

WHEN GOOD NAMES GO BAD: SYMBOLIC ILLEGITIMACY IN ORGANIZATIONS

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ABSTRACT

We empirically examine the institutional dynamics attending the process whereby legitimate organizational symbols become illegitimate. We conducted two studies, one historical and one comparative, of those firms that appended “dot-com” to their names during the period of “Internet euphoria,” 1998–1999. The first study analyzes the legitimacy over time for one case, that of Egghead software, the first organization to affix “dot-com” to its name. The second study compares the legitimacy of firms named “dot-com” in the wake of the “dot-com” crash, using both public perceptions and financial valuations. Results from the two studies indicate that good organization names can go bad rather quickly and illustrate how swift and definitive the process of deinstitutionalization can be.

INTRODUCTION

In October 1999, there was a corporate rush to embrace the Internet and symbolize this in the organizational name, with a “dot-com” appendix:

Dot-com has become the Internet’s indispensable suffix, a terse but unmistakable signal of existence on the Web. The number of registered dot-com addresses has reached a staggering

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4.5 million, and businesses routinely pay \$10,000 or more to secure prime dot-com names (Weber, 1999, p. B1).

Less than one year later, however, a different corporate rush was on. By the fall of 2000, the “dot-com balloon . . . [which] seemed to float effortlessly to new heights” (Weber, 2000, p. B1) had deflated:

What a cruel, cruel illusion it all turned out to be. Stoked by the false promise of office foosball and a lot of irrational exhibitionism, the dot-com phenomenon proved to be shot through with phoniness – an apparition within a hologram wrapped inside two specters of a mirage, with some tulip mania to boot. As for why anyone thought doing business on the Web was a good idea, search us. [Amazon.com](#)? More like Amazon.bomb! (Useem, 2000, p. 82).

Many of the same companies, which had expediently appended “dot-com” to their names, just as quickly divorced themselves in name from an Internet gone bust. This symbolic detachment occurred even in those companies whose core business was the Internet. When [Phone.com](#), a provider of Internet software, merged with [Software.com](#), both “dot-com” names were abandoned in favor of a new corporate moniker, Openwave Systems. The CEO explained the rationale: “We wanted to send a message to say we’re here . . . We also wanted to distance ourselves from the legacy of dot-coms – *there’s just too much of a dot-com stigma*” (italics added; *Wall Street Journal*, 2000, p. B13).

Swiftly, and perhaps unexpectedly, “good” dot-com names had gone horribly “bad.” An organizational name that signaled Internet affiliation cast a shadow on the firm, threatening the legitimacy which had been purchased symbolically with the Internet moniker. That organizations quickly conformed to a new institutional order by adopting a meaningful marker was not a surprise; that decoupling occurred so rapidly and so unambiguously was, arguably, not as easily predicted by institutional theories. Institutional processes of imitation, diffusion, and normative precedent often give a corporate rush to adopt strategies and structures (e.g. Fligstein, 1990); once in place, however, such institutionalized practices tend to be resistant to change. As Davis, Dickmann and Tinsley (1994, p. 55) put it, “institutions don’t budge” and deinstitutionalization tends to be slow-moving and fairly infrequent. In their study of the “deconglomeration” of the corporate firm, Davis et al. (1994, p. 564) characterize a decade-long period of deinstitutionalization as “relatively brief.” How, then, can we account for such a swift delegitimation of the “dot-com” names? In part, perhaps, it may be due to the phenomenon itself: The institutionalization and deinstitutionalization of symbols seem to have been accomplished in “Internet speed.” However, this is just a supposition because the Internet is, as yet, relatively understudied: “. . . few sociologists have examined the Internet’s institutional structure . . . Some sociologists *are* doing important work; but unless their numbers grow, a magnificent

opportunity to build and test theories of social and technical change may go unexploited” (DiMaggio, Hargittai, Neuman & Robinson, 2001, p. 329).

We address this gap in the literature. We use the Internet as a window on legitimacy processes to uncover what it can reveal about institutionalization and symbolic isomorphism (Glynn & Abzug, 2002). We build on previous research that demonstrated positive effects for firms’ adoption of the “dot-com” suffix and address what we see as two substantial limitations in earlier studies; one being temporal and the other, theoretical. In terms of the first, prior work on the adoption of “dot-com” names has been conducted only during the era of Internet hype and, even then, limited to a very narrow band of time, e.g. a three-day (Lee, 2001) or five-day window (Cooper, Dimitrov & Rau, 2001) surrounding the announcement date of the name change. Studies from corporate strategy (Lee, 2001) and finance (Cooper et al., 2001) attest to the positive effects of these name changes on stock market valuation, arguing that these name changes were used as symbols to legitimate organizations to investors and provide evidence that these companies had adapted to the new investment environment (Lee, 2001). The “dot-com” crash, which occurred subsequent to these studies, raises questions as to the continuing legitimacy of the “dot-com” names (Glynn & Abzug, 2002) and organization’s perceived “social fitness” (Deephouse, 1996).

As well, these prior studies are somewhat undertheorized, particularly in terms of their treatment of legitimacy, as they consider firm valuation exclusively in financial measures, such as stock prices and trading activity (Cooper et al., 2001; Lee, 2001). Certainly, investors’ valuations are one source of legitimacy, the “pragmatic legitimacy” described by Suchman (1995, p. 578), i.e. “the self-interested calculations of an organization’s most immediate audiences.” Overlooked are sources of normative and cognitive legitimacy, both of which are based on a broader set of perceptions about organizational appropriateness and comprehensibility, respectively. As Meyer and Rowan (1977) would have us think about it, names dramatize or narrate the organization’s ceremonial face, asserting certainty about its identity and legitimate membership within the field. In their words, “Affixing the right labels to activities can change them into valuable services and mobilize the commitments of internal participants and external constituencies” (Meyer & Rowan, 1977, p. 350).

Our approach is inductive in building a theoretical framework on how symbols that once legitimated can subsequently illegitimate. To start, we analyze the case of software retailer Egghead, the first firm to append “dot-com” to its name. We use this case to develop hypotheses relating legitimacy to symbolism, which we subsequently test in a second study using both survey and archival methods. In this second study, we examine how the changing legitimacy of the Internet affected the legitimacy of “dot-com” names for both public and financial audiences,

comparing perceptions in the “dot-com” explosion (1998–1999) to those of the “dot-com” implosion (2000). Based on these findings, we theorize how good organization names can go bad and offer a framework on how legitimating symbols can subsequently illegitimate organizations.

ORGANIZATIONAL LEGITIMACY AND ILLEGITIMACY

Illegitimacy is often defined as the antonym of legitimacy. Extrapolating from the definition of legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995, p. 574), illegitimacy, then, would be the generalized perception that an entity’s actions are undesirable, improper or inappropriate within a socially constructed system of norms, beliefs, and definitions. Indeed, a number of organizational researchers have taken this perspective.

