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Pivoting Isn't Enough? Managing Strategic Reorientation in New Ventures

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Abstract. New ventures often experience deviations from their plans that oblige them to reorient in pursuit of a better fit between their evolving products and their target customers. Yet, research is largely silent on how managers explain such changes and justify their ventures in the wake of fundamental redirections in strategy. Ventures initially attain legitimacy and amass resources on the strength of aims that audiences find compelling; later, those early claims can complicate course corrections. To shed light on how ventures manage strategic reorientations, we conducted an inductive, comparative case study of ventures in a nascent financial-technology sector. The ventures pursued parallel reorientations and produced comparable end products but diverged conspicuously in managing audiences during transitions. Our process model, inspired by these differences, proposes a sequence of stratagems that may enable entrepreneurs to alter strategy while portraying faithfulness to enduring aims. Our theoretical framework posits that, for ventures, reorientation without penalty may depend on how they anticipate, justify, and stage changes to various audiences.

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Keywords: strategic reorientation • pivots • technology entrepreneurship • innovation • product-development processes • rhetorical strategy • organizational adaptation • experimentation • startups • qualitative methods

Introduction

In 1998, a team of entrepreneurs formed a startup, Confinity, to enable business executives to securely access their companies' information-technology systems on PalmPilot's personal digital assistant. When corporate customers showed little interest, Confinity offered an electronic wallet to store passwords and credit card numbers. Customers shrugged a second time, and the company reoriented again—this time focusing on software to "beam" money from one PalmPilot to another. Technophiles downloaded the new software in droves, but there were too few of them to support a company. Confinity changed course yet again, this time creating a web version that enabled customers to send money via email. The site exploded in popularity, quickly attracting over 1 million users. Ultimately, it became PayPal (Furr and Dyer 2014).

PayPal's circuitous innovation path is hardly unique. According to a growing body of research, new ventures that change strategic direction—even multiple times—can benefit by conserving resources (Baker and Nelson 2005); discovering more effective ways to compete (Gavetti and Rivkin 2007); and reducing uncertainty about business models (McDonald and Eisenhardt 2019), commercialization partners (Marx et al. 2014), new technologies (Furr et al. 2012), and their industry contexts (Hiatt and Sine 2014, Ozcan and Santos 2015). Changing strategy may even improve a venture's prospects. In a sample of 400 startups, 93% of the success cases had had to abandon an original strategy that proved unviable (Bhide 2000). Conceptually, researchers and practitioners have compared strategic reorientations, or *pivots*, to the scientific process (Eisenmann et al. 2013): ventures pinpoint a customer problem to solve, test hypotheses about potential product solutions (Murray and Tripsas 2004), learn from market feedback (Bingham and Eisenhardt 2011), and determine whether and how to revise the product for a new target segment (Zott and Amit 2008).

Prescriptive methodologies that encourage purposeful strategy change have become virtually standard practices among technology ventures[1] (Ries 2011, Blank 2013), but unresolved issues persist. One issue is that strategic reorientations may represent such drastic shifts that the reformulated offering bears almost no resemblance to the original. O'Reilly and Tushman (2008) identified several examples of strategic shifts that were significant enough to land firms in entirely different industries. More recently, Twitter began as a podcast directory, Flickr began as a role-playing game, and YouTube began as a dating site. Such success cases notwithstanding, many ventures stumble badly when altering strategy and are abandoned by crucial stakeholders (Kim 2016). We, therefore, consider it important to broaden the scope of inquiry beyond strategic reorientations prompted by market feedback to the larger context of ventures' interactions with multiple audiences during these transitions.

Another unresolved issue stems from a special type of adaptation conundrum. New ventures must be perceived as legitimate to win funding from investors and attract attention from customers and the media (Aldrich and Fiol 1994). Lacking a performance history and a business precedent, these ventures are neither comprehensible nor meaningful to outsiders (a necessary condition for legitimacy) (Fisher et al. 2016). Entrepreneurs seek to get around this by using cultural tools (e.g., resonant stories, claims, and identities) to convince reluctant resource providers of the important problem that they will solve and the likelihood of being successful (Lounsbury and Glynn 2001, Zott and Huy 2007). Such claims, however, have the potential to complicate subsequent course corrections, especially if the new strategy takes the venture far away from its raison d'être. Given the penalty for deviating from audience expectations (Zuckerman 1999), abandoning the very concepts used to garner initial support risks alienating those who found the venture compelling.

Existing theories are, however, largely silent about how ventures justify reorientations to relevant constituencies and tend to ignore the larger interplay between strategic reorientation and organizational communication. Recent work on strategic renewal in established firms suggests that executives can influence audiences' interpretation of change (Sonenshein and Dholakia 2012, Vaara et al. 2016, Dalpiaz and Di Stefano 2018) using rhetoric and narrative practices to gain affected parties' endorsement for a new path (Dunford and Jones 2000, Sonenshein 2010). Such insights may have relevance for new ventures reorienting under more compressed timelines.

This paper aims to generate a more thorough understanding of the strategic reorientation process in new ventures. We focus on how ventures communicate redirections in strategy to audiences whose support they had previously elicited for an earlier concept. Such audiences are apt to view consistent organizations as more comprehensible and thus, legitimate (Aldrich and Fiol 1994), but consistency is at odds with the circuitous innovation paths that ventures follow (Brown and Eisenhardt 1997, Rindova and Kotha 2001, Ries 2011). We build on research in cultural entrepreneurship, which portrays audiences as susceptible to symbolic influences (Lounsbury and Glynn 2001, Santos and Eisenhardt 2009, Kim and Jensen 2011, Dalpiaz et al. 2016). Compelling, coherent communication imbues ventures' actions with meaning (Anthony et al. 2016), positively influencing the various constituencies—the media, investors, customers, and employees—that provide resources as they grow (Martens et al. 2007, Petkova et al. 2013, Wry et al. 2014).

To study these issues, we conducted a qualitative, longitudinal field study of two pioneering automated investment-advisors—a nascent financial technology with the potential to displace traditional human financial advisors via an automated, software-based service. Using a comparative case inductive design (Eisenhardt and Graebner 2007, Battilana and Dorado 2010, Gurses and Ozcan 2015), we tracked the ventures for six years beginning at inception before they functioned as automated-advisors. Both ventures abandoned their original plans and initiated a series of strategic reorientations, resulting in reformulated products and revised target markets, and both evolved toward automated investment advisory offerings for retail investors. Despite the apparent similarities, the companies' approaches to managing audiences during strategy transitions diverged conspicuously, and we develop new theory centered on and inspired by these differences.

Our study makes its contribution at the nexus of strategy, entrepreneurship, and organization theory. As our primary contribution, we develop a process model outlining a sequence of stratagems that enable ventures to fundamentally alter strategy while portraying themselves as faithful to enduring aims. Our theoretical framework posits that entrepreneurs—through careful management of audience expectations during strategy transitions—may be able to elicit support and engagement from customers, investors, and the media after reorienting. In a departure from prevailing notions of purposeful strategy change that assume unconstrained adaptation in new ventures, our model highlights *reorientation without penalty* as an underappreciated and complementary effort, which involves anticipating and justifying strategy transitions and staging them for various audiences. Like scientists, entrepreneurs generate and test hypotheses to solve problems and find viable product solutions, but some may also become adept communicators—skillfully conveying deviations from the plan to diverse constituencies on whose resources they continue to draw. By examining the insights and boundary conditions of our process model, we also pursue the theoretical and practical implications for research on organizational adaptation, cultural entrepreneurship, and the rhetoric of strategic change.

Theoretical Background

Our study conceptualizes new ventures as pioneers in nascent markets—that is, as novel economic domains characterized by amorphous customers and products (Benner and Tripsas 2012, Ozcan and Santos 2015), uncertain new technologies (Anderson and Tushman 1990, Adner and Kapoor 2016), and extreme ambiguity about opportunities and risks (Santos and Eisenhardt 2009, Hiatt and Park 2013). A venture facing that level of uncertainty rarely has an optimal strategy at the outset (Bhide 2000, Furr 2019) but may find a better one as the market matures (Gavetti and Rivkin 2007, McDonald and Eisenhardt 2019). Early assumptions often turn out to be wrong, providing the stimuli for change: in the words of one pair of scholars, "New ventures inevitably experience deviations—often huge ones—from their original planned targets. . . . [They] frequently require fundamental redirection" (McGrath and MacMillan 1995, pp. 2–3).

Research offers several perspectives that are capable of guiding ventures' redirections in strategy. One strand draws on theories of adaptive learning to examine organizational processes that promote flexibility and aid discovery. For instance, processes that entail experimenting (Thomke 2003), probing (Brown and Eisenhardt 1997), improvising (Miner et al. 2001, Davis et al. 2009), continuous morphing (Rindova and Kotha 2001), and incremental planning (Hiatt and Sine 2014) may enable resource-constrained ventures to adapt to novel and unstable domains. Acting on new information unearthed by these processes (Kerr et al. 2014), ventures initiate course corrections to improve on their previous position in the market (Marx and Hsu 2015, Grimes 2018). Such pivots resemble the scientific method: ventures identify a customer problem to solve (Alvarez et al. 2013), formulate and test hypotheses about possible solutions (Eisenmann et al. 2013), receive feedback from the market (usually from customers), and decide whether and how to alter the product to suit a new target segment (Zott and Amit 2008).

A separate stream of research, with roots in cultural entrepreneurship, explores how ventures build legitimacy to attract the resources that they need to operate. New ventures, which suffer from a "liability of newness," are often ignored (Stinchcombe 1965, p. 148; Aldrich and Fiol 1994). To convince skeptical audiences of their appropriateness and viability (despite a lack of operating history), ventures use culture as a "toolkit" (Swidler 1986)—by borrowing resonant cultural symbols and themes (Kellogg 2011, Weber and Dacin 2011). For example, they may disseminate culturally resonant stories (Lounsbury and Glynn 2001, Weber et al. 2008, Santos and Eisenhardt 2009); emphasize such symbolic accomplishments as endorsements, awards, and founder credentials (Rao 1994, Zott and Huy 2007, Hallen and Eisenhardt 2012); and construct distinctive identities (Wry et al. 2011, Zuzul and Tripsas 2019). Such claims serve as "a touchstone upon which legitimacy may be conferred by investors, competitors, and consumers, opening up access to new capital and market opportunities" (Lounsbury and Glynn 2001, p. 545; Harmon et al. 2015). Audiences that buy into them will in turn reward ventures with preferential resources (Wry et al. 2014) and attention flows (Petkova et al. 2013).

Jointly, these diverse research streams are insightful but incomplete. If ventures are to reorient strategically, they must remain flexible enough to respond fluidly to altered circumstances. Yet, it remains unclear whether they are unencumbered enough to chart a radically new course or deal with constituencies that oppose the revised strategy. Ventures must also attract resources while iterating strategies. However, it remains a mystery how audiences come to view ventures with paths that are shifting and inconsistent as legitimate recipients of resources (Hampel et al. 2019). More broadly, initially attaining legitimacy is a different process from maintaining it over time (Fisher et al. 2016). If startup investors, journalists, and early customers are already sold on a venture's initial product claims, managing their expectations could prove daunting; any marked departure jeopardizes that support. Firms that deviate from widely shared expectations typically incur penalties (Zuckerman 1999, Hsu et al. 2009), although managers may be able to mitigate them by placating audiences affected by unexpected changes in strategy (Dalpiaz and Di Stefano 2018). Ventures operating in nascent domains—where categorical norms do not yet exist—face additional complications: as pioneers of "category-defying" products and services that lack business precedent (Zuzul and Edmondson 2017, p. 303), they establish their own expectations. A strategic reorientation thus represents a deviation from expectations that the ventures themselves have set; whether they suffer similar penalties and how they might mitigate them remain unexamined.

