Reputation as a Driver in Activity Level Analysis: Reputation and Competitive Advantage in Knowledge Intensive Firms

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ABSTRACT

Porter's (1985, 1998) activity level analysis tool, the value chain, is widely cited by academics, taught in classrooms, and applied by practitioners. Porter (1985, 1991) claims that drivers within the value chain are central to gaining firm-level competitive advantage; however, he does not consider reputation as a driver. This paper seeks to reconcile Porter's view of reputation with the literature on competitive advantage in knowledge intensive firms. We argue that reputation meets the criteria to be labelled a driver of knowledge intensive firms as it is a relative and relational property of the firm's activity set, impacts the firm's competitive position, and is indirectly controllable by management. The paper concludes by discussing potential implications of labelling reputation as a key driver of knowledge intensive firms.

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INTRODUCTION

Porter's (1985, 1998) activity level analysis tool, the value chain, is ubiquitous in the academic, consulting, and business worlds.

The book which describes the value chain, *Competitive Advantage*, is the second most frequently cited work in the *Strategic Management Journal* during the period 1987–2000 (Ramos-Rodriguez and Ruiz-Navarro, 2004). Value chain analysis is widely taught in business school courses, such as strategic management, management accounting, operations and production management, supply chain management, and health-care administration, as evidenced by its inclusion in many leading management textbooks. Its ubiquity in the classroom is supported by a recent survey which found that 95 percent of UK business grads knew of the value chain (Jarzabkowski and Giuletta, 2007). Lastly, value chain analysis is widely performed by practitioners; the same survey of UK business grads found that 61 percent had used the value chain in their workplace and 41 percent were currently using the value chain at work (ibid.).

Improving firm performance using Porter's (1985, 1998) value chain involves two steps: First, managers break their firm into the activities that it undertakes to create customer value using the value chain activity template. Once completed, managers benchmark each of their firms' activities to determine if the best way to improve

profitability is to (1) perform the same activities better than competitors, or (2) perform different activities than competitors (Porter, 1996). For example, Costco chose the first alternative, perform the same activities better, to reduce its logistics' costs. Costco worked with suppliers to change packaging size and shape in order to increase the number of products that could be loaded on each pallet. Suppliers who reduced packaging volume enjoy lower transportation costs (presumably a portion of which are passed on to Costco in the form of lower input prices), whereas Costco was able to significantly reduce the number of pallets and its uses.

Given that a firm's competitive advantage is ultimately determined by its total cost and differentiation relative to rivals, the second step in value chain analysis focuses on improving the cost and differentiation of each of the firm's activities using cost and value drivers. Cost drivers are relative and relational factors which impact the efficiency of an activity and thus reduce its unit cost, while value drivers are relative and relational factors which impact the effectiveness of an activity and thus increase the buyer's willingness to pay. Porter (1985, 1998) lists ten drivers, of which the most applied are scale, capacity utilization, learning, linkages, and timing. The key to the second step in value chain analysis is to identify which of Porter's ten drivers impact each of the firm's activities. Once the relevant drivers for each of the firm's activities are identified, managers then manipulate these with the aim of reducing the firm's overall cost and/or increasing the buyers' overall willingness to pay (Ghemawat and Rivkin, 2006; Porter, 1985, 1991, 1998). For example, Zara, currently a leader in the fast fashion clothing industry, skilfully exploits the linkages driver to improve its competitive position. Zara produces the majority of its fashion goods in Spain, Portugal, and Morocco, rather than in South East Asia. Zara trades off higher

production costs (workers in Spain average \$1,650/month versus \$200/month in China) with lower transportation costs and the ability to change its clothing assortment faster than rivals, which enhances the consumers' willingness to buy. Driver analysis is challenging as it is at a granular level; however, it is a very powerful tool that managers can use to increase profitability. In Porter's (1991: 104) words, 'drivers constitute the underlying source of competitive advantage, and make competitive advantage operational'.

This paper examines the role of reputation in activity level analysis. While reputation, which is defined as the external stakeholders' consensual ranking of a firm's track record (Fombrun, 1996; Gray and Balmer, 1998; Kreps, 1996), is considered by many as an important source of competitive advantage (cf., Dowling, 2006; Fombrun, 1996; Fombrun and van Reil, 1997), Porter (1985, 1991, 1998) does not consider reputation a driver. If reputation is not considered a strategic factor within activity level frameworks, such as the value chain, it may be overlooked, or even ignored, by the many practitioners, students, and academics that apply or teach activity level tools to perform strategic analysis on a daily basis.