Elsbach and Sutton (1992) describe illegitimate activity as an organizational statement of “not us.” They point out that illegitimacy, like its counterpart, necessitates some shared understanding or consensus about its inappropriateness. Zuckerman (1999), who examined product alignment with analysts’ judgments, described illegitimacy as a “mis-match between the firm’s self-concept and the categories to which others think it belongs.” Kraatz and Zajac (1996), in a study of the adoption of professional and vocational programs by liberal arts colleges, found that determining whether an action is illegitimate involves matching it against existing norms and values. They identified the conditions of illegitimacy as: inconsistency, threat, and denunciations by significant actors. They describe how for liberal arts colleges, professional and vocational programs were highly inconsistent with institutionalized norms of liberal education. Thus, these vocational and professional programs were construed threats to the perpetuation of the institutional norms; as a result, institutional actors denounced them and illegitimacy ensued for the college.

The implication from this stream of research turns institutionalization on its head: if isomorphism legitimates, then non-isomorphism illegitimizes. Institutionalization is so tied to legitimacy that it is difficult not to see illegitimacy simply as deinstitutionalization or lack of institutionalization. Consequently, a conceptual fuzziness results; the construct of illegitimacy is defined not by what it is, but by what it is not (i.e. legitimacy). Correspondingly, the effects of illegitimacy are also somewhat fuzzy. The literature reports mixed findings: Some researchers

testify to the negative consequences of illegitimacy, while others demonstrate that illegitimacy can have positive effects.

The negative consequences of illegitimate organizational forms, symbols, and practices have been well-noted by institutionalists. A core tenet of neo-institutional theory is that isomorphism legitimates (Deephouse, 1996) and that resources flow to more legitimate forms, thus insuring organizational survival and effective performance. By inference, then, illegitimacy is problematic. Several studies attest to this point. Deephouse (1996), in his research on the regulatory environment in the banking industry, observed strong isomorphic pressures for organizational conformity in order to secure legitimacy from critical audiences such as regulators and the media. Davis et al. (1994), examining de-institutionalization in corporate forms, demonstrated how environmental shifts change the definition of legitimacy; they showed how conglomerate forms became less legitimate over time and eventually undervalued, both in the stock market and in denouncements in the business press. Similarly, Zuckerman (1999) demonstrated that firms without a clear “role performance” confronted a legitimacy discount and failed to get reviews from critics who specialize in that products’ targeted category because of a perceived mismatch between a firm and its organizational membership.

Conversely, however, illegitimacy has also been found to have positive consequences for organizations. Illegitimate firms often attract more notice and more media attention. Such press – either favorable or unfavorable – is often beneficial to organizations (Fombrun & Shanley, 1990), seemingly validating the old saying that “there is no such thing as bad publicity.” The title of a 1990 Wall Street Journal article, expressing skepticism about organizational re-namings, asked “Have the Klingons taken over the banks?” (Christie, 1990). Such suspicions attest to how the organizational name serves as a touchstone upon which organizational legitimacy can be conferred or withheld (Glynn & Abzug, 1998, 2002). Moreover, illegitimacy can enable legitimacy. Elsbach and Sutton (1992) show how illegitimate actions, such as shutting down the film *Midnight Caller* by the AIDS Coalition to Unleash Power (ACT UP), can ultimately lead to legitimacy through media portrayals and organizational impression management. Consistent with this perspective, Kraatz and Zajac (1996) demonstrate how legitimacy can be a source of inertia; lack of adaptation can lead organizations to engage in illegitimate acts. However, work by Davis and colleagues (1994) suggesting that, as institutional environments change, the definition and meaning of legitimacy should also change, affords a different interpretation of the Kraatz and Zajac (1996) results: When the colleges in the Kraatz and Zajac (1996) sample made changes, they may actually have been maintaining their alignment (or isomorphism) with

the environment. Thus, the illegitimate activities may have been organizational attempts at securing legitimacy.

In spite of the divergence of findings on the consequences of illegitimacy, there does seem to be convergence as to its antecedents. Generally speaking, illegitimacy seems to result from a mis-alignment or incongruence in organizational practices, forms, or symbols with institutional standards of appropriateness or with valued standards; in other words, illegitimate organizations lack isomorphism. Sometimes, this results from organizational initiatives; other times, the institutional environment changes in significant ways that are not matched by commensurate organizational changes. Davis and colleagues (1994) map such “deinstitutionalization” processes for the conglomerate form, finding that the definition of what is legitimate changed with environmental changes. Thus, legitimacy declines when organizational structures are inert relative to the changing rules that constitute the organizational field.

We view illegitimacy as the devaluation of an organization based upon a perceived mis-alignment with institutionalized norms, consistent with other researchers (e.g. Davis et al., 1994; Kraatz & Zajac, 1996). Our work is similar to preceding studies in that we focus on organizational alignment with the institutional environment as a source of legitimacy; likewise, we argue that illegitimacy, in turn, can result from mis-alignment, when changes in norms over time also involve changes in the standards of what constitutes appropriateness and inappropriateness and organizations no longer conform.

Our work departs from preceding research in two important ways. First, while others have focused on organizational form and structure (e.g. Davis et al., 1994; Kraatz & Zajac, 1996), we focus on symbol. Glynn and Abzug (2002) have demonstrated how institutional processes of symbolic isomorphism legitimate; we investigate how such processes can delegitimize. Second, we have chosen a novel but important site – the Internet – which, because of its swift rate of change, affords a view of institutionalization processes through a more compact window. Moreover, through the marker of organizational names, the Internet serves as a boundary, partitioning an organizational field, i.e. “a set of organizations as meaningfully bounded social actors” (Davis et al., 1994, p. 549), that wall off Internet-identified firms (“dot-coms”) from those not so identified. For all these reasons, it is a site in need of study, as DiMaggio and colleagues (2001) have pointed out.

Our contributions, then, are to examine deinstitutionalization and illegitimacy in the context of changes in the valuation of the Internet, from boom to bust, by focusing on “dot-com” names as markers for these changes. By mapping such changes over time in institutions and organizational symbols, we uncover some of the institutional processes that reveal the boundaries between legitimacy

and illegitimacy in naming practices. Understanding patterns and changes in organizational names over time can make transparent the processes of “ceremonial conformity” that Meyer and Rowan (1977) argued was essential to legitimacy. We begin by detailing the case of one company undergoing serial name changes: Egghead.com.

THE CASE OF SERIAL NAME-CHANGER EGGHEAD.COM

Egghead Software was the very first company to adopt the “dot-com” name. The company was founded in 1984 as the first software-only retailer and successfully grew through the early 1990s. However, as mass-market retailers such as CompUSA and Walmart started carrying software products, Egghead’s fortunes reversed. By early 1998, the company had suffered five years of decline and dropped from 250 nationwide stores to just 83. It was at this point that Egghead Inc. shifted in strategy and symbolized this in its name, becoming Egghead.com in January, 1998.