In sum, existing research, although valuable, leaves important facets of strategic reorientation unexplored. How do ventures manage the process of strategic reorientation? How do they communicate with audiences about fundamental redirections in strategy? These are the questions that we address.

Methods

Because prior theory overlooks these questions, we selected an inductive research design (Eisenhardt 1989, Yin 2013). Inductive methods are well suited to studying process questions, especially in areas where existing theory is underdeveloped (Edmondson and

McManus 2007). Specifically, we opted for a comparative case design, which generates accurate and generalizable theory while preserving the richness of single cases (see Battilana and Dorado 2010 and Gurses and Ozcan 2015 for exemplars of paired case design). The qualitative field data that we collected are also useful for tracing processes that unfold over time (Small 2009).

The Research Context

Our research setting is the U.S. automated investment-advisor sector (the participating companies of which may also be referred to as software-based or online investment advisors), a nascent financial technology domain. Pioneered by several startups, the sector emerged as a potential replacement for human financial advisors. Because many retail investors lack the skill and time to manage their investments themselves, human financial advisors (e.g., money managers, like private wealth management groups and the like) act as stewards, watching over clients' money and making the investing decisions that those clients would make if they had the time and expertise. In contrast, automated-advisors—by leveraging software and algorithms grounded in finance theory—offer customers automated wealth management services and financial advice, including automatic portfolio rebalancing, customized asset allocation, and tax loss harvesting. Automated-advisors utilize a different distribution channel, enabling customers to bypass financial intermediaries and gain direct access to sophisticated portfolio management services. Although human advisors' customer acquisition costs and natural time constraints lead them to impose high account minimums, automated-advisors' lower cost structure, via automation, allows them to accept lower account minimums (from presumably less wealthy customers) and charge lower management fees. Additionally, automated-advisors' attractive online user interfaces appeal to younger, digital-savvy investors, a small but growing market segment sometimes overlooked by the conventional investment industry.

We selected two ventures with similar profiles, which we refer to as "Standard" and "Poors" (pseudonyms inspired by the financial services company Standard and Poor's to reflect the financial sector origins of automated-advisors). Both companies began in a niche that allows members of an online community to mirror the real financial transactions of skilled investors. Their initial intent was to attract users (investors) to a website, identify the most talented investors within the group, and make money from those skilled investors' strategies. The two ventures launched within six months of each other, had similar resource profiles, and were led by founding teams with similar professional and educational backgrounds. (Interviews with industry analysts and journalists confirmed that the two ventures were indeed comparable.) Such similarities are desirable for a paired case analysis: they help mitigate concern about obvious factors, like founders' experience, goals for the venture, and company resources, as primary drivers for the differences that we ultimately observed. However, because our research focuses on *generating* rather than *testing* new theory, we cannot rule out alternative explanations based on these factors. In addition, we also tracked a broader set of financial technology startups, including peers of Standard and Poors. This study is part of a larger project on nascent industries initiated by the first author. The current study examines two of the firms, but adds additional data collection to extend the timeline and expand the scope of the analysis.

We focused our analysis on *strategic reorientation*—a deliberate alteration in multiple components of a venture's strategy—and *organizational communication* (*managerial rhetoric*) or how ventures portray product concepts to constituencies. Doing so entailed tracing substantive changes in products (including new value propositions) and the targeted customer segment as the ventures sought what has been called "product-market fit" (see Zott and Amit 2008). We also scrutinized communications with audiences, specifically executives' claims about their company's products and value propositions, before, during, and after strategic changes, tracking these activities from 2006 to 2013. By examining events as they occurred, before outcomes were evident, we collected data in a manner that mitigates survivorship bias. An overview of the two ventures appears in Table 1.

Data Sources

We drew on multiple sources of data to conduct our study: (1) semistructured interviews with company executives; (2) interviews with journalists, investors, industry experts, and analysts from the technology, startup, and financial services communities; (3) archival materials, including internet resources, technical publications, press releases, internal documents, emails, and company blogs; and (4) research reports written by analysts and industry observers. We then used these data sources to construct comprehensive accounts of the two ventures' activities over time, thus improving the quality of our inferences. Table 2 provides an overview of our data sources.

Our primary source of data consisted of 89 semistructured interviews conducted in multiple waves, primarily between 2007 and 2013. The *insider informants* were top executives; we interviewed the founder/chief executive officers (CEOs), cofounders,

Table 1. Venture Profiles

	Standard	Poors
Initial niche	Online investing	Online investing
Founding team	Founded by entrepreneurs (one experienced and one first time) with business and engineering degrees from prominent universities	Founded by experienced entrepreneurs with degrees in business and engineering from prominent universities
VC funding during initial study period	Over $10 million total Top 20 VC firm Multiple rounds	Over $10 million total Top 50 VC firm Multiple rounds
Location	West Coast	West Coast
Media coverage	Prominent outlets, including the *New York Times*, *TechCrunch*, *The Economist*, *CNET*	Prominent outlets, including the *New York Times*, *Wall Street Journal*, *Forbes*, *TechCrunch*
Initial concept	Investment simulation	Information dashboard
Final concept	Automated advisor	Automated advisor
Poststudy outcome	Leader in automated investment advisor sector with more than $1 billion under management	Company shut down, asset sale

Note. VC, venture capitalist.

and vice presidents of marketing, engineering, product development, and sales at both ventures. *External informants* consisted of two groups: (1) people who had an arm's length relationship with the ventures but were not involved in day-to-day operations (e.g., venture capitalists and angel investor-backers as well as board directors or advisory board members) and (2) market observers (competitors, customers, industry analysts, finance journalists at the *New York Times* and the *Wall Street Journal*, and technology journalists affiliated with specialized internet news outlets). Our interviews focused on strategic reorientation and related activities; the interviews, between 45 minutes and two hours in duration, were recorded and transcribed. After inquiring about the informant and the venture's strategy (including relevant competitors and position in the sector), we elicited a narrative of the company history, querying noteworthy strategic changes and ventures' interactions with audiences. We thus uncovered reorientations contemplated but not carried out and probed executives' intentions when making and explaining (or not) course corrections. Interviews with outside informants were similar but attended more broadly to the sector in which the companies operated, examining key events since its inception. Several of these interviews were used for overall context and background, whereas others were for our core analysis of the two cases (see Table 2 for a detailed overview).

We took several steps to assure the validity of our cases. First, we collected both real-time data (to protect against hindsight bias) and retrospective data (to efficiently gather observations). By initiating data collection before outcomes were known, we sought to protect against retrospective sense making (Huber 1985). Second, interviewers used nondirective questioning focused on facts and events rather than opinions and speculation (Huber and Power 1985); insider informants began by recounting the founding and proceeded forward in time, describing the company's activities and how it went about each strategic reorientation. We gathered both facts (timeframes and dates of specific events) and descriptions of intentions (executives' reasoning and the alternatives that they considered) and avoided leading questions ("Did you manage your communications strategically?") and inquiries likely to elicit speculation ("Why were you so successful?"). Third, because a variety of perspectives tends to generate a comprehensive account of events (Kumar et al. 1993), we interviewed external observers and insiders from multiple functional areas and managerial levels, promising anonymity to encourage frank communication.

To complement the interview data, we collected archival data, including articles from the popular and financial press, technology and company blogs, analyst reports, third-party websites, company press releases, emails, and conference presentations. Company blogs were a particularly rich source of data for us, providing a real-time record of communication with external audiences (Sinofsky and Iansiti 2010); on blogs, managers engaged in directed discourse and sometimes explained recent developments or key strategic issues. Using these data, we constructed a chronological narrative for each company. Archival documents largely corroborated informants' narrative histories; in other cases, they provided a unique external perspective or provided reasons to follow-up with informants. Jointly, the interview and archival materials constituted rich longitudinal records of the ventures' activities.

Measures

Our research questions ask the following: How do ventures manage the process of strategic reorientation, and how do they communicate with audiences about fundamental redirections in strategy? Answering these

Table 2. Overview of Interviews and Archival Materials

Firm	Insider informants	External informants	Number of interviews	Number of blogs/ press releases	Number of archival articles	Sample archival article sources
Standard	CEO/founder; VP, business development; director, sales (11 interviews with 10 individuals)	Investors; board members (directors and advisory board members) (14 interviews with 9 individuals)	25	42	102 articles 185 pages	*Wall Street Journal, New York Times, Investment News, TechCrunch*
Poors	CEO/founder; VP, engineering; VP, product; chief scientist; director, engineering (10 interviews with 9 individuals)	Investors; board members (directors and advisory board members) (11 interviews with 8 individuals)	21	121	50 articles 92 pages	*Wall Street Journal, New York Times, Financial Times, Barron's, TechCrunch*
Other industry stakeholders		Industry analysts (13), journalists (3), competitors (27)	43	253	96 articles 240 pages	*Wall Street Journal, New York Times, Financial Times, Barron's, TechCrunch, VentureBeat, Investment News, Washington Post*
Overall total			89	416	248 articles 517 pages	All major generalist, finance, and technology media publications

Note. CEO, chief executive officer; VP, vice president.

questions called for appropriate indicators to assess the various elements.

Strategic Reorientation. A new venture typically begins with a premise—a tentative solution to a perceived problem. However, the initial plan may not pan out: "new ventures inevitably experience deviations . . . [that] require fundamental redirection" (McGrath and MacMillan 1995, p. 3). Therefore, we define strategic reorientation as a significant change in a venture's strategy prompted by such deviations. The significant change involves two core components of strategy[2]: its *intended advantage*—the value proposition that a venture creates to gain a superior position in the market—and its *scope* or the array of customers and products over which the venture will provide that advantage (Rivkin 2006). Practically speaking, for our informants and for us, a strategic reorientation entails a reformulated product (with a revised value proposition) to satisfy a new or revised target market (Kirtley and O'Mahony 2018). To identify strategic reorientations, we analyzed accounts from interviews, blog posts, press releases, media narratives, and analyst depictions.

Prior conceptual research suggests that well-managed strategic reorientations afford ventures additional time and resources to gain market traction (Eisenmann et al. 2013). Building on this idea, we assessed the reorientations using an array of quantitative and qualitative criteria. Our interest in managing audiences necessitated a focus on the support that ventures received during and after redirections—from investors (venture capitalists' and angels' participation in follow-on rounds and investors' overall judgments of the transition), the media (the volume and tenor of publicity, including coverage by prominent news outlets, like the *Wall Street Journal* and the *New York Times*), analysts, and customers. Informants frequently invoked "runway" or having the leeway to find product-market fit; we, therefore, traced whether audiences tended to support or penalize deviations from plan. To gauge customer support, we assessed whether the reformulated offering led to growth in users, customer accounts, or assets under management (a key metric for automated-advisors). We also solicited informants' subjective assessments of the venture and its reorientation, probing whether the move had achieved the desired result and met company goals and how it was managed. We again relied on interviews, company blog posts, and indirect sources (news articles, third-party services, and analyst accounts). Although we reference poststudy outcomes, our analysis is squarely focused on the support (or lack thereof) of relevant audiences in the wake of strategic reorientations—an intermediate achievement that is apt to contribute to, but does not fully account for, a venture's ultimate performance.

Reorientation Rhetoric. Proactive verbal communications can facilitate more favorable interpretations of a firm's strategic actions by its audiences (Westphal and Zajac 1998, Westphal and Graebner 2010). However, without a proven track record or even an operating history, new ventures are typically not comprehensible or meaningful to audiences (Aldrich and Fiol 1994). To gain legitimacy, entrepreneurs hone verbal accounts about what they want to do and why they think that they will succeed (Navis and Glynn 2011). By leveraging cultural tools that "enable beneficial resource flows" (Lounsbury and Glynn 2001, p. 546), an entrepreneur's forward-looking claims can influence audiences that bestow the venture's initial stock of financial resources and attention (Fisher et al. 2016)—an effort that may continue as the sector evolves and entrepreneurs revise what they want to do. Drawing on company blog posts, press releases, interviews, and news articles, we assessed reorientation rhetoric by examining the claims that executives made when portraying their product concepts to various audiences, such as customers, investors, analysts, and the media.

