival and cognitive methods in constructing groups is consistent with past research by Nath and Gruca (1997). In sum, we believe that the group and sub-group structures identified by the responding top managers reflect underlying differences and similarities in the banks' strategies.

Media Reputations

We measured the media reputations for 1993–1995 by coding the full text of a sample of newspaper articles from the *Minneapolis StarTribune*. Our procedures were similar to those used by Deephouse (2000) to examine the media reputations of Twin-Cities banks during 1988–1992. We constructed the sampling frame by searching for all articles that mentioned a particular bank. All editorials, columns, letters and opinions were selected because they represent explicit attempts to influence readers (Fombrun and Shanley, 1990; Hynds, 1994). We used a two-part process to sample the remaining articles. First, to enhance accuracy for banks with relatively little coverage, we coded all articles for banks that had eight or fewer articles about them. Second, for banks with more coverage, our sampling frame was the first eight articles plus a random sample of 25 per cent of the remaining articles. Three banks in Group 3 received had no coverage in our data collection period and were excluded from our analysis, leaving 26 banks in our final sample. The size and financial performance of these banks were not significantly different from other banks in their strategic group. Our recording unit was the individual bank in an individual article.



We coded each recording unit for content and favorability. The first author coded 279 articles, and a research associate coded 374 articles for a total of 653 articles. Within these articles there were a total of 1,516 individual content codes. To assess inter-rater reliability, the second author coded a 25 per cent random sample of each set of articles. For the articles coded by the first author, there was agreement on 163 of 175 codes (93.1 per cent) in the 70 articles analyzed. For the articles coded by the research associate, there was agreement on 131 of 142 codes (92.3 per cent) in the 93 articles analyzed. Disagreements were resolved by mutual discussion. Thus, we have confidence in the reliability of our coding scheme.

Substantive media reputation

To measure substantive media reputations, we identified content codes inductively from articles in the *StarTribune*. This resulted in over 100 codes reflecting a comprehensive range of bank activities and attributes. We grouped these codes into five categories. *Product/service* included discussions of lending activities, bank accounts and other products and services. *Descriptive* included reporting on bank characteristics such as size, profits, structure and physical premises. *Strategy* included reporting on activities such as acquisitions, divestitures and competition between banks. *External interaction* included reporting on a bank's interactions with its external environment in areas such as charitable donations, social responsibility and partnerships. *People* included reporting in areas such as human resource management, layoffs and executive turnover or pay. In addition to these five categories, we also had codes for articles that mentioned a bank's name in passing without discussing its activities. We excluded these codes from our analysis.

In order to test Hypotheses 1 and 2, we calculated variables based on the number of articles that each group or individual bank

received in each content category divided by the total number of articles about the group or bank. The resulting variables reflected the proportion of coverage that each group or bank received for each content category. To test Hypotheses 3 and 4, we calculated similar variables for core and secondary subgroups within Group 3.

Evaluative media reputation

To measure evaluative media reputations, we coded each recording unit as positive, negative or neutral. A recording unit was rated positive when a bank was praised for its actions or when it was associated with actions that research indicated should make a firm's reputation more favorable. Examples include awards given to the bank or its employees (Fombrun, 1996), monetary or in-kind donations to charities (Fombrun and Shanley, 1990) and linkages to other organizations (Weigelt and Camerer, 1988). A negative rating occurred when an article criticized a bank's actions or when it was associated with actions that research indicated should decrease a firm's reputation. A neutral rating was given for declarative reporting without evaluative modifiers of routine bank actions, such as making loans, holding deposits, purchasing from suppliers, trying to expand market share and profitability, etc. This rating was also given when there was a balance of positive and negative reporting.

To test Hypotheses 5–7, we calculated a variable that reflected the favorability of reporting about each group or individual bank. Consistent with past literature, we assigned a +1 for each instance of positive coverage, -1 for each negative instance and 0 for neutral coverage (Bansal and Clelland, 2004; Deephouse, 2000; Pollock and Rindova, 2003). We entered these scores into the following formula to calculate evaluative media reputations:

$$\text{Favorability}_i = (\# \text{ Positive codes}_i - \# \text{ Negative codes}_i) / \# \text{ Total codes}_i$$

This created a variable with a range of -1 for all negative coverage to $+1$ for all positive coverage. The mid-point 0 represents a balance of positive and negative, or all neutral, coverage.