In changing its name, Egghead attempted to leverage the Internet fever that had been growing since 1996. In the four years from 1996 to 2000, the technology heavy NASDAQ exchange index grew from a value of 1000 to over 5000 (in early 2003, it traded around 1500). Now known as a period of “irrational exuberance” and seemingly comparable to other famous market bubbles like the Dutch tulip collapse of the 1630s, the “dot-com” euphoria of the late 1990s bestowed virtually any business associated with the Internet or electronic commerce with stratospheric stock market valuations.

As an indication that this name change was an attempt to capture some of the budding legitimacy associated with the Internet, Egghead coupled the name change to a disappointing earnings announcement, perhaps in an attempt to distract investors for a lackluster quarter. At least initially, however, investors were not fooled. The day after the announcements, the stock price lost 18% of its value, closing at \$6.375. It soon became clear, however, that Egghead was on to something in its strategic repositioning as a “dot-com.” Investors soon forgot the previous five years of disappointing earnings. *Fortune Magazine* describes the shift in the audience reactions:

Six months ago, Egghead’s CEO, George Orban . . . moved the entire business onto the Web, and added “dot-com” to the end of its name. Wall Street, with its untrammelled lust for anything with that beautiful dot-com suffix, gave Orban and his stock a big, wet kiss. Since Orban’s bold move, Egghead stock has more than tripled, recently hitting \$22 a share (Lee, 1998, p. 194).

By November of 1998, [Egghead.com](#) was valued at \$108/share, up almost 1400% from the pre-name change period. This seemed to reflect investors' "untrammelled lust for anything with a dot-com suffix." The old rules of business were thrown out and profitability no longer a requirement for exuberant stock market ratings:

The concept of Internet time also spawned a highly abnormal approach to company-building. Since time immemorial, most businesses had grown organically, using operating profits from early customers . . . to fund expansion and ad campaigns. But the Internet craze – invariably described either as a “land grab” or a “gold rush” – turned the process on its head. First build a “brand,” the thinking went. Then get eyeballs. Then turn them into paying customers. Then figure out how to make a business of it (Useem, 2000, p. 83).

In this period, corporate names and symbols were key to the investing community and having a “dot-com” name provided short-term alignment with financiers and the stock market (Lee, 2001).

“A lot of people assumed everything was – this is a bad word, but – Internetable,” says (one) financier . . . They said, ‘Has anyone come up with [ItalianCheese.com](#)? Okay, then let’s do it.’ . . . At the trend’s apogee, venture capitalists bought up hundreds of domain names in the hopes of assembling a business around each, and eagerly funded such paradigm-shatterers as [JustBalls.com](#) (Useem, 2000, p. 82).

Things changed, however. As DiMaggio and colleagues describe it (2001, p. 319), perceptions of the Internet progressed from “unjustifiable euphoria” to “abrupt and equally unjustified skepticism.” [Egghead.com](#) continued to disappoint investors with poor earnings performance, the company’s stock gradually declined, eventually falling under \$1.00 (Fig. 1). Reflecting the fickleness of investors and how

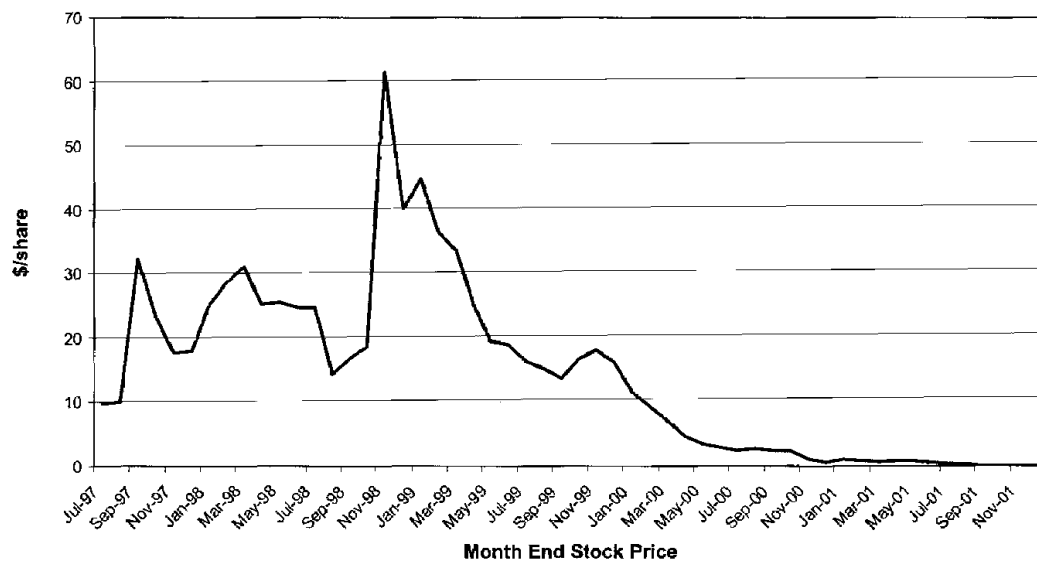


Fig. 1. The Rise and Fall of Egghead.com.

quickly the investment environment can change, in January of 2001, the president of [Egghead.com](#) described in the *Wall Street Journal* ([Maio, 2001](#)): “The entire Internet sector is in the doghouse. Just as we were extraordinarily valued at \$108 in November 1998, we are undervalued now.” However, [Egghead.com](#) was not just in the doghouse, but its strategy and name were no longer in alignment with what investors considered legitimate. By August of that year, [Egghead.com](#) would declare bankruptcy and eventually liquidate its assets. Like other investment bubbles that preceded it, it was only a matter of time before the tide would turn and bring Internet stock prices back to reality. As described in *Businessweek* in August of 2001, one and a half years after the NASDAQ reached its peak, “everything went suddenly, spectacularly wrong. With a swiftness that caught business leaders and economists off guard, the extraordinary New Economy boom flared like a supernova and went dark. The aftermath has been ugly” ([Walczak, 2001](#)).

The Egghead case illustrates two important lessons on legitimacy dynamics in organizational fields. Paralleling [Davis et al.’s \(1994\)](#) finding about organizational structures, the case of Egghead illustrates that symbolic alignment with the environment is also essential for legitimacy; environmental changes can result in illegitimizing what was previously legitimate. However, unlike the findings reported by Davis and co-authors (1994), the processes unfolded with breathtaking speed. As the Egghead case reveals, an asset viewed as legitimate – a name with a “dot-com” suffix – became a liability when environmental norms changed. Different, however, from the gradual shift in conceptions of the corporation as a sovereign body ([Davis et al., 1994](#)), deinstitutionalization was swift, widespread, and initiated just by the configuration of a name.

The swiftness of the change from legitimate to illegitimate points to what we see as the second important lesson in the Egghead case: the role of elites or key legitimating actors, such as Wall Street investors, media commentators, and the general public, in authorizing symbols and standards of appropriateness. This observation is not unique; others (e.g. [Davis et al., 1994](#); [Zuckerman, 1999](#)), have found that the investing community is important in defining what is legitimate. What is different in our research, and revealed in case of [Egghead.com](#), is the rapidity of the change and its extensiveness, occurring not only in the community of investment experts ([Davis et al., 1994](#)), but more broadly in public discourse. In our study, the rapidity and extensiveness of the “dot-com” change extended to the public arena. Unlike [Zuckerman \(1999\)](#), where illegitimacy effects are focused on a small and limited population of analysts, illegitimizing “dot-com” organizations seems to have been predicated on a fundamental and pervasive shift in the perceptions of several constituencies. We use these lessons to formulate hypotheses which we test in the study that follows.