At both Standard and Poors, managers frequently invoked short, concise phrases meant to encapsulate the product concept's aim and value to relevant audiences (e.g., "democratizing finance" and "providing a comprehensive picture of one's financial position"). Iterating between our data and existing literature, we settled on *frames* as the construct that best captured these phrases' nature and purpose. A frame is an "interpretative schema that simplifies and condenses 'the world out there'" and "can influence the underlying structures of belief, perception and appreciation through which subsequent interpretation is filtered" (Snow and Benford 1992, p. 37; Schon and Rein 1994, p. 23; Gurses and Ozcan 2015, p. 1712). Although internal managerial frames aid in strategy formulation (Raffaelli et al. 2019), managing how product frames are projected to external audiences is an important activity for nascent sector pioneers whose product concepts are new to the world (Hargadon and Douglas 2001). Because audiences have limited attention spans, appropriate and arresting frames direct attention and help people make sense of novel and ambiguous concepts (Kaplan 2008, Leonardi 2011). See Tables 3 and 4 for summaries of Standard's and Poors' projected frames across reorientations.

Audience Reactions. We also assessed reactions to the ventures by key audiences (investors, media, and customers). Tables 5 and 6 present these reactions through both numerical indicators and illustrative quotes. To gauge *investors'* reactions, we assessed how much follow-on funding each venture raised in the fundraising round subsequent to its reorientation (e.g., see Pahnke et al. 2015). Additionally, we also interviewed venture capital and angel investors to develop qualitative insights on how investors perceived reorientations and probed which factors shaped reinvestment decisions. We thus built on calls to directly observe audience reactions rather than inferring them based on performance indicators (e.g., Dalpiaz and DiStefano 2018). To assess *media* reactions and explore whether ventures incurred penalties because of their reorientations, we utilized the Linguistic Inquiry and Word Count (LIWC) 2015 content analysis program to compare the tenor of media coverage for Standard and Poors a year before and a year after their reorientations. We utilize LIWC's dictionary of affect words, which have been calibrated for internal reliability and external validity, to calculate the percentages of words in media articles that are

Table 3. Comparison of Ventures' Frames Across Reorientations: Standard

	Initial concept 2007–2010	Revised concept 2010–2011	Final concept 2011 onward
Product	Simulation Investing simulation with mirroring functionality	Platform Investment management platform for professional money managers	Automated advisor Direct-to-consumer investing service using an automated, software-based approach ("automated-advisor")
Product frame	Democratizing finance	Democratizing finance	Democratizing finance
Claim	Access to the best investment talent—skilled amateurs	Access to the best investment talent—professional money managers	Access to the best investment performance by reducing costs
Sample quote	"We don't think money should be a prerequisite to investing. . . . The intent was to discover amateurs who could manage a portfolio as well if not better than professionals (think *American Idol*) and then facilitate individual investors giving them their real money to manage."	"With an [Standard] account . . . you now have access to managers that were previously only available to the wealthy. . . . In some cases, they historically only accepted clients with [high] minimum account sizes."	"[Standard] makes it easy for anyone to get access to world-class, long-term investment management without the high fees or steep account minimums. Why trust your money to a Wall Street money manager who charges steep fees when software can do a better job for a lot less?"

Table 4. Comparison of Ventures' Frames Across Reorientations: Poors

	Initial concept 2006–2008	Revised concept 2008–2009	Final concept 2009–2010
Product	Dashboard Aggregator of investment performance information	Platform Investment-focused social networking platform	Automated advisor Direct-to-consumer investment service using an automated, software-based approach ("automated-advisor")
Product frame	Bring transparency to investing information	Make investing social	Trusted retirement advisory
Claim	Transparency in financial information—a complete picture of investment performance relative to peers	Sharing clever investing ideas via an investment-oriented social networking platform	Providing long-term financial security for retirement
Sample quote	"Full-service brokers have always made it very hard to measure performance. . . . We are one of the first companies to introduce the idea of complete transparency in retail investing."	"Poors is aiming to be the Facebook of investments, by letting customers create social networks of people who share investment interests, track others' progress, and compare the specifics of their investment decisions."	"Our mission is to help you make the best decisions with your investments so that you will have more to enjoy later in life. . . . We have created an elegant retirement-planning service that is at once holistic, automatic, and simple to understand."

psychometrically related to emotions (Pennebaker et al. 2015). This approach has frequently been utilized by management scholars to analyze the tenor of media coverage (e.g., Pfarrer et al. 2010, Bednar 2012) as well as primary source texts (e.g., Rhee and Fiss 2014, Harmon 2018). Additional details about our content analysis methodology are included in Tables 5 and 6. Additionally, we tracked general trends in media coverage and provided illustrative excerpts from media articles. Finally, to assess *customer* reactions, we tracked numerical indicators of user engagement (such as customer counts, assets under management, and site views) to infer their reactions, and we collected illustrative quotes to capture customers' subjective views of the ventures.

Data Analysis

We consolidated all of our interview and archival data into case histories, focusing on activities and themes documented in both types of data (Jick 1979). Each case was approximately 100 pages in length, including quotations, exhibits, and timelines. An independent researcher participated in data analysis to offer an additional perspective. We then performed a crosscase analysis to compare themes that surfaced in the two cases (Eisenhardt and Graebner 2007). We developed tentative theoretical constructs for each case using analytical tables and compared their validity (Miles and Huberman 1994). Thereafter, we identified associations between these constructs and elaborated on them via comparison and a replication logic (Eisenhardt and Graebner 2007). Our analysis alternated between emergent theoretical constructs and data, a pattern that helped to strengthen logical associations between constructs and outcomes. As our theoretical insights gained clarity, we revisited prior research for comparative purposes. Our iterative process continued until we reached a point of theoretical saturation (strong correspondence among data, literature, and theory). Synthesizing the insights that emerged from our analysis, we generated the theoretical framework—a process model of three rhetorical stratagems—presented in this paper. We will begin with descriptive accounts that lay out the histories of Standard and Poors through the lens of strategic reorientation before introducing the process model and framework induced from our cases. (To summarize, Figure 1 illustrates the underlying structure of our rhetorical stratagems, Tables 7–9 are construct tables that present empirical evidence illustrating the ventures' systematic differences on the three stratagems, Tables 5 and 6 report audience reactions, and Figure 2 portrays the resulting process model that we derived from our inductive theory-building process.)

Descriptive Accounts of Strategy Transitions

Standard

Initial Concept: Investing Simulation. Standard launched in 2007 as an investing simulation embedded within a popular social network. One founder, skeptical of investor advisory services, aimed to create an online investing talent marketplace to convince people that amateurs could outperform professional financial managers (perhaps at lower cost). Users would invest virtual money in stocks, and Standard would rate their performance with an algorithm designed to identify investing prowess. The simulation's social component enabled users to interact with each other and view the performance of the most skilled users, who received a special designation. Customers paid a fee to link their *actual* brokerage accounts to a skilled investor's *virtual* portfolio to follow his or her investment strategies (Standard shared the fee). An observer offered the

Table 5. Selected Audience Reactions to Reorientation: Standard

Initial concept: investment simulation	Revised concept: platform	Final concept: automated-advisor
Investor actions	Reinvestment by prominent venture capital firms; raised multimillion series A round after pivot; many angel investors wanted to reinvest, not given opportunity	Reinvestment by prominent venture capital firms; raised even larger series B round after second pivot led by follow-on investors; many angel investors wanted to reinvest, not given opportunity
Investor reaction to reorientation: sample quotes	"I perceived the pivot to be positive. Seemed more appropriate for the market. People don't see managing their money as a game." "Since the pivot, [CEO] communicat[ed] very thoughtfully and proactively … better than most startup CEOs." "I viewed the pivots as positive … I view[ed] this as engagement with the market and a sincere attempt to find product-market fit."	"I think the final pivot was successful. … You have to get your market alignment right, but then you have to paddle like hell too." "[Standard]'s pivot was ultimately successful. … I didn't get an opportunity to re-invest, [but] would have invested." "I did not do any follow-on investment primarily because I was not solicited in any downstream rounds, but I would have considered it. I believe in what they are doing and their direction."
Media reaction[a]	Media mentions increased ~207% (compared with 21% increase for Poors) in year after pivot compared with year prior Negative tenor in media articles about Standard increased by 9% (compared with a 28% increase for Poors) in year after pivot compared with year prior	Media mentions increased ~63% (compared with 41% decrease for Poors) in year after pivot compared with year prior Negative tenor in media articles about Standard decreased by 21% (compared with a 6% increase for Poors) in year after pivot compared with year prior
Media reaction: sample excerpt	"[Standard] is trading its [tech startup] image for something more befitting the Wall Street powerhouse it wants to become. The company is … announcing a shift in focus from talented amateurs to professional mutual fund managers." "[Standard] is one of those businesses the finance world needs. If it succeeds, it will be another example of why the disintermediating force of the Internet shakes up industries for the better."	"What makes [Standard] unique is that it brings the quality investment theories of a fund manager online, at a much lower fee, essentially democratizing private wealth management to the masses." "Want assistance but only have a small nest egg? … [Standard] automates the process of creating a risk profile, recommends a portfolio of ETFs and periodically rebalances it. … [Standard] users won't speak with a human at the firm unless they encounter a problem that requires technical support."
Customer reaction: inferred[b]	Attracted nearly $200 million in customer assets under management managed by professional investors on its platform (before pivot, peaked at several hundred thousand users of its investment simulation)	More than $500 million in customer assets under management within two years of pivot Reached $1 billion in customer assets under management within three years of pivot Minimal customer acquisition costs: 80% of new customers originated via organic and viral acquisition channels
Customer reaction: sample quote	"Very interesting idea. … It'll be interesting to see how this does over multiple cycles." —Customer "That's fantastic. We've all been waiting for this." —Customer	"When most of your customer acquisition is free, it's a good sign you have product-market fit." —CEO "Someone open[ed] up a $3.7 million account [the other day] without placing one phone call." —Executive

Notes. Media hits methodology: The media hits data were compiled by conducting Boolean searches on variations of Standard's and Poors' names, taking the entire Factiva database as the universe of media sources. This universe includes major newspapers, industry-specific sources, magazines and journals, major A-list blogs, and research reports. Examples of sources include the *Wall Street Journal*, *TechCrunch*, and worldwide Dow Jones newswires. Search results were manually processed to remove duplicate articles as well as nonrelevant articles (unrelated entities that shared a similar name).

[a]Content analysis of negative tenor in media articles: We utilized the LIWC 2015 content analysis program to analyze the tenor of media coverage for Standard and Poors a year before and a year after both of their pivots. We focused on the degree of negative tenor in media articles (to estimate the extent to which ventures were penalized after their reorientations), and we calculated this measure by taking the total negative affect content in an article and then dividing it by the total affective content (for scaling). We then compared the change in negative tenor pre- and postpivot. The LIWC 2015 dictionary features a dictionary that contains 744 words associated with negative affect and 1,393 total affect words. Additional information on LIWC can be found via the website http://www.liwc.net.

[b]Customer reaction inferences: Following examples from the literature, we inferred customer reactions based on customer engagement metrics, such as user counts, customer assets under management, or website visits.