The following sections of the paper discuss the reasons for Porter's mis-conceptualization of reputation. We begin by introducing knowledge intensive firms, as reputation's impact on value creation in this class of firms is well-documented (cf., Greenwood *et al.*, 2005; Löwendahl, 2005). We then examine why Porter does not consider reputation as a cost or value driver in knowledge intensive firms. The paper concludes by examining how practitioners and theorists may benefit from conceptualizing reputation as a driver.

KNOWLEDGE INTENSIVE FIRMS

Knowledge intensive firms sell problem-solving services, where the solutions

implemented by the firms' experts are based on real-time feedback from clients. Clients hire knowledge intensive firms precisely because they believe that knowledge intensive firms know something that they do not and clients believe this expertise is necessary to solve their problems (Løwendahl, 2005; Stabell and Fjeldstad, 1998; Starbuck, 1992). While expertise plays a role in all firms, its role is distinctive in knowledge intensive firms. Expert, often professional, knowledge is at the core of the offering sold by this type of firm (Zabala *et al.*, 2005). Their business model reflects this as knowledge intensive firms earn revenues by selling expert capacity to clients.

Knowledge intensive firms create value for their clients by performing one or more of the following problem-solving activities:

- problem finding,
- problem defining,
- problem solving,
- implementing the chosen solution, and
- following up the solution.

For example, in a consulting firm the problem-solving process begins once the problem is 'acquired'. Consultants from different disciplines (eg, economists, marketers, strategists, etc) are given latitude to use their judgment and skills to define the client's problem, generate hypotheses as to potential solutions, evaluate and test alternatives, and then select those considered best for implementation. After a solution is chosen and implemented, the last step is follow-up. The problem-solving cycle continues until the client's problem is solved or it is referred to another knowledge intensive firm.

Uniqueness of Knowledge Intensive Firms

Experts, expertise and problem solving play roles in both industrial firms and knowledge intensive firms. However, there are two

factors that clearly distinguish knowledge intensive firms from industrial firms: the type of value creation technology employed, and level of information asymmetry between the firm and its customers.

Industrial firms are manufacturers which employ a long-linked technology to efficiently produce long runs of undifferentiated, standardized products (Thompson, 1967). Examples of industrial firms include steel manufacturers and petrochemical processors. On the other hand, knowledge intensive firms employ an intensive technology, which solves client problems using experts and the application of expertise (Thompson, 1967). Examples of knowledge intensive firms include consulting, legal, architecture, and medical firms. The solution provided by knowledge intensive firms is customized for the client; the selection, combination, and order of application of resources vary according to the client's problem (Thompson, 1967). The value creation logic in knowledge intensive firms is one of idea and alternative generation, where the selection and filtering of potential solutions is key (Stabell and Fjeldstad, 1998).

Industrial and knowledge intensive firms also differ in terms of the level of information asymmetry between the firm and its customers. Building on the work of Stigler (1961), Nelson (1970, 1974) classified products based on whether consumers' are able to evaluate their quality pre- or post-purchase. Products which are easy to ascertain the quality of before they are purchased are defined by Nelson as search goods. Examples of search goods are vegetables at a supermarket, as it is easy to judge their quality by appearance, touch, or smell. Goods which are difficult to judge the quality of pre-purchase, but are easy to ascertain after they are consumed are defined by Nelson as experience goods. Examples of experience goods are haircuts and restaurant food.

This typology was later expanded by Darby and Karni (1973) to include goods

whose quality is difficult to judge even after they are consumed. These goods were labelled as being high in 'credence' qualities to reflect the level of trust that accompanied their purchase. Examples of credence goods include medical diagnosis, legal counsel, and management consulting services. The major distinction between the three types of goods is the level of asymmetric information between the firm and the consumer, where the level of information asymmetry between the firm and buyer increases as one moves from purchasing lettuce (a search good), to ordering food in a restaurant (an experience good), to contracting for consulting services (a credence good) (Zeithaml, 1981). Industrial firms typically sell offerings which are high in search and experience qualities, while the services sold by knowledge intensive firms are high in credence qualities. As we will discuss in the next section, given that knowledge intensive firms sell services high in credence qualities, reputation plays a key role in this class of firms.