Analytic Methods

We tested our hypotheses using *t*-tests on the differences in media reputations between groups. We used *t*-tests instead of ANOVA or regression because a Levene's test indicated that our sample violated the assumption of homogeneous variance necessary for these tests. We supplemented our examination of substantive media reputations with discriminant analysis, which is a tool for building predictive models of group membership based on differences in the characteristics of each case in a sample. We used discriminant analysis to determine the degree to which patterns of coverage across content categories predicted strategic group membership. Following McNamara *et al.* (2003), we excluded the two solitary banks from these analyses.

RESULTS

Table 2 presents our basic descriptive statistics for each group. At the group level, the

table reports the proportion of coverage each group received in each content category and the favorability of coverage. At the firm level, Table 2 reports the mean proportion of coverage each bank within a group received in each category and the mean favorability of this coverage.

The general patterns of substantive reporting for each group are as follows. Group 1 had fairly equal proportions of *product/service*, *descriptive* and *strategy* coverage at both group and firm levels of analysis. For instance, these three banks were included in 85 of 123 stories about acquisitions, a strategic move. For Group 2, the media focused more heavily on *descriptive* coverage, especially at the firm level. For instance, there were many stories about National City Bank leasing space in Gaviidae Common, an upscale shopping center in downtown Minneapolis named after the Minnesota state bird, the common loon (Aggar, 1994). Coverage of Group 3 was focused most heavily on *product/service* and *descriptive* categories. For core firms within Group 3, coverage was split fairly evenly between these categories. The media, however, provided much more coverage of the *products/services* of secondary firms, particularly when

Table 2: Substantive and Evaluative Media Reputations

Strategic group	Substantive media reputations										Evaluative media reputations	
	Product/service		Descriptive		Strategy		External Interaction		People		Favorability	
	Group level	Firm level	Group level	Firm level	Group level	Firm level	Group level	Firm level	Group level	Firm level	Group level	Firm level
Group 1	0.223	0.195	0.233	0.220	0.220	0.210	0.123	0.162	0.050	0.040	0.129	0.117
Group 2	0.199	0.122	0.296	0.427	0.180	0.165	0.145	0.118	0.078	0.098	0.033	0.055
Group 3	0.371	0.260	0.216	0.275	0.085	0.094	0.150	0.184	0.033	0.049	0.237	0.272
Core	0.264	0.193	0.235	0.221	0.093	0.118	0.210	0.238	0.047	0.068	0.281	0.333
Secondary	0.452	0.398	0.227	0.389	0.072	0.046	0.097	0.073	0.029	0.011	0.197	0.112
Group 4	0.058	0.058	0.273	0.273	0.299	0.299	0.160	0.160	0.167	0.167	0.250	0.250
Group 5	0.222	0.222	0.722	0.722	0.000	0.000	0.056	0.056	0.000	0.000	-0.143	-0.143

analyzed at the group level. Coverage of solitary Group 4, Marquette Bank, was focused primarily on *descriptive* and *strategy* categories. This reflects the acquisitions (strategic moves) that Marquette was involved in during the period. Group 5, Midway Bank, received almost exclusively *descriptive* coverage. We next turn to our statistical analyses of this reporting.

Table 3 presents our comparisons at the group and firm levels of analysis. Each comparison reports the difference in proportions from Table 2 between the group in the row and the group in the column and the significance of this difference. For example, the difference between Group 1 and Group 2 in terms of the proportion of *product/service* coverage was 0.024 (which equals 0.223–0.199 from Table 2) at the group level and 0.073 (which equals 0.195–0.122 from Table 2) at the firm level. Neither difference was significant.

H₁ predicts that substantive media reputations will differ among strategic groups. There are 10 pairwise comparisons among the five groups in one content category. With five content categories, there are 50 *t*-tests in total. From the group level columns of Table 3, we count five tests (10 per cent) significant at the $p < 0.10$ level, 12 (24 per cent) significant at the $p < 0.05$ level and six (12 per cent) significant at the $p < 0.01$ level. With 23 of 50 tests significant (46 per cent), we conclude there is strong support for H₁.