Table 6. Selected Audience Reactions to Reorientation: Poors

Initial concept: information dashboard	Revised concept: platform	Final concept: automated-advisor
Investor actions	Some previous investors decline to reinvest	Tried unsuccessfully to raise follow-on round of funding
	Raised series B after pivot from new venture capital firm	No new investors, ran out of cash, company assets sold in fire sale
Investor reaction to reorientation: sample quotes	"[Poors' pivot] wasn't well communicated, . . . We really didn't know. The only way you found out about [anything] was by calling the CEO and saying, how is it going?"	"Poors's pivot was not a positive signal. It [was] a negative signal . . . [management] didn't communicate a lot . . . make sure you understand the dynamics of what causes the pivot: something's wrong . . . so it was really hard to reconnect on a pivot."
	"What was not working with the original model, with the pivot to social . . . you know, the hot button at the time—Facebook was just starting to rise. So critical thinking is so important at this juncture. And I feel [a] lack of critical thinking [by the CEO]."	"Most young companies are reluctant to admit something's wrong . . . trying not to make the investors afraid . . . [so] it's important that the management team communicates effectively with the investors to keep people posted, because if you don't have confidence in the management team and things go wrong, you don't have confidence to reinvest."
	"[The pivot] usually indicates some sort of desperate situation."	
Media reaction[a]	Media mentions increased by ~21% (compared with 207% increase for Standard) in year after pivot compared with year prior	Media mentions decreased ~41% (compared with 63% increase for Standard) in year after pivot compared with year prior
	Negative tenor in media articles about Poors increased by 28% (compared with 9% increase for Standard) in year after pivot compared with year prior	Negative tenor in media articles about Poors increased by 6% (compared with a 21% decrease for Standard) in year after pivot compared with year prior
Media reaction: sample quote	"[CEO] wants his company to become the largest social network for investing . . . adamantly maintains that each users' data is his or her own, not the bank's or brokerage firm's."	"[Poors] may be a helpful tool in confusing times . . . but its limitations [render] it an incomplete solution that's no threat to a really good, honest investment adviser."
Customer reaction: inferred[b]	Less than 20,000 registered users, peaked at almost 50,000 site visits	Attracted modest revenues after pivot, user acquisition and retention remained low; site visits dipped below 10,000; forced to shut down company via asset sale
Customer reaction: sample quote	"It's the wisdom of the masses." —Customer	"[Poors] can analyze only investments held in brokerage and fund accounts it can link to its site." —Customer review
	"I mean our customers were always steadily growing, but we never experienced any sort of phenomenal customer growth." —Executive	

Notes. Media hits methodology. The media hits data were compiled by conducting Boolean searches on variations of Standard's and Poors' names, taking the entire Factiva database as the universe of media sources. This universe includes major newspapers, industry-specific sources, magazines and journals, major A-list blogs, and research reports. Examples of sources include the *Wall Street Journal*, *TechCrunch*, and worldwide Dow Jones newswires. Search results were manually processed to remove duplicate articles as well as nonrelevant articles (unrelated entities that shared a similar name).

[a]Content analysis of negative tenor in media articles: We utilized the LIWC 2015 content analysis program to analyze the tenor of media coverage for Standard and Poors a year before and a year after both of their pivots. We focused on the degree of negative tenor in media articles (to estimate the extent to which ventures were penalized after their reorientations), and we calculated this measure by taking the total negative affect content in an article and then dividing it by the total affective content (for scaling). We then compared the change in negative tenor pre- and postpivot. The LIWC 2015 dictionary features a dictionary that contains 744 words associated with negative affect and 1,393 total affect words. Additional information on LIWC can be found via the website http://www.liwc.net.

[b]Customer reaction inferences: Following examples from the literature, we inferred customer reactions based on customer engagement metrics, such as user counts, customer assets under management, or website visits.

following summary: "The intent was to discover amateur [investors] who could manage a portfolio as well [as], if not better than, professionals—think *American Idol*—and then facilitate individual investors [customers'] giving them their real money to manage." After becoming the social network's most popular investing simulation, with almost 500,000 virtual portfolios, Standard launched a mirrored investing product on its own website and leveraged the simulation to attract paying customers.

Standard aimed to give customers access to investing talent. With crowd-sourced investment strategies, the

Figure 1. Underlying Structure of the Rhetorical Stratagems

Rhetorical Stratagem I: Anticipating Reorientation

Underlying components	Examples
Abstract Frame	▪ Emphasis on societal objectives (addressing societal problems) in marketing materials ▪ Frequent references to current cultural themes in external communications ▪ Priority given to emotional dimensions of value (e.g. constructing a villain or underdog) ▪ No guidance on future products
Concrete Frame	▪ Emphasis on customer objectives (solving specific customer problems) in marketing materials ▪ Few references to current cultural themes in external communications ▪ Accord primacy to functional dimensions of value ▪ Announce explicit product road map (e.g. features, functionality, timing of release)

Rhetorical Stratagem II: Justifying Reorientation

Underlying components	Examples
Signal frame continuity	▪ Reassert company's original aims ▪ Frequent references to past ▪ Reinterpret problem dimensions / judgment criteria ▪ Highlight new means for meeting objective / problem
Punctuated frame morphing	▪ Reactive morphing of frame ▪ Unfamiliar new claims ▪ Few references to past products / company history

Rhetorical Stratagem III: Staging Reorientation

Underlying components	Examples
Pair change with foreshadowing and consoling rhetoric	▪ Preview impending change in external communication ▪ Employ conciliatory rhetoric ▪ Acknowledge impact of transition (e.g. consolation, hope)
Unaccompanied strategic change	▪ No warning of impending shift ▪ No conciliatory language ▪ Lack of communication ▪ Abrupt product transitions

best-performing ideas (not the investors' professional credentials) mattered, and the idea was reinforced by two unique product features. First, Standard did not operate on real currency, enabling talented amateur investors (unable to raise enough capital to become registered investment managers) to build a money management business on the strength of their track records. "We don't think money should be a prerequisite to investing," explained company marketing materials. An admiring journalist added her own analogy: "If bloggers are people who didn't work for the *New York Times*, then [Standard] was trying to open up the market to investors who didn't work for Fidelity." Second, Standard gave users unfettered access to the skilled investors' portfolio holdings and investment strategies so that they could "see where every virtual penny was invested [and] assess whether those [investment] choices were thoughtful or simply lucky."

Revised Concept: Investment Management Platform. Standard's team pivoted away from its initial strategy in response to several discoveries that contradicted expectations. First, very few amateurs qualified for the company's special designation (fewer than 10 in the 0.5 million users according to the company's algorithm). "The people who do this kind of investing well actually already do the investing, by and large," explained a market analyst. In other words, the skilled investors were professionals, not amateurs. Second, professional investment managers—a segment that executives assumed would be hostile to Standard's unique disclosure requirements—expressed interest in qualifying for the special designation; they "were interested in the tools and new distribution medium Standard's [web platform] provided," explained a venture capital backer. Third, because few users who performed poorly in the investing simulation signed up for the paid mirroring service, the cost of supporting the social network simulation was deemed unsustainably high.

Thus, Standard reoriented its strategy, courting professional investors who qualified for the special designation to join its platform so that customers

Table 7. Anticipating Reorientation: Abstract vs. Concrete Product Frames

Venture	Initial frame	Period (prepivot)	Objective emphasized[a]	Representative illustration	Dimensions of value promoted[a]	Sample quote	Themes invoked[a]	Representative illustration
Standard	Abstract frame	2007 Q3 to 2010 Q1	External communications accord primacy to societal objectives: 12 instances; customer problems: 5 instances	Addressing a societal problem: "Millions of Americans . . . deserve professional investment advice but . . . have been ill-served by the [investment industry]." —Company statement "I think it's awful that because of someone's wealth, they have access to investment products that the rest of the world doesn't. . . . It shouldn't be." —Cofounder	External communications prioritize emotional dimensions of value: 12 instances; functional dimensions of value: 6 instances	Emotional dimension: "Don't stand for it [buying existing investment products]. Demand a service that offers recommendations based solely on merit." —Senior executive "Retail investors have been so conditioned that they can't determine who will outperform the market that they no longer seem to care about performance. . . . This is nuts!" —Senior executive	Marketing materials emphasize cultural themes frequently: 14 mentions	Invoking cultural themes: "With an [Standard] account . . . you have access to managers that were previously only available to the wealthy. It's part of our attempt to democratize access to the best investing talent." —Senior executive "[Standard] can, for the first time, offer every investor the opportunity to access the returns, advice, insights . . . previously only available to wealthy individuals." —Company statement
Poors	Concrete frame	2006 Q1 to 2008 Q1	External communications accord primacy to societal objectives: 3 instances; customer problems: 19 instances	Solving a customer problem: "Investing is intimidating and a chore for people of all ages so many shy away from taking control of their investments." —Company statement "[Poors] exists to help you be a better investor. And part of the challenge of being a better investor is, of course, figuring out how to stay on top of the slew of news." —Marketing director	External communications prioritize emotional dimensions of value: 4 instances; functional dimensions of value: 32 instances	Functional dimension: "[Poors] is a new kind of financial service—allowing members to see up to 10 years of historical activity as well as current portfolio holdings, trading activity and performance data of fellow members. All safely, securely and anonymously." —Company statement "[Poors] offers investors visibility into their portfolio performance across multiple brokerage accounts." —Senior executive	Marketing materials emphasize cultural themes infrequently: 3 mentions	Absence of cultural themes: "Only [Poors] lets investors fundamentally improve the way they invest through radical transparency–accurate portfolio performance with clear benchmarks, community with credibility, and actionable trends based on real activity of other investors, while respecting members' privacy." —Company statement

Note. Q, quarter.
[a]Counts from content analysis. Content analysis was performed on each venture's press releases and blog entries. Qualitative materials were analyzed and coded to identify subelements of each stratagem. Each occurrence of a particular subelement was recorded.

Table 8. Justifying Reorientation: Bridging Justifications and Frame Continuity

Venture	Reorientation	Time period	Justification	Reference past?	Communicating frames	Postpivot statements[a]	Representative illustration
Standard	To investment platform	~2010 Q2 to 2011 Q4	Explained pivot: "We learned that very few amateurs are capable of earning [our special distinction]." —Company statement	Yes	Assert continuity in broad objectives despite change in direction	References to original aims: 13 instances; new aims: 0 instances	Reasserting original claims: "We said we were democratizing access to great investing talent. . . . That's always been our story. . . . It just so happens the great talent were amateurs in the beginning, and now they're outstanding professionals." —CEO "By tapping into [Standard]'s powerful services, small and medium-size investment managers are launched into the big leagues . . . giving them the marketing, analytic and client support capabilities previously inaccessible to anyone managing less than a billion dollar portfolio." —Company statement
	To automated-advisor	~2011 Q4 onward	"We have changed the focus of our business. The goal of a start-up is to get to market quickly, observe how people use your product and then navigate to the most profitable business. Unfortunately for some that is not enabling a virtual investing environment." —Company statement				Redefining components of stated aims: "What we really wanted to change was not who manages the money but who has access to the best possible talent. . . . We'd originally thought we'd need to build a significant business with amateur [investors] to get professionals to come on board, but fortunately it turns out that wasn't necessary." —Cofounder

Table 8. (Continued)

Venture	Reorientation	Time period	Justification	Reference past?	Communicating frames	Postpivot statements[a]	Representative illustration
Poors	To social networking platform	~2008 Q1 to 2009 Q3	No explanation given: "[Poors]'s pivot wasn't well communicated." —Investor	No	Reactively morph product frame for new strategy without asserting continuity	References to original aims: 0 instances; new aims: 15 instances	Introducing unfamiliar claims: "Poors is aiming to be the Facebook of investments, by letting customers create social networks of people who share investment interests." —CEO
	To automated-advisor	~2009 Q3 to 2010 Q1	"They didn't communicate a lot … most young companies are reluctant to admit something's wrong." —Investor				"[Poors] delivers objective investing guidance with high-performing funds and lower management fees so consumers can reach their specific retirement goals." —Company statement

Note. Q, quarter.
[a]Counts from content analysis. Content analysis was performed on each venture's press releases and blog entries. Qualitative materials were analyzed and coded to identify subelements of each stratagem. Each occurrence of a particular subelement was recorded.

could mirror their investments. Features and functionality, including back office operational support, were enhanced to cater to professionals. Standard repositioned itself as "a very-low-overhead marketing opportunity for professional investors, for whom the cost of acquiring new clients had been extremely large," observed one analyst. A professional investor added that "part of the value proposition that [Standard] provides is: 'We will bring clients to you.'" These professionals presumably wanted to attract new clients without being distracted from their core activity; with Standard's reformulated product, they could grow their client base by taking on smaller accounts and gaining a wider geographic presence. Meanwhile, customers who could not previously afford to invest with such professional investors gained access. This shift in direction prompted Standard to shut down its still popular investing simulation.