REVISITING THE LEGITIMACY OF “DOT-COM” NAMES

To examine the generalizability of legitimacy dynamics we observed at Egghead, we assessed “dot-com” perceptions of public and financial audiences subsequent to the bursting of the Internet bubble. Using the sample studied by Lee (2001), we investigated how the 58 companies that suffixed “dot-com” to their names in 1998–1999 fared in more recent times; we excluded Egghead from this analysis.

Arguing that these name changes were used as symbols to legitimate organizations to investors and evidence organizational adaptation, Lee (2001) found a positive effect for “dot-com” name changes. However, we expected the reverse in the wake of the “dot-com” implosion. We reasoned that the “dot-com” implosion shifted the standards of appropriateness and changed the favorability of norms that initially drove the adoption of “dot-com” names, for both public audiences and the Wall Street community.

More specifically, we hypothesize that firms that suffixed “dot-com” to their name in 1998 or 1999 would be perceived as less legitimate after the dot-com crash. We also hypothesize that firms that suffixed “dot-com” to their name in 1998 or 1999 would have suffered severe stock market devaluation after the “dot-com” crash.

To test these hypotheses, we sampled all publicly traded companies that made name change announcements in 1998 and 1999 to include “dot-com” as part of the name. These firms are listed in Table 1 and are the same firms studied by Lee (2001, p. 797). Because our hypotheses involved different dependent variables, we tested the hypotheses using two different methodologies. For our first hypothesis, positing more negative public reactions to “dot-com” firms, we surveyed the general public to assess their perceptions of organizations’ credibility based only on their name, similar to Glynn and Abzug (2002). For our second hypothesis, positing more negative stock market valuations for “dot-com” firms, we followed the logic of Lee (2001) and Cooper et al. (2001), and assessed market values as indicators of legitimacy.

Public Perceptions of Name Legitimacy (H1)

Using a questionnaire we developed, we surveyed 55 twenty-year old undergraduates in the Fall of 2002. We chose this group as a “litmus test” because, for them, the Internet is familiar and comprehensible. The survey was very brief, just one page and took approximately 10 minutes to complete. Using the firm names in Table 1, participants were presented a randomized list of pairs of the old

Table 1. Name Changes and Announcement Date.

Old Name	New Name	Date
Egghead Inc.	Egghead.com	1/28/1998
Alpha Microsystems	AlphaServ.com	1/20/1999
Asset Retrieval	Creditgroup.com	2/1/1999
Boraxx Technologies	QuadXSports.com	3/12/1999
Bridgeport Communications	WealthHound.com	5/28/1999
Cardiovascular Laboratories Inc.	CLIXhealth.com	3/25/1999
Cellular Vision, USA	SpeedUs.com	12/21/1998
Charter Investor Relations of North America	Millionaire.com	12/16/1998
Computer Literacy Inc.	Fatbrain.com	3/29/1999
Conagen Corp.	Planet411.com	2/10/1999
Connect Inc.	ConnectInc.com	12/15/1998
Didax Inc.	Crosswalk.com	5/5/1999
e-Casino Gaming Corp.	e-Vegas.com	6/4/1999
Eduverse Accelerated Learning Systems	Eduverse.com	6/7/1999
First Virtual Corp.	FVC.com	7/30/1998
Formquest International	MegaChain.com	4/19/1999
Freepages Group	Scoot.com	2/22/1999
FSGI Corp.	TMANGlobal.com	12/22/1998
Genisys Reservations Systems	Netcruisetravel.com	2/11/1999
GoodNoise Corp.	Emusic.com	6/2/1999
Group V Corp.	TotalAxxcess.com	5/17/1999
HHHP Inc.	Wcollect.com	2/12/1999
Home Care America	BizRocket.com	6/7/1999
Interactive Processing Inc.	Worldtradeshows.com	3/17/1999
International Barter Corp.	Ubarter.com	4/27/1999
IPVoice Communications Inc.	IPVoice.com	4/19/1999
JetFax, Inc.	EFax.com	2/3/1999
Medirisk Inc.	Caredata.com	6/3/1999
MIS International	Cosmoz.com	1/15/1999
Modacad Inc.	Styleclick.com	6/1/1999
Motorcycle Centers of America	eUniverse.com	4/15/1999
New York Bagel Exchange Inc.	Webboat.com	2/1/1999
Okane International	Superwire.com	4/28/1999
OneStopCar of Florida	OneStop.com	4/14/1999
Ozone Technology	Enwissen.com	5/13/1999
PetMed Express Inc.	PetMedExpress.com	4/8/1999
Phon-Net Corp.	Phon-Net.com	6/14/1999
Pivot Rules Inc.	Bluefly.com	10/29/1998
Prosoft I-Net Solutions	ProsoftTraining.com	9/18/1998
RDI Marketing	HouseholdDirect.com	3/17/1999
RLD Enterprises	Go-Rachels.com	1/28/1999
RNL Realty, Inc.	Netmaximizer.com	3/11/1999
Score Medical Corp.	IMatters.com	3/22/1999
Shop TV	Site2shop.com	2/11/1999

Table 1. (Continued)

Old Name	New Name	Date
Sloan Electronics	SalientCyber.com	4/20/1999
Software.net Corp.	Beyond.com	8/25/1998
Spectrum Information Technologies	Siti-Sites.com	12/17/1998
Staruni Corp.	Ubid4it.com	4/6/1999
SUNCOM Telecommunication	VirtualSellers.com	5/4/1999
SyCo Distribution Inc.	SyCoNet.com	2/3/1999
Tao Partners	we-NetVisionz.com	5/12/1999
Technology Horizons Corp.	CKDNET.com	12/1/1998
TeleServices International Group, Inc.	TSIG.com	3/2/1999
Tel-Save Holdings	Tel-Save.com	11/16/1998
The Henley Group	CIS.com	3/31/1999
USA BancShares	USABanc.com	5/12/1999
Virtual Brand Inc.	Ubrandit.com	3/3/1999
Westergaard Online Systems, Inc.	Westergaard.com	1/13/1999
ZapPower Systems	ZapWorld.com	5/18/1999

(non “dot-com”) name and new (“dot-com”) name; we sometimes listed the old name first and sometimes the “dot-com” name first. We used this strategy to decrease the risk of response bias. We asked respondents to make two judgments: (1) How similar are the two names? Respondents made their determinations using a 5-point scale, anchored by 1 (not similar) and 5 (very similar); and (2) Which of the two names (e.g. the “dot-com” name or the other “non-dot-com” name) is more credible? Here, respondents were asked to choose the more credible of the two names.