REPUTATION AND VALUE CREATION IN KNOWLEDGE INTENSIVE FIRMS

Reputation has long impacted the performance of knowledge intensive firms. In a letter to a physician, Adam Smith (Mossner and Ross, 1977) noted that it was not necessary to certify medical schools *per se*. Rather, Smith argued the invisible hand of the market would take care of this through the reputation mechanism; doctors with a poor record of saving lives would have problems attracting clients and thus maintaining their practice. Hayek (1948) noted that the competition between service firms, such as hair stylists and travel agents, tended to be at the level of reputation, rather than price alone.

Is Reputation a Driver in Knowledge Intensive Firms?

Does reputation meet Porter's three criteria to be labelled a driver in knowledge intensive

firms: (1) Is it a relative and relational property between the activities of the firm and its external stakeholders, (2) Can it be influenced by managers, and (3) Does it positively impact firm value creation?

We argue that reputation is a property of the firm's activity set by comparing it to Porter's learning driver. Porter's learning driver operationalizes the impact learning effects have on an activity's cost/quality. The learning driver describes why a firm's activities cost less or have higher quality than its rivals; the firm is more efficient or effective because it has performed the activity more times than its rivals. For example, a firm that has more experience than its rivals performing custom manufacturing activities will have lower costs and higher quality because of learning effects. Rather than operationalizing learning effects as an explicit support activity to which linkages would be the appropriate driver, Porter operationalizes learning as a result of the cumulative performance of firm activities.

Reputation also results from the cumulative performance of a knowledge intensive firm's activities. However, in reputation's case, it is the external stakeholders' net perception of the success of the cumulative performance of a knowledge intensive firm's activities that builds/destroys its reputation (Fombrun, 1996; Podolny, 1993). Reputation is a relational and relative property of the knowledge intensive firm's activity set as the firm's performance is judged by its external stakeholders relative to the performance of its peers. It is the ratio of successful activities to failures (in client projects) that influences a knowledge intensive firm's reputation. The reputation driver captures reputational effects on profitability; knowledge intensive firms with higher reputations attract better clients, which attract better experts to the firm, which then leads to more success as higher quality experts have a higher probability of successfully solving clients' toughest problems.

In order to be of interest to practitioners, Porter (1998) argues that drivers must be 'more or less' under management control. Drivers, however, vary with respect to the manner and amount of influence management has over them. The manner in which reputation can be seen as being under management's influence is similar to the manner in which the capacity utilization driver is under management's influence. As we will outline below, both reputation and capacity utilization require successful completion of supporting activities and support from key external stakeholders if the firm is to realize a positive effect from the driver.

In an effort to lower unit costs, managers can manipulate the capacity utilization driver by increasing production to the factory's full capacity. However, if managers are to enjoy any benefit from increasing the capacity utilization of their production facilities, they need to successfully perform the requisite logistics to handle the increased production, as well as the marketing and sales activities to sell the increased output. If the additional production is not available for sale because of poor logistics, or if customers do not vote with their wallets and purchase the additional production, the firm will not enjoy any benefit from running the factory at full capacity.

Given that reputation is in the hands of its external stakeholders, managers cannot unilaterally choose for their firm to have a high reputation. Managers may, however, influence their firm's reputation by maintaining a high level of performance (Podolny, 1993). This requires that managers select and solve the right client problems and then execute problem-solving activities with above average success. Firms that enjoy higher success ratios than their peers should experience higher reputations in the eyes of their external stakeholders for two reasons: First, reputation is defined as the overall evaluation of the firm relative to its competitors by its external stakeholders

(Fombrun, 1996). Therefore the best performing firms can expect to generate favourable impressions in the minds of their external stakeholders. Secondly, past performance may be used by external stakeholders as a signal of future value creation potential (Hayward and Boeker, 1998). Thus, like the capacity utilization driver, if managers of knowledge intensive firms want to enjoy the benefits of an enhanced reputation, they also must successfully complete supporting activities and maintain the support of key external stakeholders.