Final Concept: Automated Investment Advisor. Standard had thus become a distribution platform and back office provider for professional investment managers. The new product targeted upper middle class customers who collectively had trillions invested in the stock market. However, another problem arose when this customer group turned out to be more skeptical than anticipated about professional money managers (like those featured on Standard's platform). In fact, a company-commissioned poll found that only a small percentage of adults agreed that "financial advisors know how to outperform the market consistently." An industry observer commented: "The money is out there. The challenge is convincing this segment that it's actually possible to beat the market with smart fund management. The big shock was just how cynical the general public is."

Standard decided to change course again. As a middleman, the company had been splitting customers' fees with the professional money managers hosted on its platform. Standard reoriented to managing customers' money directly. The company adopted a "passive" investment strategy (in keeping with customers' skepticism about professionals' ability to beat the market), and developed a new index investing offering. In effect, Standard became an automated, low-cost investment management service that leveraged proprietary algorithms to invest in diversified index funds. The product also featured automatic portfolio rebalancing based on individual customers' changing risk and tax scenarios.

Standard also refocused on new customers, targeting technology professionals—a segment apt to be comfortable with having their money managed by software and algorithms. "Our focus is on offering online financial advice for the tech community," said

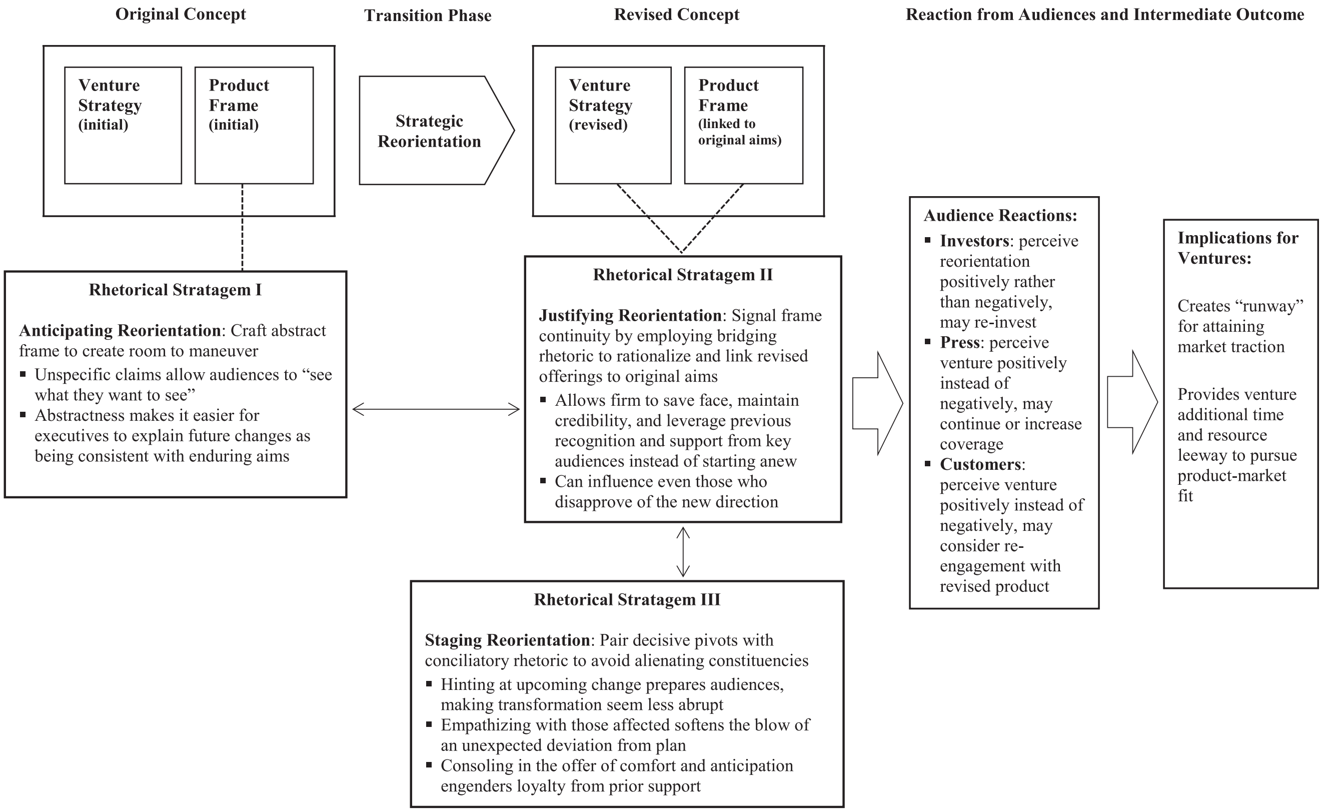
Table 9. Staging Reorientation: Conciliatory Rhetoric and Decisive Pivots

Venture	Reorientation	Time period	Previewing (prepivot)[a]	Representative quote	Communication (during pivot)[b]	Sample illustration
Standard	To investment platform	~2010 Q2 to 2011 Q4	7 instances of foreshadowing impending change	"Before they really made that shift (they'd hinted at it), I said 'this sounds interesting to me.'" —Analyst. "We are not yet ready to throw in the towel on virtual portfolios, which is why we offered you the ability to continue to manage on another platform." —CEO	11 instances of conciliatory rhetoric	Consoling: "To our frustrated [customers]: We are terribly sorry if you do not want to manage your virtual portfolio on our [social network] app. . . . We have changed the focus of our business." —Founder
	To automated-advisor			"In the future we expect the vast majority of our new investment-managers to be outstanding Registered Investment Advisors (RIAs) whose verified track records we import. . . . We will still enable amateurs to prove they [are worthy of the special distinction], but unfortunately our experience to date tells us not many will succeed." —CEO		"We realize that some of you don't want to use [social networks] or can't use [them] at work, but that's the price we have to pay to satisfy users who are ready to mirror trades now. We are also sorry to inform those of you who think that advertising will solve our problem that our earlier experiments with advertising don't support that assertion." —Founder "We hope you all understand that we spent a lot of time considering all the alternatives and ultimately made a bet on an alternative future." —Open letter
Poors	To social networking platform To automated-advisor	~2008 Q1 to 2009 Q3 ~2009 Q3 to 2010 Q1	0 instances of foreshadowing impending change	"We took our core technology . . . but then all of the social stuff was thrown away. . . . A week before we went live, we went and turned off all the social features. . . . We had a whole bunch of people on the site using the [social] features. . . . It leaves this really ugly, disjointed mess. The customers we had initially are like, 'What's going on here?'" —Engineering executive	0 instances of conciliatory rhetoric	Lacking communication: "The problem was that, since the social stuff wasn't core to what we were building with [the new automated investing product], it was hard to get our VP of Product and [our CEO] to focus on it—or to basically answer the question of what are we supposed to do with the social stuff." —Engineering executive

Note. Q, quarter.
[a]Counts from content analysis. Content analysis was performed on each venture's press releases and blog entries. Qualitative materials were analyzed and coded to identify subelements of each stratagem. Each occurrence of a particular subelement was recorded.

the CEO. A media outlet speculated on the rationale: "[Standard] is targeting technologists who have money to invest and could become very wealthy if and when their companies go public. These are prime early adopters to focus on . . . because they distrust 'the suits' at traditional firms, and are naturally inclined toward sacrificing human interactions for computer processes." Customers were also becoming,

Figure 2. Process Model of Rhetorical Stratagems for Communicating Strategic Reorientations



in the words of one analyst, "increasingly digital-savvy. . . . Their preferences are evolving, and demand for meaningful interaction online is ever-growing."

The transformation was complete—and drastic. Having begun life as a simple investment simulation that discovered amateur investors who could beat the market, Standard had evolved into a sophisticated multibillion dollar automated investment advisor with a radically revised strategy—including a different product and a new target customer—grounded in the principle that no investor can beat the market. "That's an epic pivot," a company advisor admitted. "It's like shifting from making solar calculators to powering the Space Shuttle."

Poors

Initial Concept: Information Dashboard. Poors began in 2006 as an information aggregation product for retail investors. It was inspired by a belief that individual investors typically lacked a clear picture of their overall investment performance, in part because they held accounts at several brokerages. Poors' founders also suspected brokers of obfuscating performance information to prevent better-informed investors from closing their accounts in indignation. "Anyone who's ever had a broker's account anywhere knows that brokers try to keep that information as fuzzy as possible, because most people, frankly, do so poorly and underperform relative to indexes," said an angel investor who backed the company.

Poors aimed to provide customers the best information about their investments. The product would provide "a complete and accurate view of [users'] portfolio performance, over time, across all their accounts, [incorporating] critical pieces of information that they simply cannot get from their current online brokerage website." Poors' web-based software used a proprietary scraping technology to aggregate information from multiple accounts. Users linked their brokerage account(s) to the website, enabling the company to import, analyze, and summarize investment data. For each user, Poors collected financial information and produced such performance metrics as rates of return and gains and losses on specific holdings. More distinctively, Poors ranked a user's overall investment efficiency against others. All of this information was displayed on a digital dashboard. Poors planned to attract many users, leverage brokerage account data to identify the subset of very skilled investors, and then, monetize those top investors' strategies.

Revised Concept: Social Networking Platform. Poors' initial concept won an award at a prominent technology conference, generated substantial publicity, and attracted early customer interest. However, unexpected problems plagued its initial plan. First, a very small percentage of its website visitors became registered users; fewer than one-half of those registered users linked their brokerage accounts. "Because our business model relied upon the data, we needed certain network effects: the more people on the site, the more valuable it was," explained the CEO. Second, media coverage attracted the wrong users. "People would read about us in these mainstream publications like *Businessweek*, and we started getting more and more [day] traders rather than [long-term] investors," he added. Day traders, who aim to profit from daily fluctuations rather than the fundamental value of a stock, created little value for the company.

Executives moved to target a different customer segment: market research had identified middle-aged retail investors as appropriate target customers. Product functionality, user interface, and marketing materials were recalibrated for this segment. Because retail investors tended to use a wider range of brokerages than day traders, Poors also built links to more brokerages. More significantly, the value proposition of Poors' product shifted from an informational dashboard ("show me how I'm doing") to a social network ("help me connect with other investors and see what they're doing"). Inspired by the growing popularity of online social networks, Poors added social networking capabilities and became a platform for sharing investment ideas. By making the site more interactive, executives hoped to attract users and intensify their engagement, highlighting the social nature of investing. As the CEO put it,

> We're already social with investing. There are investment clubs, and we talk about it at cocktail parties. . . . You want to know how you're doing compared to other people, and how they got there. —CEO

Final Concept: Automated Investment Advisor. After its transformation to a social networking platform, Poors was more successful at attracting users. Large financial firms, intrigued by the social features, expressed interest in partnering with Poors. However, neither user growth nor promising partnerships added to the company's dwindling cash reserves. In need of a financial infusion, Poors had to monetize. A Poors executive summarized the challenge: "We need[ed] to show some revenue growth—and that was the way we were going to get the next round of [venture capital] funding." These circumstances led to Poors' final strategic reorientation.