Survey Results. Responses to the first survey question, assessing name similarity, averaged 2.65 across all subjects and all names, indicating that the old and new (“dot-com”) names were generally perceived to be dissimilar. For 32 of the 58 name changes (55%) the modal response was “1” (not similar), suggesting that these name changes may have been opportunistic grabs at the legitimacy the Internet symbol offered, rather than a signaling of more substantive and particularistic organizational change. Moreover, the perceptual gap suggests that firms were not leveraging existing social capital but rather seeking the emerging social capital of the Internet. More generally, this first finding indicates a lack of resemblance of the old name to the new “dot-com” name, suggesting that, as in the case of Egghead, these “dot-com” firms may be attempting to seize a ready-made legitimating symbol.

The second survey question assessed name credibility. We found that 56 of the 58 “dot-com” names (96.5%) were perceived as less credible than their non “dot-com” counterparts. This implies that, in the face of changed norms about the

favorableness of Internet business, “dot-com” names lost the luster of legitimacy, even to a young, friendly, Internet savvy public.

Taken together, the results of the two survey questions offer strong support for our first hypothesis: Nearly all organizations suffixing “dot-com” to their name in 1998–1999 were perceived as less legitimate following the Internet crash. Thus, it seemed that, in the wake of changed norms about the Internet, organizational symbols connoting Internet businesses lost credibility.

Stock Market Valuations of Name Legitimacy (H2)

We investigated the stock market valuation of our sample of firms (see Table 1), using a five-day period from November 25 to November 29, 2002 (a time when the Internet bubble had clearly burst) and employing numerous sources, including CRSP and COMPUSTAT databases, SEC filings and Internet sources such as Google, Yahoo Finance, company websites, and two over-the counter exchange websites: www.picksheets.com and www.otcbb.com.

The results of this investigation are quite striking (see Fig. 2). Of the 58 “dot-com” name changes identified by Lee (2001), we were able to find information on 57.¹ Of the 57 remaining, 10 had been acquired and 47 are still traded on the stock exchanges. Of these 47 companies still traded, only 7 (14.8%) are valued at over \$1.00, a critical threshold for assessing legitimacy because this is the price at which a firm’s listing on the NASDAQ market comes into question. Of the other 40 firms still traded, 32 trade for under ten cents (\$.10), and 21 trade for less than a penny (\$.01); effectively, such stocks are not traded as they are not listed on any significant exchange, but simply trade infrequently on Internet bulletin boards. It is important to note however, that even a \$1.00 cut off price to assess legitimacy is liberal, because as the *Wall Street Journal* indicates, even NASDAQ traded firms below \$5.00 per share have a difficult time attracting investors:

NASDAQ-listed companies with stocks trading for less than \$1 for 30 consecutive trading days are in danger of delisting. Companies in this strait generally have 90 days to get their stock back above \$1 and keep their listings, which is widely seen as critical in attracting institutional investors. At Merrill Lynch & Co., brokers are prohibited from recommending shares that aren’t rated by the firm’s research analysts, a spokesman said. And the spokesman said the analysts generally don’t rate penny stocks – defined by many investors as any stock trading below \$5 a share (Elstein, 2001, p. C17).

Beyond financial collapse, further evidence that the “dot-com” name had become illegitimate is that of the 47 firms still trading, 19 had changed their names back to a “non-dot-com” name (Table 2). For instance, PetMed Express Inc. announced

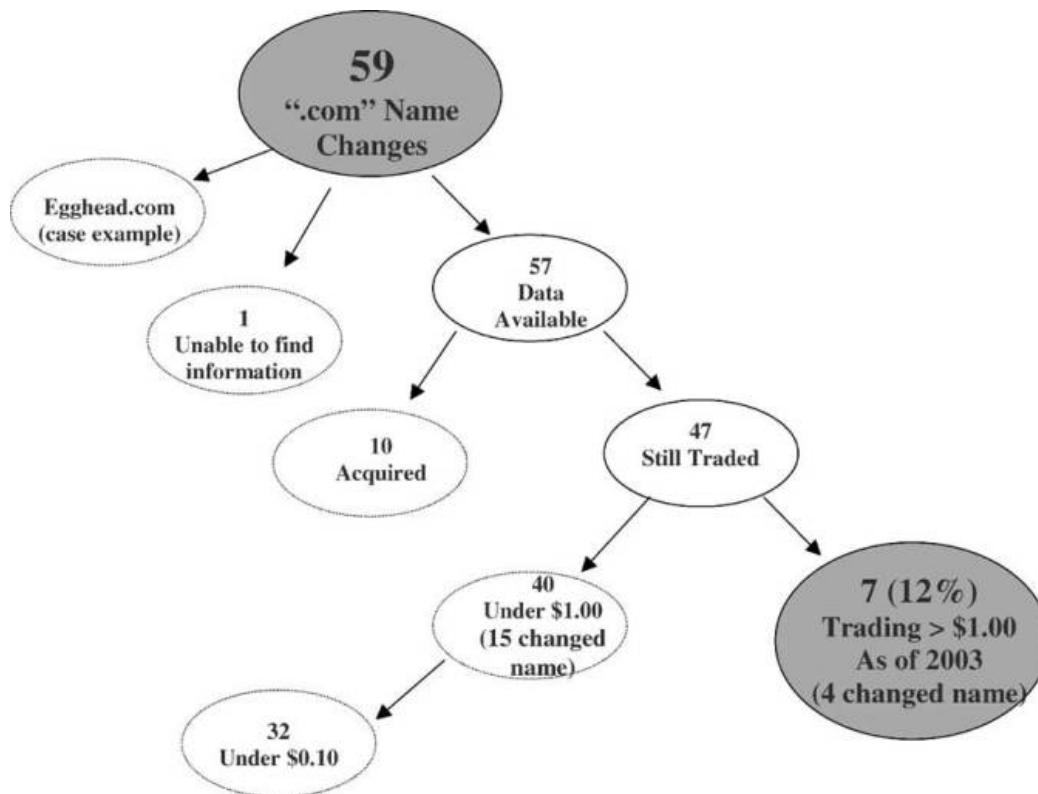


Fig. 2. What Happened to the 59 “dot-com” Name Changes that Occurred in 1998 and 1999? (As of November 2002.)

on April 8, 1999, that it was changing its name to [PetMedExpress.com](#). Less than a year later, however, it changed its name back to Petmed Express Inc, and then, in May 2001, it began doing business as 1800PetMeds (ironically, perhaps, naming itself for a pre-Internet technology, the telephone!) As of late November 2002, 1800PetMeds was trading for just under \$2.00 per share.

The findings on stock market valuations overall lend robust support for hypothesis two: The majority of the 58 companies that suffixed “dot-com” to their name in 1998 or 1999 had negative stock market valuation following the “dot-com” crash.