Lastly, reputation positively impacts firm value creation as it increases the value received by clients and reduces clients' pre- and post-purchase costs. Reputation increases the value created by attracting good personnel to the firm (Fombrun, 1996; Normann, 1984; Shenkar and Yuchtman-Yaar, 1997). Reputation decreases pre-purchase costs as it reduces clients' search costs (Podolny, 1993; Stigler, 1961). Given the clients' inability to judge the quality of different knowledge intensive firms, reputation is a key buying criterion when evaluating which knowledge intensive firm to hire (Darden *et al.*, 1981; Ellis and Mayer, 1995). Having a good reputation also reduces a client's potential post-purchase cost by decreasing purchase risk (Bauer, 1960; Podolny, 1993). Clients rely on reputation because it acts as an implicit guarantee of satisfactory performance (Macauley, 1963; Kreps, 1996); reputation can be seen as the market's invisible hand as it voluntarily elicits good behaviour without having to resort to third-party intervention (Klein, 1997).

Empirical studies of reputation's impact on value creation in knowledge-intensive firms support these claims. In a study of petroleum exploration ventures, Wolfson (1985) found that reputation is positively associated with earning a premium price. In a study of psychotherapists, Haas-Wilson (1990) finds a good reputation leads to higher fees. Podolny's (1993) study of

investment banks found higher reputation leads to better performance. Finally, in a study of advertising firms Nachum (1996) found that reputation was a significant factor associated with performance.

Is Reputation one of the Most Important Drivers in Knowledge Intensive Firms?

We established that reputation meets the three criteria to be labelled a driver in knowledge intensive firms; however, one question remains: Is it one of the most important drivers? This section argues that reputation is a key driver of knowledge intensive firms because of its durability and virtuous impact on value creation.

Reputation has a virtuous impact on value creation because of the recursive relationship between reputation and performance (see Figure 1). As argued above, the path to reputation starts with creating value for clients; a firm's reputation is based on how it performs relative to its peer group as judged by its external stakeholders. Firms that generate above-average value creation for their clients should enjoy an increase in their reputational standing. Conversely, reputation indirectly drives value created as it attracts good people and good projects. The circle continues as good people attract good projects as the best professionals want to work on the best projects (Löwendahl, 2005; Maister, 1993). The fact that the best people are more likely to successfully solve the best problems further increases the firm's reputational standing and completes the virtuous circle (Stabell and Fjeldstad, 1998).

Nanette Matys, The Client Development Director of a law firm, Osler, describes how the virtuous dynamic helped her firm become one of the top law firms in Canada (Angel and Johnston, 2008: 43):

The Osler brand has helped the firm attract the talent needed to deliver on its brand promise. 'Having the most challenging work has been a strong

Figure 1: Recursive relationship between value creation and reputation.

drawing card in attracting some of the best lawyers in the country,' Matys says.

McKinsey & Company, an international management consulting firm, also benefits from this virtuous dynamic; it is seen as one of the top strategy consulting firms by clients and is a preferred employer for top MBAs graduates (cf., *The Economist*, 2003), which in turn enhances McKinsey's chances of attracting the best clients. Acknowledging the key role reputation plays in its continued success, McKinsey wrote in a job advertisement for a Communications Manager, 'Your primary role will be to strengthen and extend the external reputation of the Practice in the worldwide marketplace'. On the other hand, Arthur Andersen provides a stark example of a vicious reputation dynamic. In the wake of Enron's collapse and Arthur Andersen's indictment by the US Government in 2002, many of Arthur Andersen's 'A' list audit and tax clients left Arthur Andersen afraid that Arthur Andersen's tarnished reputation would rub off on them. Over time, this prompted an exodus of Arthur Andersen's top audit and tax experts, which in turn led to a further exodus of audit and tax clients. By the time Arthur Andersen was found guilty in June 2002 of obstruction of justice for destroying documentation relating to Enron's audit (which was overturned in 2005), the firm

was already 'dead'; destroyed by the loss of its once stellar reputation. Given the role reputation plays in generating a virtuous (or vicious) circle, Löwendahl and Revang (1998: 766) label reputation as being at the 'core of sustainable competitive advantage' in knowledge intensive firms.