Discriminant analysis showed that three of five substantive categories were significant predictors of group membership ($p < 0.05$), namely *product/service*, *descriptive* and *strategy*. Our results show that differences in coverage correctly predicted the strategic group membership for 78.3 per cent of banks. This compares reasonably well to the discriminant analysis in McNamara *et al.* (2003), who correctly predicted membership for 85.2 per cent of the banks, because we used less than half of the number of variables (5 versus 11)

and their variables were financial measures of strategic attributes. Thus, we find support for the proposition that media reporting reflects the cognitive group structure.

H₂ predicts that a firm's cognitive group membership will affect its substantive media reputation. As with the group level, our analysis included five groups and five content categories producing 50 *t*-tests. From the firm level columns of Table 3, we count five tests (10 per cent) significant at the $p < 0.10$ level, nine (18 per cent) significant at the $p < 0.05$ level and seven (14 per cent) significant at the $p < 0.01$ level. With 21 of 50 tests significant (42 per cent), we conclude there is strong support for H₂.

H₃ predicts that the content of media reputations will differ between core and secondary sub-groups. Only Group 3 has this characteristic. Table 4 presents the comparisons between core and secondary sub-groups. There are five *t*-tests in total. From the group level column, two tests (40 per cent) are significant at the $p < 0.10$ level, supporting H₃. Discriminant analysis using differences in media coverage correctly predicted membership in core and secondary groups for 86.7 per cent of Group 3 banks. Our results compare very well to the discriminant analysis in McNamara *et al.* (2003) where 90.5 per cent were correctly classified. Thus, we conclude that there is support for H₃.

H₄ predicts that a firm's position as a core or secondary firm will affect its substantive media reputation. From the firm level column in Table 4, all five tests were significant; three (60 per cent) at the $p < 0.10$ level and one each (20 per cent) at the $p < 0.05$ and $p < 0.01$ levels. This is very supportive of H₄.

We next turn to Hypotheses 5–7 which predict differences in evaluative media reputations among and within groups based on strategic differentiation. H_{5a} predicts that solitary firms will have more favorable coverage than other strategic groups, whereas

Table 3: Comparisons of Substantive and Evaluative Media Reputations among Cognitive Strategic Groups

	<i>CSG 2</i>		<i>CSG 3</i>		<i>CSG 4</i>		<i>CSG 5</i>	
	<i>Group level</i>	<i>Firm level</i>	<i>Group level</i>	<i>Firm level</i>	<i>Group level</i>	<i>Firm level</i>	<i>Group level</i>	<i>Firm level</i>
<i>Product/service</i>								
CSG 1 ¹	0.024	0.073	-0.148*	-0.065	0.165 ⁺	0.137*	0.000	-0.027
CSG 2			-0.172*	-0.138*	0.141	0.064	-0.023	-0.101
CSG 3					0.313*	0.202*	0.149	0.038
CSG 4							-0.164	-0.164
<i>Descriptive</i>								
CSG 1	-0.063	-0.207	0.017	-0.056	-0.040	-0.053	-0.489*	-0.502*
CSG 2			0.080	0.151**	0.023	0.154	-0.426*	-0.295*
CSG 3					-0.057	0.003	-0.506 ⁺	-0.447*
CSG 4							-0.449 ⁺	-0.449 ⁺
<i>Strategy</i>								
CSG 1	0.040	0.046	0.135*	0.116**	-0.080 ⁺	-0.089	0.220**	0.210**
CSG 2			0.095	0.070	-0.119*	-0.135	0.180*	0.165**
CSG 3					-0.214*	-0.205*	0.085	0.094**
CSG 4							0.299*	0.299*
<i>External interaction</i>								
CSG 1	-0.021	0.044 ⁺	-0.026	-0.022	-0.036	0.002	0.068**	0.106 ⁺
CSG 2			-0.005	-0.066 ⁺	-0.015	-0.042	0.089**	0.062
CSG 3					-0.010	0.024	0.094**	0.128
CSG 4							0.104	0.104
<i>People</i>								
CSG 1	-0.027	-0.058 ⁺	0.018*	-0.009	-0.116	-0.127	0.050**	0.040*
CSG 2			0.045 ⁺	0.049	-0.089	-0.069	0.078*	0.098**
CSG 3					-0.134	-0.118	0.033**	0.049
CSG 4							0.167	0.167
<i>Favorability of coverage</i>								
CSG 1 ²	0.096 ⁺	0.062*	-0.108**	-0.155*	-0.121 ⁺	-0.133	0.272*	0.260*
CSG 2			-0.204**	-0.217**	-0.217*	-0.195	0.176	0.198*
CSG 3					-0.013	0.022	0.424*	0.415*
CSG 4							0.393*	0.393*