Taken together, the results from the questionnaire survey and stock market assessments indicate that companies that renamed themselves in 1998 or 1999 with a “dot-com” suffix found that they were no longer legitimate. Perceptions of appropriateness concerning Internet affiliations had shifted so dramatically and so swiftly that “dot-com” firms were seen as less credible by public audiences and perceived as less investment-worthy. Building on these findings, as well as insights from the Egghead case, we develop a theoretical framework that

Table 2. Firms from Lee’s Sample of 59 “dot-com” Name Changes in 1998 and 1999 that Changed Their Name.

Original Name	“dot-com” Name Change	“dot-com” Change Date	Next “non-dot-com” Name Change ^a	Next Change Date
Prosoff I-Net Solutions	ProsoffTraining.com	9/18/1998	ProsoffTraining	1/17/2002
Tel-Save Holdings	Tel-Save.com	11/16/1998	Talk America	5/01/2001
MIS International	Cosmoz.com	1/15/1999	Financial Content, Inc.	10/13/2001
RLD Enterprises	Go-Rachels.com	1/28/1999	Rachel’s Gourmet Snacks Inc	11/13/2001
New York Bagel Exchange Inc.	Webboat.com	2/1/1999	Federal Security Protection Services Inc	3/25/2002
Shop TV	Site2shop.com	2/11/1999	Intermedia Marketing Solutions Inc	05/16/2001
Score Medical Corp.	Imatters.com	3/22/1999	National Health Scan, Inc.	05/09/2002
Cardiovascular Laboratories Inc.	CLIXhealth.com	3/25/1999	Clix group inc	10/05/2000
The Henley Group	CIS.com	3/31/1999	Inter-American Resources, Inc	9/17/2001
PetMed Express Inc.	PetMedExpress.com	4/8/1999	Petmed Express Inc	03/09/2000
IPVoice Communications Inc.	IPVoice.com	4/19/1999	IPVoice Communications, Inc	1/31/2001
Sloan Electronics	SalientCyber.com	4/20/1999	BrandAid Marketing Corp	12/14/2001
Okane International	Superwire.com	4/28/1999	Superwire Inc.	4/12/2002
SUNCOM Telecommunication	VirtualSellers.com	5/4/1999	Healthtrac, Inc	3/22/2002
ZapPower Systems	ZapWorld.com	5/18/1999	Zap	5/14/2001
e-Casino Gaming Corp.	e-Vegas.com	6/4/1999	Oasis Information Systems, Inc	10/15/2001
Eduverse Accelerated Learning Systems	Eduverse.com	6/7/1999	GeneMax Corp.	5/13/2002
Phon-Net Corp.	Phon-Net.com	6/14/1999	Environmental Strategies & Technologies International, Inc.	5/02/2002
Boraxx Technologies	QuadXSports.com	3/12/99	Bethel Holdings	9/18/2001

^aIn some instances, firms undertook multiple name changes. This change represents the name following a “dot-com” name.

models how symbols initially adopted in a quest for legitimacy can ultimately illegitimate.

TOWARDS A THEORY OF ORGANIZATIONAL ILLEGITIMACY

In the two studies reported in this chapter, we examined organizational names as a touchstone for illegitimacy and sought to understand how changed perceptions about the institutional environment of the Internet affected the process of deinstitutionalization. We observed how the symbol of the organizational “dot-com” name, initially legitimated a firm and, subsequently, illegitimated a firm. How was it, then, that symbols that could so quickly legitimate an organization illegitimate it just as quickly?

In investigating this question, a few basic assumptions guided our inquiry. Our first assumption concerns our view of organizational names. We conceptualize organizational names not simply as passive identity markers but as managerial claims to organizational membership in a targeted institutional field, such as the set of firms doing business on the Internet. Organizations seek legitimacy through isomorphic practices that symbolically link them to valued norms (Glynn & Abzug, 1998, 2002). Thus, we see organizational name changes as a symbolic and opportunistic grab at legitimacy, purchased through alignment with institutionalized practices and legitimacy as a critical driver in firm’s adoption of the “dot-com” suffix.

Our second assumption is that “dot-com” names emerged as a marker of an emerging organizational field that sought legitimacy through association with the Internet. Thus, we focus on legitimacy at the level of the organizational field, i.e. the collective set of firms adopting this symbolic practice. We construe the emerging set of firms with “dot-com” names as a loosely focused organizational field that is identifiable through its shared symbolism. In the late 1990s, adding “dot-com” can be seen as a managerial attempt to align the firm with investor values and thus secure legitimacy for the firm. The name served as a boundary marker, cleanly dividing web-based businesses from those that were not, thereby creating a new and distinct category of organizations. As such, we treat this set of firms, at least symbolically, as an organizational field making membership claims as Internet businesses. We believe that such organizational fields, identifiable through a shared symbolic veneer, are not limited to “dot-com” named firms.

Ansell (1997, p. 360) observed that symbolic networks mobilize around potent “condensation symbols” that “create a shared interpretative framework that facilitates coordination, exchange, and ultimately commitment.” In many ways,

the name “dot-com” served this function, organizing the field of Internet-identified companies through the powerful symbol of a common name, thus representing meanings that helped to integrate groups around a shared sense of ideology, as [Ansell \(1997\)](#) observed.

Other organizational fields that are loosely-coupled but cohering around a common symbol are also evident. For instance, organizations that sponsor the Olympic Games and bear the powerful symbol of the five rings constitute a loosely-connected field of “Olympic Sponsors” although they may not share horizontal or vertical interdependencies. Even firms that constitute a more widely acknowledged organizational field such as the Fortune 500 (or Service 500) can in fact be seen as essentially a symbolic clustering. For example, in the 2002 list, the top seven in this ranking consist of two automakers (General Motors and Ford), a retailer (WalMart) an oil company (Exxon-Mobil), a natural gas and trading company (Enron), a conglomerate in many different industries (General Electric), and a financial firm (Citigroup). How these diverse firms are related in any way besides being large and bearing the label “Fortune 500” is not obvious. However, several institutional studies (e.g. [Davis et al., 1994](#)) treat the Fortune 500 as an organizational field. Such fields, organized or defined through symbolism, carry implicit principles of structuration, status, and authority; firms accrue social capital not only because of an actor’s position within a social structure, but also because of claimed membership in that social structure. Thus, symbols can structure and even define organizational fields.

Our third and final assumption about organizational names is that, since legitimacy hinges on isomorphism, organizational conformity to norms and practices will legitimate only to the extent that those norms and practices are themselves legitimate, credible, and valued. Thus, although prevailing investor norms in the late 1990s valued – and even hyped – the Internet, this changed by early 2000. When the Internet bubble burst, norms changed accordingly and exposed the institutional dynamics underlying the relationship between legitimacy and illegitimacy. Our findings on these embedded processes of illegitimacy and deinstitutionalization in some ways parallel those hinted at in earlier studies, particularly those found by [Davis and colleagues \(1994\)](#) regarding the deconglomeratization in Fortune 500 firms as well as those of [Kraatz and Zajac \(1996\)](#) regarding professional and vocational programs in liberal arts colleges. However, our research departs from theirs in two significant ways: first, in terms of the antecedents of institutionalization, and second, in terms of the basis for perceptions of credibility.