Reputation is durable because of the stickiness of the reputation mechanism (Podolny, 1993; Rindova and Fombrun, 1999; Schultz *et al.*, 2001). Hayward and Boeker (1998: 8) propose that reputation is stable over time as it is based on individual perceptions, which are prone to bias. They (1998) suggest that when firms with a favourable reputation perform 'poorly', external stakeholders are more likely to forgive them, perhaps attributing blame to external factors. In addition, individuals are also more likely to give reputable firms that perform well more credit than they deserve. These cognitive biases have the effect of locking in reputational status over longer periods, thus providing stability to reputational rankings (Hayward and Boeker, 1998; Podolny, 1993). Given this, we argue reputation not only meets the criteria to be labelled a driver, it is arguably the most important driver of knowledge intensive firms. The next section examines why Porter doesn't have reputation as a driver within the value chain framework.

WHY ISN'T REPUTATION A DRIVER IN THE VALUE CHAIN FRAMEWORK?

We examine three potential explanations of why Porter does not consider reputation as a driver. The first discusses if Porter did not explicitly consider knowledge intensive firms when developing the value chain and its drivers. The second asks if Porter sees reputation not as a separate, stand-alone driver, but rather may attribute any reputation effects to the timing of the firm's entry into its market, and thus includes reputation effects as part of the timing driving. A third reason is that Porter may not view

reputation as a driver, but rather only as a resource. We will discuss each explanation in turn.

Although Porter (1985: 145) includes some examples of knowledge intensive firms, Porter may have only considered industrial firms while developing his list of cost and value drivers in the value chain framework. Evidence of this may be found in the fact that Porter lists reputation as a signalling criterion, rather than as a use criterion (Porter, 1985: 144). Use criteria directly impact the actual value received by the consumer, such as improved quality or reduced delivery time, whereas signalling criteria only inform or signal that value was received (Porter, 1985: 142). Porter (1985) argues that signalling criteria are important as customers will not pay for value they do not perceive; however, he (1985: 142) goes on to state, 'Buyers do not pay for signals of value *per se*', rather 'only use criteria represent true buyer value'. We argue that in industrial firms, reputation represents a signal of value, rather than directly impacting the underlying value of the good sold to the customer. However, in the context of knowledge intensive firms this argument does not hold. In knowledge intensive firms, reputation is a signal that value will be received *and* it directly impacts the value actually delivered to the client as it attracts the best people to the firm, who ensure a successful resolution of the client's problem.

Another plausible explanation is that Porter may not see reputation as a separate, distinct driver, but rather he may view reputation's impact on an activity's cost or quality as relating to the timing driver. Porter (1985: 186–187) argues that reputation stems from being a first-mover into a market. Porter may have been influenced by the industrial organization literature; the fact that some firms possessed superior reputations was explained by their early entry to the market (Bain, 1956). The downside of

this industrial organization explanation is that it misses the richness of reputation formation; there are many reasons why a firm may have a superior reputation of which early market entry is only one (cf., Baden-Fuller and Ang, 2001, for a discussion of how European Business Schools use alliances to build reputation).

A final explanation is that perhaps Porter views reputation only as a resource. In 1980, Porter states reputation is a valuable asset when implementing a differentiation strategy. In 1991, he (1991: 109) labels reputation an 'external asset'. Viewing reputation as a strategic resource fits with the resource-based view, a strategic framework which aims to diagnose and improve competitive advantage through the identification and exploitation of resources under the firm's control (Barney, 1995). Using Barney's (1991) VRIN criteria, one can make an argument that reputation is a strategic resource in knowledge intensive firms (cf., Greenwood *et al.*, 2005; Löwendahl, 2005).¹

Although reputation can be conceived as a resource in knowledge intensive firms, there are two problems with conceptualizing reputation *only* as a resource: Firstly, viewing reputation only as a resource is inconsistent with the logic Porter (1985, 1998) applies when deriving other drivers. For example, learning is both a driver and a resource. Porter includes learning as a driver which accounts for changes in a firm's stock of knowledge, while one can also label a firm's stock of knowledge as a resource. Similar to learning, reputation can be a driver or a resource. Reputation as a driver describes the inflow to the knowledge intensive firm's stock of reputation, while reputation as a resource refers to the firm's current reputational status.

A second issue relates to reputation's use by practitioners. Although resources may help explain why some firms do better than others, the resource-based view's prescriptive dimension is under-conceptualized (cf., Priem and Butler, 2001; Sirmon *et al.*, 2007).