¹Overall difference in proportion of coverage in a substantive area (row minus column).

²Overall difference in favorability of evaluative coverage (row minus column).

⁺ $p < 0.10$.

* $p < 0.05$.

** $p < 0.01$.

H_{5b} predicts the opposite. Table 2 indicates that Group 4 had the most favorable media reputation of all groups while Group 5 had

the least favorable. In terms of *t*-tests, reporting for Group 4 was significantly more favorable than for Groups 1, 2 and 5;



reporting for Group 5 was significantly less favorable than all other groups. Based on this contradictory evidence, we fail to generate consistent support for either H5a or 5b.

Hypotheses 6 and 7 examine the influence of differentiation within a strategic group. We predicted that the secondary subgroup would receive more favorable coverage (H6) and that secondary banks would have more favorable media reputations than core banks (H7). Overall, our results show the opposite of our predictions. The core subgroup received more favorable coverage than the secondary subgroup at both group and firm levels. Table 4 shows that this difference was significant at the firm level ($p < 0.05$), but not at the group level. *Post hoc* analysis revealed that difference in favorability among core and secondary banks was primarily related to differences in the proportion of *external interaction* coverage that the subgroups received. Also, it is worth noting that one secondary bank had much more positive media coverage than the other secondary banks. Like the core banks, this bank received a high proportion of *external interaction* coverage. The favorable media reputation that this produced inflated the group level favorability of the secondary subgroup, reducing the difference between core and secondary firms when compared at this level. Subsequent *t*-tests excluding this outlying bank produced significant differences between core and secondary subgroups at the group level ($p < 0.05$). These results contradict Hypotheses 6 and 7.

While our theoretical hypotheses concerning evaluative content were not supported, we do observe significant differences among the evaluative media reputations of strategic groups. Fifteen of the 20 (75 per cent) comparisons between groups for favorability of coverage were significant (two at $p < 0.10$; 10 at $p < 0.05$ and three at $p < 0.01$). Group 3 was portrayed more favorably than Groups 1, 2 and 5; this could reflect social norms

Table 4: Comparisons of Substantive and Evaluative Media Reputations between Core and Secondary Subgroups¹

	<i>Group 3 – Secondary</i>	
	<i>Group level</i>	<i>Firm level</i>
<i>Product/service</i>		
Group 3 – Core	–0.188 ⁺	–0.204 [*]
<i>Descriptive</i>		
Group 3 – Core	0.008	–0.168 ⁺
<i>Strategy</i>		
Group 3 – Core	0.021	0.072 ⁺
<i>External interaction</i>		
Group 3 – Core	0.113	0.165 ^{**}
<i>People</i>		
Group 3 – Core	0.018	0.057 ⁺
<i>Favorability of coverage</i>		
Group 3 – Core	0.084	0.221 [*]

¹All comparisons are row minus column.

⁺ $p < 0.10$.

^{*} $p < 0.05$.

^{**} $p < 0.01$.

that support its identity as a group of community banks.

DISCUSSION AND CONCLUSION

Reputation has received considerable attention in strategic management literature because of its relationship with performance, a central concern of strategic management (Rumelt *et al.*, 1994). Reputation can be examined at many levels such as the firm or industry. We set out to examine the relationship between reputation and strategic group membership. Our study builds on existing literature (especially Ferguson *et al.*, 2000; McNamara *et al.*, 2003) by using a different type of reputation, namely media reputation, and examining how it varies in a different type of strategic group, namely cognitive strategic groups. We also build on existing

research by examining the reputational consequences of strategic differentiation within an industry and within a strategic group (Ketchen *et al.*, 1993; Reger and Huff, 1993).