Rather than being driven by strategic shifts ([Davis et al., 1994](#)) or ideological warfare ([Kraatz & Zajac, 1996](#)), deinstitutionalization for “dot-com” firms seemed to be predicated on something more fleeting and ephemeral. Just as Wall Street and

public audiences seemed taken with all things Internet, bestowing upon them “a big wet kiss” (in the late 1990s), the ardor just as quickly cooled and dissipated. It was as if the illusion were stripped away and the media, rather than simply tracking deinstitutionalization (Davis et al., 1994), actively promoted it, alternatively hyping and hating the promise of the Internet. Given this swift and almost-faddish change in valuations of the Internet, the basis of credibility was similarly thin. By examining nothing more than a firm’s name, we were able to note the evolution of legitimacy. It was not performance problems or threats to the institutional order that posed challenges to legitimacy, as in the Davis et al. (1994) and Kraatz and Zajac (1996) studies, but it was seismic shifts in the normative bedrock that created mis-alignments. Thus, the valorization of the Internet, and its subsequent taint, found a parallel in the credibility attached to the “dot-com” names. It was the withdrawal of legitimacy – and not a competing set of legitimating symbols and norms that threatened the established order – and illegitimated the organizational names. The challenge, then, is to account for such shifts that render legitimate symbols illegitimate. Following Zucker (1991) and Deephouse (1996), we postulate that illegitimizing processes in organizations involve both *state* and *process* considerations. We develop these foundational ideas to work towards a theory of organizational illegitimacy.

A state perspective on illegitimacy focuses on a static assessment of the mis-alignment between an organization and the norms, beliefs, and values in the institutional environment. If isomorphism legitimates, evident in the positive valuations of “dot-com” named firms in 1998–1999, then a lack of isomorphism, predicated upon a changed environment, illegitimizes these same firms and their symbols. However, to explain the latter necessitates a more dynamic model. Of particular note in this study was how swift and strong were the processes of institutionalization (and de-institutionalization) regarding the Internet and, correspondingly, the legitimacy and illegitimacy of “dot-com” names. Our conceptual framework postulating how state and process factors affect illegitimacy is illustrated in Fig. 3.

Figure 3 depicts how legitimacy accrues from a state of organizational-environmental alignment when organizational names conform to institutionalized values, norms, or beliefs, within a particular time period (Time 1 in Fig. 3). This “state” perspective on legitimacy is consistent with Jepperson’s (1991, p. 149) argument that “institutionalization is best represented as a particular state, or property, of a social pattern.” Implicitly, then, legitimacy (like institutionalization) is the property of the organization. Several definitions cited in Suchman (1995) serve to illustrate. Legitimacy is the state of “Congruence between the social values associated with or implied by (organizational) activities and the norms of acceptable behavior in the larger social system” (Dowling & Pfeffer, 1975, p. 122)

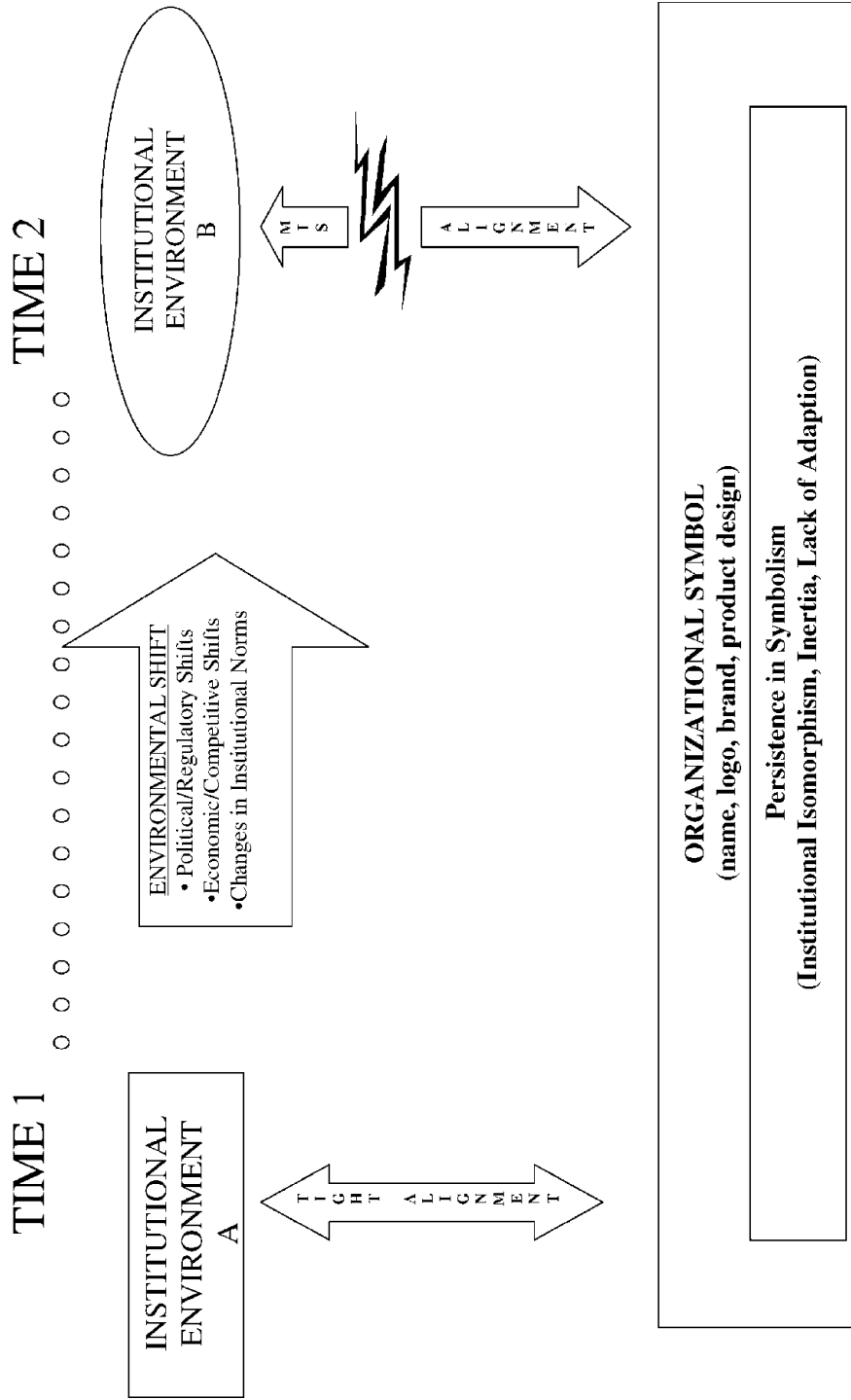


Fig. 3. Illegitimacy Process.

or simply, “Congruence between the organization and cultural environment” (Meyer & Scott, 1983). The “dot-com” names secured positive stock market valuations when Internet business was normatively sanctioned, reflecting an alignment between organizational symbols and institutionalized beliefs.