Once a resource has been identified, firm managers look for ways to exploit the resource to its greatest benefit. However, resource-based analysis does not provide insights as to how to improve the resource (Priem and Butler, 2001). When using the value chain, identification of the sources of competitive advantage is just the first step. For example, suppose you are the manager of Consulting Firm A and that your main competitor, Consulting Firm B, enjoys better performance. You decide to investigate and discover that a major factor is that Consulting Firm B has a better reputation. At this point, a resource-based enquiry may cease as the 'strategic' resource has been identified. On the other hand, value chain analysis prods managers to go two steps further. It asks what led to Firm B's superior reputation? To answer this we would examine both firms' problem-solving activities. Which activities is Consulting Firm B considered best at by the key external stakeholders? Once we have diagnosed the activities where Consulting Firm B is stronger, prescription as to how we can improve Consulting Firm A's problem-solving activities follows, which should lead to higher project success rates, which in turn should increase the firm's reputational standing, and ultimately result in higher profitability.

We argue that seeing reputation as a driver has practical merit because we can trace reputation's impact at the level of the individual activities. This ability to undertake a more rigorous analysis distinguishes and moves reputation beyond just being considered a resource.

IMPLICATIONS FOR PRACTICE

Conceptualizing reputation as a driver leads us to consider how reputation is formed by a knowledge intensive firm's stakeholders; external stakeholders base their reputational rankings on their perception of the success of the cumulative completion of the knowledge intensive firm's activities relative to its

peers. Successful activity completion depends on having the right experts matched with the right projects. The implication for managers of knowledge intensive firms is that they should determine which activities are critical to ensuring project success and ensure those activities are performed well. Further, managers must retain the best experts through innovative compensations packages and other benefits as well as continuing to polish the rougher edges of other experts through ongoing training and development. A third implication is at the level of project choice. In knowledge intensive firms, the choice of projects is critical as choosing the wrong projects may lead to failure, which in turn may impact firm reputation (Skjolsvik *et al.*, 2007). Managers have to ensure that they can successfully complete all projects they take on, not only due to issues relating to the current quarter's earnings, but also due to long-term issues relating to reputation management. Lastly, given that reputation is an expectation exchange between the firms and its external stakeholders, firms need to actively manage stakeholder expectations if they are to become and remain successful.

Practitioners can manage their reputation using the following tactics (Sheehan and Stabell, 2006): Increasing involvement in their professional or industry associations. Experts in knowledge intensive firms can raise their firm's profile by presenting papers at conferences, and writing and publishing articles in influential practitioner journals. Firms with lower reputations may attempt to share the halo effect by partnering with firms that have a higher reputation (Baden-Fuller and Ang, 2001). A consideration when contemplating this tactic is that the firm with the lower reputation needs to offer something the firm with a higher reputation desires in return. Lastly, given the old saying 'what can be measured, can be managed'; reputation needs to be measured, if it is to be managed. Knowledge intensive firms

can hire external firms, such as Harris Interactive or Weber Shandwick, to perform reputational audits and retain an in-house Chief Reputation Officer to monitor their standing in the eyes of key external stakeholders (cf., Fombrun, 1996).

CONCLUSION

The paper's contribution is that it considers reputation in ways not considered by Porter's activity level analysis tool, the value chain framework. With the benefit of examining reputation through the lens of knowledge intensive firms, reputation can be seen as an important driver of cost and value. Including reputation as a driver addresses an important gap in the academic and practitioner literatures. Activity level analysis, particularly the value chain framework, is one of the most applied analytical tools by managers to diagnose and improve their firms' competitive stature. If students and practitioners use the value chain framework as outlined in Porter's (1985) book and in many business textbooks to improve profitability, they are likely to seek to improve scale, learning, and capacity utilization, while overlooking the role of reputation. This paper aims to close this gap, arguing that reputation should be considered simultaneously with other drivers such as scale, learning, and capacity utilization when using activity level analysis tools to assess and gain competitive advantage.

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NOTE

- 1 Reputation is valuable as it increases the value received by the client and reduces the client's pre- and post-purchase costs. Reputation is rare as by definition only a few firms can be considered the 'best' in the industry. Reputation is not easily imitated in the short run because of 'time

compression economies' and 'social complexity' (Barney, 1991; Dierickx and Cool, 1989). Lastly, reputation may be non-substitutable for other factors, such as service guarantees, as in most cases activities performed by knowledge intensive firms (such as defending a legal case or performing laser eye surgery) are costly, or even impossible, to reverse.

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