Overall, we found support for our claim that differences in media reputation exist among cognitive strategic groups. Notably, our hypotheses concerning differences in substantive media reputations among strategic groups were supported. We also found significant differences in how favorably different groups were portrayed by the media. Our study contributes to both reputation and strategic groups literatures. For reputation, we provide further evidence that it applies at the strategic group level. Our findings are consistent with Ferguson *et al.* (2000), and suggest that strategic similarities influence different types of reputation within strategic groups. We also extend the concept of media reputation to include substantive as well as evaluative dimensions. Moreover, our results provide evidence that strategic groups serve as referents for external actors when evaluating firm reputations (Ketchen *et al.*, 2004). In our setting, it appears that journalists selected stories based on categories and characteristics that they associated with certain groups (Berscheid *et al.*, 1976; Hall, 1973; Sujan and Dekleva, 1987). This provides further support for the usefulness of strategic groups as an analytic tool for management research.

Overall, we found contradictory evidence for our hypotheses concerning the reputational consequences of differentiation within an industry or within a strategic group. Among the two solitary firm strategic groups in our study, one had the most favorable media reputation of all groups, and one had the least favorable. Further, secondary firms, which we hypothesized would have the most favorable reputations based on their balance of differentiation and conformity, had less favorable media reputations than core firms

within their group. This result is based, however, on the assumption that secondary firms comprise a homogeneous group. Our results suggest that this assumption may not be correct considering that *post hoc* analysis found one secondary bank, Riverside Bank, stood out positively from the others. For instance, it 'received special recognition for financing 25 MCDA (Minneapolis Community Development Agency) small business loans to the tune of \$2.8 million;' only \$9m was loaned in the whole program (DePass, 1995: 3D). This is especially noteworthy given Riverside's relatively small size relative to other participating banks, such as all three super-regionals in Group 1. Thus, secondary firms may have different directions with relation to core firms and to each other. Some of these may be more highly valued by the media than others (cf. Reger and Huff, 1993: 117).

Overall, these results suggest that it is the nature of the specific differentiation of a non-core firm, not just its degree of differentiation, which influences how it is perceived by the media. Thus, while differentiation may benefit firms in some ways, such as reduced competition (Deephouse, 1999; McNamara *et al.*, 2003), this may not always enhance their media reputation. This may present a challenge to managers as they seek ways to stand out from other firms while maintaining or improving the favorability of their media reputations. We recommend further research on non-core firms to understand why certain ones stand out for their celebrity or their notoriety (Rindova *et al.*, 2006).

There are limitations to our research design which provide opportunities for further research. We studied only the 26 largest firms from a single industry within a confined geographic area over three years. Further research is necessary to determine the generalizability of our findings to other banks in the area or in other settings

and to other industries. Also, only one of our five strategic groups had core and secondary firms; different samples may have more than one such group. For example, Reger and Huff (1993) found two groups with secondary firms out of the three cognitive strategic groups they identified in the Chicago banking industry. Also, we studied group structure at a single point in time and media reputation over a period of three years. While research has found stability in cognitive strategic groups over time (Hodgkinson, 1997; Reger and Palmer, 1996), the stability of the group structure in our study is not assured. Accordingly, future studies could examine changing strategic group structures and their relationship to media reputation over time.

To conclude, this study contributes to our knowledge of reputation and strategic groups in many ways. We examine a different kind of reputation, namely media reputation, that represents substantive and evaluative attributes about firms presented in the media and is linked to the knowledge and opinions of the general public. Our results suggest that external actors utilize strategic groups as a referent in forming firm reputations. We also use cognitive strategic groups for analyzing reputation. This addresses past concerns about the reliability and validity of archival groups. Overall, our results suggest that different strategic groups have different media reputations and that membership within a strategic group affects how a firm is covered in the media. We also find evidence suggesting that differentiation does not affect media reputation in a consistent manner. We suggest that future research could examine different types of reputation across and within strategic groups.

Acknowledgments

We appreciate comments of the editors and referees of this version and those received on an earlier version of this paper presented at the 9th International Conference on

Corporate Reputation, Image, Identity, and Competitiveness, in Madrid on 21 May, 2005. We would like to thank Anita Heck for coding assistance.

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