Poors' engineers repurposed the algorithms (originally developed to rate users' investment performance) to rate mutual funds and exchange-traded funds. In internal simulations, algorithm-recommended investments performed better than most benchmarks, including the S&P 500. Executives created an automated product that would recommend investments to meet customers' long-term financial goals. Poors' new stripped-down offering could be monetized via an annual fee. One publication characterized the product as an "automated service that attempts to tailor a mutual-fund portfolio that will get you to retirement according to your goals . . . in essence, a robotic, low-cost investment adviser."

After the launch, Poors generated quick but modest revenues, and user acquisition and retention remained low. The management team eventually negotiated a fire sale of the company's assets and returned the proceeds to investors.

Communicating Strategic Reorientation in Nascent Markets: An Emergent Framework

Standard and Poors—similar ventures in a nascent sector—began as inchoate solutions to perceived problems in the market. Both undertook repeated strategic reorientations, and both eventually became automated-advisors, offering automated investment advisory products to retail customers. Yet, the two ventures experienced different levels of support during and after their strategic transitions. Standard maintained steady support from investors and the media after its various reorientations. Having evolved into a automated-advisor, the company attracted more than $1 billion in assets from customers and was hailed in the media for "changing the rules of investing" and "reinventing financial services." Poors initially thrived at launch, but during subsequent reorientations, the venture experienced mixed or waning support from key constituencies. It also elicited little engagement from new and existing customers while exhausting more than $10 million in funding. Unable to raise additional money in spite of a promising reformulated product, the company exited the sector.

Despite their apparent similarities, Standard and Poors diverged conspicuously in their approaches to managing audiences during strategy transitions. Our comparative analysis of the two ventures in turn brought to light elements of the strategic reorientation process that seem to be crucial and indispensable. We develop new theory grounded in the differences that we observed and inspired by a key insight: a new venture may be able to make fundamental changes in strategy while seeming to remain committed to enduring aims. Our theoretical framework identifies a sequence of stratagems, the enactment of which, we posit, mitigates audience-imposed penalties during reorientation. These stratagems, which correspond to anticipating, justifying, and staging, respectively, a strategic reorientation, jointly constitute a normative process model. The fundamental elements are (1) crafting an abstract product frame to create room to maneuver, (2) bridging justifications to signal frame continuity, and (3) pairing decisive pivots with conciliatory rhetoric to avoid alienating prior support. The following section describes the inductive analysis that enabled us to specify the mechanisms and processes that underlie these stratagems and link them to the support received (or penalty incurred) from relevant audiences (summarized in Tables 5 and 6).

Anticipating Reorientation: Crafting an Abstract Frame to Create Room to Maneuver

Before they launched, Standard and Poors both crafted a *product frame*—the interpretive schema that captures, condenses, and draws attention to the essence of the product offering (Leonardi 2011, Gurses and Ozcan 2015). Standard crafted an abstract frame around its product; Poors' frame was concrete. These differing approaches to frame construction seem to have had implications for the ventures' subsequent strategic transitions. Table 7 presents systematic differences in how Standard and Poors crafted their respective product frames.

Standard pursued a set of behaviors characterized by abstractness or existence in the form of an idea rather than a concrete entity. Specifically, early company communications about the product emphasized societal objectives; Standard's marketing materials frequently invoked themes prominent in the common culture, and company executives made public appeals to emotionally resonant dimensions of value created. The company also made few explicit promises about how the product would function or about future products.

From the beginning, Standard's external communications emphasized widely accepted principles rather than product features and functionality. By aligning the company with ordinary consumers against a powerful and entrenched financial status quo, executives leveraged press interviews and public claims to promulgate exciting (if unspecific) plans for solving such social problems as fairness and equal access to financial markets. For instance, executives asserted that ordinary people lack access to the top-level investing talent available to wealthy elites. In a published interview, one journalist noted that Standard's founder had "had the vision" that investment vehicles available to everyday investors "had lost their talent to hedge funds." Later, when asked why he had joined a startup, the CEO explained, "I think it's awful that because of someone's wealth, they have access to investment products that the rest of the world doesn't." He added, "It shouldn't be."

Standard's marketing materials also frequently invoked prevailing cultural themes, like *democratization*—an idea popular among internet entrepreneurs and technology enthusiasts. [As an idea disconnected from concrete realities and processes, democratization embodies fairness in a resonant but abstract way (Lounsbury and Glynn 2001, Langley et al. 2013); democracy is also a central institution of contemporary Western capitalist society that shapes individual and organizational behaviors, preferences, and goals (Friedland and Alford 1991).] The company sought to democratize finance. To support this aim, Standard planned to give retail investors access to an untapped source of investment talent—skilled amateurs who performed superbly on its investing simulation. "At Standard, we believe it is high time that the playing field be leveled," the company's Vice President of Product declared. "We believe in . . . democratizing access to investing talent." Marketing materials described how finance could become more democratic by leveraging Standard's product to make investing accessible to everyone: "We want to open the floodgates to everybody. We don't think money should be a prerequisite to investing. We want to find the Michael Jordan of investing."

Consistent with a frame emphasizing broad societal objectives and cultural themes, Standard's messaging evoked the emotional dimensions of value embedded in the company's product. Liberating the masses from the grips of a financial system that was rigged against them could be marketed as a noble cause. Audiences (investors, media, and customers) who supported Standard might be enlisted to join "the good fight," but how to evoke emotion and thus, intensify their support? "The biggest way to create attention is for there to be tension in the story. Reporters don't like to write about things that don't have any tension," Standard's CEO observed. "We had to create a David-versus-Goliath story." An analyst concurred: "If a young startup wants to claim they're changing the rules of investing, then they have to establish which rule they're referring to. In other words, who is the enemy?" Industry observers reacted positively to this element of the company's frame, despite the lack of specifics about product functionality. "[The founder] had the vision that mutual funds had lost their best talent to hedge funds," an admiring journalist wrote. "So he sought to make Standard the destination for the best investors in the world, and we are all better because of it."

Poors, however, crafted a more concrete frame around its product. Its external communications emphasized the challenges that ordinary investors purportedly faced rather than societal objectives. Company executives positioned the nascent product as filling an unmet customer need or gap in the market; they leveraged company blogs, conference appearances, and published interviews to lay out the customer "pain points" that they planned to address. The problem, according to Poors' founder, was that investors lacked a clear grasp of their own finances, although "it is one of the most important aspects of your life and you should be as informed about it as you are about how much space is left on your iPod." In parallel with early product demonstrations showcasing its novel solution to the problem, Poors made explicit pledges: users would obtain a comprehensive picture of their investment performance over a 10-year time horizon. Its product promised users a "complete and accurate view of their portfolio performance, over time, across all their accounts [so as to] help individuals invest better, smarter, with more actionable information." According to the CEO, it would give users clarity and insight by "connecting all your accounts for you—your brokerage accounts, your retirement account—and we basically give you a little dashboard and give you your numbers. So everybody has the story of how they are, based on the data."

Poors' marketing messages also described specific product features and functionality. For example, the distinctive components of its offering included an appealing "digital dashboard," a "proprietary technology" that linked its website to users' brokerage accounts, and "sophisticated algorithms" that aggregated and analyzed user data to track investment performance. The desirability of transparency as a functional attribute was a common refrain in Poors' external messaging. "Our belief is to bring transparency to the investor space," the founder asserted. "This website provides investors with a way to get a context, to see how they are doing as an investor." Similarly, while promoting a product add-on the company blog, the CEO highlighted this functional aspect of the company's pioneering approach to investing: "When Poors launched [at a major technology conference], we were one of the first companies to introduce the idea of complete transparency in retail investing." When marketers briefly experimented with promoting another version of value—namely, that investing could be fun—senior executives quickly quashed such appeals in favor of functional value. Poors' chief technology officer (CTO) ruefully recalled a particularly misguided marketing message.

> Investing cannot be casual. … It cannot be fun. … When I think investing, I think a very formal-looking, Goldman Sachs-type website. I don't think about it in cartoons and stuff like that. We tried to go in that direction. Our marketing emails … had Chinese fortune cookies. I hated those. —CTO

Both ventures experienced some success during this early period, but both had to deviate from the initial plan. Poors executed a highly publicized launch at a prominent technology conference, where its product won a coveted award. A flood of potential customers visited its website, and the company easily raised funding from a group of venture capitalists and angel investors. However, when only a small percentage of website visitors became registered users (and fewer still linked their brokerage accounts), Poors had to reorient. Standard also drew substantial media attention at launch, and it attracted a half million portfolios. The company raised money from a mix of angel investors and venture capital firms. However, when so few users (amateur investors who managed portfolios on the site) qualified for its skilled investor designation, Standard transitioned to a new strategy. In the process, Standard seemed to maintain support from its initial audiences.

What are the implications of crafting an abstract rather than a concrete product frame for strategic reorientations? For one thing, new ventures may derive benefits from flexible but favorable audience interpretations. Unspecific and abstract frames—those linked to vague but resonant societal objectives and prevailing cultural themes—allow for and may even encourage audiences to see what they want to see (Padgett and Ansell 1993). Just as a political candidate with an equivocal ideology is assumed to share a voter's views (Tomz and Van Houweling 2009) or an actor with a "robust identity" can fill a wide array of movie roles (Zuckerman et al. 2003), ventures that construct abstract frames around their products encourage their diverse audiences to attribute aspirational, hoped for outcomes to them. Indeed, some audiences (who wrote about, invested in, or used the company's product) viewed Standard in different ways, although most reacted positively to the reorientations. By uniting diverse constituencies around a pursuit that they all tend to view as noble, a venture can marshal and capitalize on opposition to a villainous foil (e.g., a rigged financial system), creating emotional appeal.

Another ramification of an abstract frame arises from adopting a forward-looking stance to mitigate the sanctions that audiences normally impose when firms violate their expectations. A broad, abstract frame can create an umbrella beneath which a venture has room to maneuver without incurring a penalty normally imposed for an illegitimate role performance (Zuckerman 1999). If fundamental shifts in strategy are likely (or even inevitable) for new ventures in nascent markets, executives may be able to act to anticipate them, readying themselves to explain deviations in terms of the company's original and enduring aims. More practically, a new venture may be able to soften (or avoid entirely) the public relations (PR) hit that ordinarily accompanies a transition in strategy that seems inconsistent, opportunistic, or at odds with the company's stated principles.[3] By contrast, ventures that emphasize functional dimensions of value and make explicit promises about which customer problems they will solve and how have little room to maneuver. Concrete product frames can bind ventures to ill-advised promises that later prove unfeasible. "We got labeled as something and then it stuck," a Poors cofounder lamented. Indeed, reorientation may elicit penalties from audiences who bought into the claims.

Justifying Reorientation: "Bridging Justifications" to Signal Frame Continuity

When their original plans proved unviable, Standard and Poors both transitioned away from them but justified the moves differently. Standard rationalized its strategic reorientations: its executives offered reasons why an alternative approach was warranted but took pains to signal frame continuity by explaining the venture's new strategy in terms of its original aims. Poors, by contrast, made little effort to justify its strategic reorientations. Abandoning past versions, its executives reactively morphed the product frame to align with each new strategy. These dissimilar approaches to justification seem to have had ramifications for how the ventures were perceived by various audiences after reorienting. Table 8 presents systematic differences in how Standard and Poors justified their strategic reorientations.

Early on, Standard claimed democratization of finance to be its primary aim. "As a frequent investor in hedge funds, I was convinced that individual investors were not offered the best opportunities to invest their money," one founder told an analyst. The company's initial product embodied a solution to a societal problem (unfairly inequitable access to financial markets) by making first-rate investment talent, in the form of skilled amateur investors, readily available. On the website, amateur investors who earned Standard's special designation for investing skill could become investment managers purely on grounds of merit (investing performance), not access to capital. The company's subsequent transition to an online platform for professional money managers naturally led to a new target customer and a revised value proposition. An executive's explanation that "very few amateurs are capable of earning [our special distinction]" prompted a pithy retort from an investing newsletter: "Wait—wasn't the whole idea behind [Standard] to suss out good amateur investors? Now they're saying that, clearly, amateurs can't invest their way out of a hole, and this idea that we could do any sussing out of investing talent was foolhardy?" Invoking the exigencies of business—making money—Standard's executives acknowledged the original strategy, explained that it did not work, and frankly shared their key learnings.