However, the dynamics of legitimacy, and by implication illegitimacy, involve more than assessing alignment (or mis-alignment) with institutionalized norms. A dynamic view that relates legitimacy and illegitimacy requires a process perspective. What drives delegitimation, or shifts from legitimate to illegitimate states, centers on change and periodicity. We suggest that studying the boundaries between legitimate and illegitimate states is a useful way to understand the dynamics of these processes.

There are two important ways in which such boundaries operate: one is concerned with the clarity with which we can discern the illegitimate from the legitimate; and the other is concerned with the flow from one to the other. The first path shifts the institutional view from one of isomorphism to polymorphism, whereby a less codified (less institutionalized) and variegated set of rules govern the organizational field. As Zucker (1991, p. 104) reminds us, “institutionalization is a continuous rather than a binary variable.” Organizational fields are characterized by different degrees of institutionalization and, corresponding, by different latitudes with which legitimacy may be demarcated from illegitimacy. Meyer and Rowan (1977, p. 354) similarly argue that “Institutionalized myths differ in the completeness with which they describe cause and effect relationships, and in the clarity with which they describe standards that should be used to evaluate outputs.” And that,

[o]rganizational control efforts, especially in highly institutionalized contexts, are devoted to ritual conformity, both internally and externally the idea here is that the more highly institutionalized the environment, the more time and energy organizational elites devote to managing their organization’s public image and status and the less they devote to coordination and to managing particular boundary-spanning relationships (Meyer & Rowan, 1977, p. 361).

As 59 organizations re-named themselves with a “dot-com” suffix in the 1998–1999 period, they began to emerge as a collective, albeit loosely coupled, organizational field, that seemed to share not more than a symbolic veneer. Firms seemed to yield to a general normative imperative to align themselves with the Internet and do so rapidly with only an announcement of a name change. The web-based name seemed to represent an opportunistic grab at some newly evolving reputational capital associated with the Internet; startlingly, however, it seemed to be decoupled from other capital bases and traditional business practices. However, this social capital proved to be rather thin. It seemed that low

degrees of institutionalization, that characterized the initial emergence of these Internet-identified firms, may breed more cloudy and incomplete legitimating accounts. This may be particularly true in the case of new, entrepreneurial entrants, which carry more uncertainty about their identity (Lounsbury & Glynn, 2001).

The second important way in which boundaries function in the construal of legitimacy and illegitimacy is by demarcating transition points where one process flows to the other. In many ways, legitimacy is a buffer against illegitimacy. Zucker's (1991) view of institutionalization focuses on processes of institutionalization, mapping variation and persistence, and that this may be reflected in the degree of institutionalization that characterizes fields. More generally, the underlying processes that transition between legitimate and illegitimate states hinge on institutionalists' notion of periodicity, with each temporal era being characterized by a discrete set of sanctioned norms, which are different from those in other eras. In their work on symbolic isomorphism, Glynn and Abzug (2002) described how norms about appropriate naming practices varied from one decade to the next. For instance, in the 1800s, corporate names had long and richly descriptive monikers (The Peninsular and Oriental Steam Navigation Company), but this changed, by the mid-1900s, to reflect more market and brand concerns, typically in a 3-word configuration (United States Steel Corporation). The mid- and late 1900s abbreviated the corporate name further, generating such ambiguous corporate tags as USX and Unisys, but this was reversed towards the end of the century, which saw a shift back to familiar and clear names (Domino Sugar). It was in the late 1990s that corporate names returned to the 3-part configuration, but this time to reflect their internet location (www.amazon.com). How such norms about the appropriateness of Internet symbols in organizational names changed at the turn of the new millennium is our focus in this chapter.

To summarize our perspective, we theorize that organizational illegitimacy involves a state of mis-alignment with the environment, which can be predicated upon the processes of institutionalization and changing valuations, norms, and beliefs. Organizations align themselves with the institutional order by conforming to sanctioned norms in order to secure legitimacy; indeed, this seemed to drive organizations to append "dot-com" to their names in the 1998–1999 period. However, institutionalization is not static and norms, beliefs and values change over time. Organizations that are symbolically inert can become mis-aligned when environments change through processes of deinstitutionalization; this seemed to drive the perceived illegitimacy of "dot-com" names in the wake of the Internet crash. Moreover, this process occurred with great speed and abruptness on the Internet.

We derived our theoretical framework through our studies of “dot-com” names at different points in time, with reference to a critical and quick transformation, i.e. the bursting of the Internet bubble. Future research might test this framework on illegitimacy in sites that afford a different view of institutionalization and deinstitutionalization processes as well as with different types of organizational symbols and structures that signify alignment (or mis-alignment) to the institutional order. And, although the “dot-com” phenomena was somewhat novel in terms of the speed and clarity with which institutionalization and deinstitutionalization occurred, as we have noted, its lessons may extend to other organizational frontiers facing similar rates of change. For instance, another context in which deinstitutionalization occurred swiftly was that of corporate governance, compensation structures, and executive pay in the post-Enron world. Some of these fundamentally changed how boards are composed and how executives are paid. For example, Richard Grasso of the New York Stock Exchange (NYSE) was recently ousted because of perceptions that his pay was excessive and illegitimate; however, his pay was not more than other executives in immediately prior periods, notably the late 1990s, early 2000s. Thus, norms about executive pay seemed to have changed quickly and with significant consequence. As well, former and vocal proponents of stock options (as a form of employee pay) have abandoned them; Microsoft is a well known example. And, finally, there have been fast and furious changes in corporate boards such that companies have tried to do a better job of staffing the committees of the board so they are not so dominated by the CEO and other employees of companies, a practice that was previously well-established and well-accepted. All of these changes, in corporate governance, executive pay, and compensation preferences, have come about at great speed, much like the changes evidenced in the valuation of the Internet. And all offer opportunistic sites for observing institutionalization and illegitimacy, as DiMaggio and colleagues (2001) suggested.

To conclude, we focus on the contributions that this research offers. In theorizing illegitimacy as institutional mis-alignment, we explicitly recognize that the boundaries partitioning illegitimacy from legitimacy are dynamic. Hence, there is a need to conceptualize illegitimacy – as well as legitimacy – as both a process and a state. And, in highlighting the concept of illegitimacy, our objective is to spur research in this theoretically underdeveloped area. Ironically, over 60 years ago, Kingsley Davis (1939, p. 215) lamented that illegitimacy was over-studied and legitimacy under-studied; he noted that, “*The Encyclopedia of the Social Sciences* . . . contains two lengthy articles on illegitimacy but nothing on legitimacy.” Our hope is that this chapter may similarly reverse research trends and redirect scholars to investigate illegitimacy dynamics in organizations more expansively.

NOTE

1. The single name change that we were unable to locate is that from Staruni Corp to Ubid4it.com. SEC filings indicated that Staruni had been acquired by Elephant Talk Communications on February 2, 2002. Because Lee's study is based on announced changes, it is possible that this name change was announced but never completed.

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