However, Standard went further, forging an explicit connection between its revised strategy, which could be seen as a radical departure (as the newsletter editors' tart comment suggests), and the company's original frame. Its executives undertook several bridging behaviors to signal frame continuity. The first was to communicate the continuity of its broad objectives despite the change of direction. After the first reorientation, for instance, executives asserted that Standard's new strategy was consistent with its original aim. Standard was still democratizing finance by providing "access to the best investment talent"; it was merely the source of the talent that had changed. "It just so happens the great talent were amateurs in the beginning, and now they're outstanding professionals," the CEO explained. A second bridging behavior thus entailed redefining the components of the company's stated aims. Executives interpreted the reorientation in terms of revised criteria for accomplishing those aims. For example, by making it economical for professional investors to offer their money management services via its online platform, Standard claimed that it was giving retail investors access to investment talent previously available only to wealthy elites. The company communicated this revised strategy in terms of its original product frame.

> We've attracted a number of professional managers. . . . Some historically only accepted clients with [large] minimum account sizes. . . . With a [Standard] account . . . you [customers] now have access to managers that were previously only available to the wealthy. It's part of our attempt to democratize access to the best investing talent. —Standard

Standard's distinct justification of its reorientations seemed to influence audiences positively. The bridging behaviors described above pacified some analysts and journalists who had raised critical questions. One journalist, fretting about the shift away from amateur investors ("the *American Idol* of investing"), implied that Standard was abandoning its cherished ideals. The CEO reminded the journalist that it had been the media, not Standard, that had promoted the talent contest analogy ("We didn't call it [*American Idol*]") and again asserted the shift's continuity with the company's original product frame. "We said we were democratizing access to great investing talent. . . . That's always been our story." Over the next year, the journalist wrote several more articles about Standard, all positive in tone. Similarly, the analysts who had questioned Standard in their investing newsletter eventually expressed support for the company: "[Standard] is onto something—maybe there are some things that need to be reinvented in the investing industry," one analyst stated.

During Standard's second reorientation—from a platform for professional money managers to an automated investment advisor—executives continued to invoke the original democratizing finance frame. Previously, Standard had been democratizing finance by offering everyone access to the best talent; now, it was doing so by providing everyone access to the best performance. A range of relevant audiences seemed to find the unique justification for Standard's transitions persuasive. Its original financiers, a group of venture capitalists and angel investors, backed the company even after it changed course. One investor said that he "perceived the pivot to be positive," adding that "it seemed more appropriate for the market." Another investor praised management's competent handling of the transition: "[Standard's CEO] communicates very thoughtfully and proactively—better than most startup CEOs." The company raised additional funding after each pivot, and many early backers reinvested in subsequent rounds. Even those who did not do so continued to think well of the company: "I didn't get an opportunity to reinvest, [but I] would have invested," quipped an angel investor who had been particularly enthusiastic about Standard's original plan. (All of the original investors that we talked to expressed willingness to reinvest.) Noninvestor audiences also responded positively to the pivot. A financial journalist specifically referenced the company's compelling rationale for its transitions: "I think it's a fantastic story. . . . I spent a lot of time talking to the founders, and I know that they feel very strongly what their value proposition is." Some customers of Standard's professional money management platform even converted to the automated-advisor offering; their loyalty contributed to Standard's gain of more than $1 billion in assets under management.

Poors, by contrast, did not maintain a consistent frame; unfamiliar new claims accompanied each reorientation. As an information aggregator dashboard designed to "bring transparency to investing," Poors initially promised users a complete depiction of their financial situation. When the company later became a social network-based platform (with a new target customer and new value proposition), executives simply stopped talking about a complete investment picture in favor of a revised frame: as the "Facebook of investing," Poors' new objective was "helping investors share investment ideas." When Poors then embarked on its second strategic reorientation—from social networking platform to automated investment advisory product—its executives again morphed the product frame to emphasize a brand new objective: helping customers accumulate enough money for retirement. "We want to increase the funds available post-retirement, minimize the cost of doing that, and minimize the time to do that," explained the Vice President of Marketing. Reformulated marketing materials proclaimed that "Poors is here to help you make the best decisions with your investments so that you will have more to enjoy later in life"; a product announcement after this second shift read "Poors is a service for the people who want to minimize time and expense managing their investments, while increasing the likelihood that they will have enough money when they retire." Social networking, which featured prominently in earlier external messaging and marketing materials, was no longer mentioned.

Audiences did not react positively to Poors' strategic reorientations. After the reformulated automated investing product was launched, the company was largely ignored by the media, including journalists who had previously provided favorable coverage. A financial reporter who had lauded the company as a "true innovator . . . one of the first companies that was looking at a way to test people's comfort level with managing portfolios in social network environments" stopped writing about it after the pivot. To little avail, Poors poured money into a new marketing plan and hired a public relations firm. As new users materialized slowly, venture capital investors grew impatient. This lukewarm postreorientation reception was apparently not because of a poorly designed product (a notoriously tough-minded critic's product review praised the "simple, clear, and relatively quick [investing] approach" offered by Poors' "robotic, low-cost investment advisor"). Instead, it seemed to stem from management's lack of justification for (and poor handling of) the pivots, which one investor deemed "not a positive signal. It [was] a negative signal." Management "didn't communicate a lot," he continued, adding that it was important for entrepreneurs "to make sure you understand the dynamics of what causes the pivot: something's wrong. . . . So it was really hard to reconnect on a pivot." Poors' Vice President of Engineering lamented lack of support from this investor and other prior backers: "Customers were buying [our product]. We were just close to the end of our run. Getting new investors at that point was very difficult."

What role does justification play in managing strategic reorientations? In pursuit of product-market fit, new ventures inevitably make fundamental changes to their strategy. However, a reorientation is an implicit admission that something was amiss in the original business plan to which the company's founders were once deeply committed. A venture that deviates from audience expectations—expectations that the founders themselves helped to stir up—shows a lack of consistency.

Because inconsistent organizations are apt to be viewed as incomprehensible and thus, less than legitimate (Aldrich and Fiol 1994), audiences are likely to want a coherent explanation for the reorientation to restore their confidence and justify continued support for the venture. In such circumstances, why do bridging justifications that assert frame continuity make a difference? As in politics, where a compelling explanation for a vote can matter more than the vote itself (Fenno 1978), entrepreneurs' explanations for a pivot matter. By positioning a transition in strategy as a more appropriate way to accomplish its founding aims, an inconsistent venture can save face and maintain credibility. Executives may also earn the latitude to tailor their explanations to different audiences (Pontikes 2012), such as journalists and analysts who have an eagle eye for consistency or startup investors who demand rapid progress but are receptive to pivots ("how the sausage is made") if their rationale is appropriately communicated. Bridging behaviors that rationalize strategy changes and link reformulated offerings to original aims buy ventures time and create more runway to operate. Communication that signals continuity in fundamental aims may influence even those who disapprove of the new direction; such audiences are apt to retain positive attitudes toward the venture. By contrast, ventures that reactively shift their frames to match each new strategy may inadvertently undermine their own legitimacy. Inviting charges of inconsistency and opportunism, such ventures become less comprehensible and more confusing to audiences. They may incur audience penalties that shorten their runway. Reflecting on Poors' forced asset sale, the CEO elegantly captured a fundamental tension that the company faced.

> The challenge is that a start-up is bound to morph as it struggles to achieve product-market fit. That means continually changing the company's messaging to the press as the company changes. . . . But as we learned more, we needed to adapt the product and [external communication] and it was difficult to change our messaging. After you pivot, your new positioning can be confusing to customers and partners who paid attention to your original PR. —CEO

Staging Reorientation: Pairing Pivots with Conciliatory Rhetoric

Beyond their contrasting approaches to justification, Standard and Poors also *staged* their reorientations differently. Standard executives warned their constituencies about impending changes. They then executed decisive transitions in strategy overlaid with conciliatory rhetoric addressed to those affected by the change. By contrast, Poors rarely hinted at upcoming changes and barely communicated with those impacted by them. Table 9 presents systematic differences in how Standard and Poors staged their strategic reorientations.

Standard's executives methodically staged their communications to phase out the old strategy and prepare for the new. For example, when breaking the news that simulation portfolios would be moved off its main site to a separate dedicated platform, Standard's CEO managed expectations by hinting inexplicitly about a future shutdown of its portfolio product: "We are not yet ready to throw in the towel on virtual portfolios, which is why we offered you [users] the ability to continue to manage on another platform." The founder also seemed to empathize with customers; he apologized for the transition's impact on them, gave reasons for it, and foreshadowed a later shutdown: "To our frustrated [customers]: We are terribly sorry if you do not want to manage your . . . portfolio on our [social network] app. . . . We have changed the focus of our business." The change eventually arrived when the company discontinued its popular investing simulation.

Executives also spent time communicating internally (to employees) before making the changes. "Standard held an all-hands meeting to talk about shutting down the legacy [simulation]," explained a company advisor. The meeting was brief—employees were relieved and did not protest. "Everybody felt the burden of supporting all those transactions every day," said the CTO. "It took a ton of our time, and just wasn't contributing to our long-term vision." The move to a professional investor platform was less straightforward, however. "Some engineers weren't comfortable, and thought we'd be losing the part of Standard that was an enabler for anyone who wanted to make it as a pro," explained the CEO. A company advisor recalled, "[They] held another all-hands meeting to discuss whether they should . . . abandon the systems for proving amateurs." Invoking the enduring aim of democratizing finance, executives pointed out that "what we really wanted to change was not who manages the money but who has access to the best possible talent." "We'd originally thought we'd need to build a significant business with amateur [investors] to get professionals to come on board," the CEO stated, adding "but fortunately it turns out that wasn't necessary." Employees came to agree.

Standard had hinted at its second reorientation for months. In a series of company blog posts and marketing communications, executives pointed out subtle deficiencies in the professional investment management model—flaws that a new approach might be able to address. A product announcement that invoked customers' "plight" interpreted Standard's revised strategy as an appropriate response to technology professionals' growing suspicions of professional money managers.

> Six months ago, we started hearing complaints from our customers about the wealth managers lined up in their lobbies. These "suits" were taking advantage of the new wealth being created by the surge in IPOs. But our friends in technology companies didn't trust the financial advisors. . . . They started asking us if we could manage their entire portfolios in a quality way, but without all the costs. —Standard

Standard also consoled affected constituencies by linking its new strategy to a higher purpose: "Most financial-services companies win business by inspiring fear and make profits with hidden fees. We want to be part of the social movement toward better investing. We believe that'll benefit us in the end, and, more importantly, you." The notion of a social movement resonated with the media. A prominent news outlet that had endorsed the company's previous product continued to support its reformulated offering: "The timing, it seems, couldn't be better. . . . [There is] widespread distrust of big Wall Street firms."

After its strategic reorientations, Standard continued to gain momentum and garner support from interested audiences. After one redirection, venture capital backers praised the executive team and invested in another funding round. An investor explained her rationale for the reinvestment: "I viewed the pivots as positive. . . . I view[ed] this as engagement with the market, and a sincere attempt to find product-market fit. . . . I believe[d] in what they are doing and their direction." An analyst who tracked the emergent automated-advisor sector noted how deftly Standard handled its original users: "No one likes to break up with anyone. And these customers are early and fresh and full of love. It's hard, but you need to be firm and get it done. . . . Do it nicely. Don't burn bridges. But do it." Despite grumbling, a large subset of Standard's original customers switched to the new product.

Poors also executed its reorientations swiftly, but it did little to signal the impending shifts. When transitioning from a social networking platform to an automated investment advisor, Poors jettisoned all of the product's social networking features without warning. A company engineer elaborated, "That was a huge, huge shift. . . . It was a huge pivot for us. . . . We took our core technology . . . but then all of the social stuff was thrown away. . . . Literally, like a week before we went live, we went and turned off all the social features." Poors did not communicate with users affected by the change. "We had a whole bunch of people on the site using the [social] features, and we were going to be bringing in new customers [for the automated investment product], and we need to reconcile those two things," recalled the director of engineering. "It leaves this really ugly, disjointed mess. The customers we had initially are like, 'What's going on here?'"

Additionally, Poors' executives did not make any attempt to persuade existing users to adopt the new product. "In fact, we were just sort of leaving all of our existing customers in this sort of stale product at this point," an engineering manager recalled. "So we were more like, alright, let's focus on the new people that come to the site." Employees chafed at the lack of internal communication before the pivot. A group of engineers who had built Poors' first two products expressed frustration at the scant guidance and direction that they received from executives. "The problem was that, since the social stuff wasn't core to what we were building with [the new automated investing product], it was hard to get our VP of Product and [our CEO] to focus on it—or to basically answer the question of what are we supposed to do with the social stuff," a staff engineer recalled. Another fumed that "our sort of entire [company] philosophy had changed." External audiences' reactions were also not positive. Journalists who had helped publicize the company's initial launch did not provide coverage as reformulated products were introduced. Interest from venture capital investors dried up. An experienced angel investor who had invested in the company reflected on the lack of communication about the pivot: "Most young companies are reluctant to admit something's wrong." He speculated that Poors might have been "playing a cat-and-mouse game with their investors, trying not to make the investors afraid." Another early investor explained why he passed up an opportunity to reinvest: "It's important that the management team communicates effectively with the investors to keep people posted—because if you don't have confidence in the management team and things go wrong, you don't have confidence to reinvest." Tables 5 and 6 summarize audience reactions to Standard and Poors in the wake of their strategic reorientations.

What role does staging play in executing strategic reorientations? How does conciliatory rhetoric overlaid atop decisive transitions in strategy influence audiences? New ventures often move quickly to capture fleeting opportunities (Eisenmann 2006); constraints on resources and time preclude more measured approaches (such as a phased withdrawal from a legacy product or market segment). Standard's CEO memorably articulated the challenge: "The goal of a startup is to get to market quickly, observe how people use your product, and then navigate to the most profitable business." However, abrupt reversals—also called "strategic switchbacks" (Marx and Hsu 2015)—may be particularly difficult for previously supportive constituencies to accept. They are apt to feel confused and betrayed by a company that seems to have strayed far from its original raison d'être (a founding concept that they previously endorsed). Like careful framing of new technology introductions (Hargadon and Douglas 2001), adroitly staged communication may soften the blow, making transformations seem less abrupt, even gradual. Using conciliatory rhetoric, entrepreneurs can *prepare* audiences (foreshadowing an impending change), *empathize* with them (expressing understanding, sympathy, and even remorse to affected parties), and *console* them (offering comfort and even anticipation). Abandoning a prior strategic position for a new one need not mean that the venture is starting from scratch to build legitimacy. The staging stratagem for managing reorientations can enable a venture to move far and fast while appearing to proceed slowly: when executives credibly recycle their accomplishments, claiming to be building on past learnings as they chart a radically new course, audiences are apt to remain loyal to the venture instead of its now defunct founding strategy. By contrast, failure to preview upcoming changes or console those who will be impacted by them has the potential to alienate audiences (including employees) loyal to the venture's originally stated aim. Figure 2 presents our theoretical process model depicting the three stratagems (and their underlying mechanisms) that ventures can utilize to manage frames across strategic reorientations.

Discussion

The circuitous innovation paths of startups, like PayPal, prompted us to focus on unresolved issues in the strategic reorientation process and examine how ventures communicate with audiences during fundamental redirections in strategy. By means of a comparative case study, we developed new theory positing that ventures can make significant changes in strategy while remaining committed to enduring aims. Our resulting theoretical framework—which outlines an emergent process for anticipating, justifying, and staging reorientations—proposes a set of stratagems for mitigating audience-imposed penalties for changes of direction. We pursue the theoretical and practical implications of that framework and discuss the contributions for research on organizational adaptation, cultural entrepreneurship, and the rhetoric of strategic change.

Pivoting Is Not Enough? Audience-Imposed Constraints on Adaptation

New ventures, as pioneers in ambiguous new economic domains and product categories (Ozcan and Eisenhardt 2009, Murray 2010, Rindova et al. 2010, Hiatt and Carlos 2019), rarely start out with an optimal strategy (Gavetti and Rivkin 2007, McDonald and Eisenhardt 2019). In apparent recognition of this maxim, prior work has emphasized organizational processes that promote flexibility; it has also introduced theoretical concepts and tools that promote the discovery of more viable strategies. The flexibility imperative demands that new ventures remain capable of responding fluidly to radically altered circumstances with comparatively drastic (if need be) shifts in strategy.

Existing perspectives tend to conceptualize strategic reorientation as the byproduct of intelligent adaptation—that is, as a learned response to feedback based on an economic calculus. "There's a promise of technocratic efficiency with pivoting, that all you require is a good business plan, and perhaps another injection of venture capital, and you can transform yourself overnight" (Silverman 2017). By broadening the scope of inquiry, our framework presents some challenges to this view. First, by assuming that ventures are unencumbered enough to change course (even radically), prevailing models prioritize customers while neglecting other constituencies, privy to the original plan, who may not support a revised strategy. Customer feedback does seem to trigger reorientations (see also Leatherbee and Katila 2019), but such other audiences as investors, analysts, media, and even employees also weigh in on revised strategies; certain vocal opponents can emerge as powerful constraints on adaptation.

Second, although flexible processes that promote discovery seem preferable to large upfront investments in a new market, emphasis on flexibility obscures other elements of the problem. Our framework posits that, in certain circumstances, audiences may lose interest or withdraw support from a venture despite an appropriately fluid response to altered circumstances. Conversely, audiences may increase their support for *inflexible* ventures that remain steadfastly committed to enduring aims. Such circumstances could explain, for example, why ventures in the nascent biodiesel market maintained their base of initial supporters but struggled to expand beyond it (Hiatt and Carlos 2019), whereas ventures in the nascent organic food industry expanded more easily but encountered a backlash from early supporters (Lee et al. 2017). Organizational flexibility thus emerges as a nuanced and multifaceted construct. Our framework portrays pivoting as a necessary but insufficient condition for navigating nascent domains. It also offers a reconceived portrait of strategic reorientation as a *process* (not an event) characterized by a deeply *social* calculus and audience-imposed constraints on adaptation. Entrepreneurs, like scientists, test hypotheses to solve problems and find viable product solutions, but some may also become adept communicators—skillfully conveying deviations from the plan to diverse constituencies whose resources they draw on as they evolve toward product-market fit.

Cultural Entrepreneurship and Legitimacy

Our study also contributes to research on cultural entrepreneurship that explores new ventures' pursuit of legitimacy. Treating legitimacy as a prerequisite for resource acquisition, this body of work has focused, unsurprisingly, on how entrepreneurs attain it (Aldrich and Fiol 1994, Lounsbury and Glynn 2001, Wry et al. 2011). Recent work, largely conceptual in nature, has argued that ventures must not only attain legitimacy but also, manage it actively over time (Garud et al. 2014, Fisher et al. 2016). One group of scholars, encouraging more careful scrutiny of "new venture legitimation during transitions," has called for "in-depth qualitative analysis of ventures transitioning through stages of the organizational life cycle" (Fisher et al. 2016, p. 403). Our comparative case study, which tracks a set of new ventures over several years as they undertake strategy transitions, responds directly to such calls. We discuss why managing legitimacy on an ongoing basis can be as crucial as attaining it and provide an empirical illustration of how entrepreneurs can accomplish this undertheorized objective. We also point out some of the underappreciated risks involved.

Our process framework helps resolve a puzzle created by the incompatibility of existing theories' implied prescriptions. Specifically, new ventures must be perceived as legitimate to attract financial resources and get noticed. Additionally, audiences are apt to view consistent organizations—those with cogent plans—as comprehensible and hence, more legitimate (Aldrich and Fiol 1994). However, consistency is at odds with the repeated reorientations ventures undertake en route to product-market fit (Brown and Eisenhardt 1997, Rindova and Kotha 2001, Ries 2011). How can a venture remain comprehensible—continuing to attract resources—even as it abandons a cogent strategy for a more viable one?

Our model proposes a possible way around this conundrum. The first stratagem—anticipating reorientation—posits the advisability of preparing early to address audience tensions that ventures can expect to encounter later. Innovation theorists emphasize developing concrete (product) solutions that solve a specific customer problem (Rindova and Petkova 2007, Christensen et al. 2016); by contrast, our model points to an underappreciated risk of adopting a comparatively concrete frame. By specifying explicitly which problem they will solve and how, ventures may find that they have less room to maneuver when altered circumstances necessitate a shift in strategy. The second and third stratagems—justifying and staging reorientations—address audiences' need for explanation and reassurance. Repeated reorientations show a lack of consistency that is apt to erode comprehensibility; signaling frame continuity may thus help ventures maintain legitimacy and buy time. Similarly, conciliatory rhetoric may mitigate charges of betrayal when a venture abandons its original raison d'être. Standard's CEO summarized the problem: "What most people don't realize is, every successful company has pivoted from where they started. But if you ask a hundred people 'Is a pivot good or bad?' at least 90 will say 'bad.' They don't understand how sausage is made."[4]

In sum, we reassert that legitimacy is not a currency to be obtained; it is a process that requires ongoing effort. Ventures' natural dynamics call for active efforts to deal with legitimacy challenges that ensue from their own near-inevitable shifts in strategy. As entrepreneurs aim to maintain, enhance, or gain legitimacy with different audiences, the framing and rhetoric that they use coalesce around stories that continue to evolve.

Avoidance of Audience-Imposed Penalties: Reorientation as a Cultural Skill

According to categorization theory, firms that deviate from institutionalized expectations (i.e., violate consensus entity features or established role performances) suffer a loss of legitimacy that results in negative market outcomes (Zuckerman 1999, Pontikes 2012, Durand and Paolella 2013, Zhao et al. 2013). However, where categorical norms do not yet exist, such as in nascent industries defined by "category-defying products and services" that lack business precedent (Zuzul and Edmondson 2017, p. 303), audience expectations are not yet shaped by category boundaries. Instead, expectations are newly established through ventures' claims. The process of managing expectations and avoiding audience penalties during (self-initiated) transitions in strategy is, therefore, an underappreciated cultural skill (we propose) (Weber and Dacin 2011) that can help ventures navigate nascent industries.

Our study takes up recent calls to enrich understanding of the disciplining role of audiences by examining how such dynamics play out in varied circumstances. For example, Glynn and Navis (2013, p. 1126) posit that "the categorical imperative may not be as forceful across different kinds of contexts" and question how it functions in emerging industries and entrepreneurial ventures. Rindova et al. (2011, p. 428) encourage researchers to "consider more systematically the role of different contextual variables" and examine how they "affect audience evaluations of organizations and their strategies." Finally, Durand and Paolella (2013, p. 1117) emphasize the suitability of inductive approaches for specifying novel mechanisms that might enable ventures to "align successfully with audiences' categorization processes."

A key premise of this line of research is that rhetoric influences audiences' evaluations (Weber et al. 2008). It focuses on particular points in time, notably during the "earliest stages of new venture formation" (Lounsbury and Glynn 2001, p. 550) and right before a public offering (Martens et al. 2007). An emerging stream of research has begun to unpack the dynamics of rhetorical strategies, in part by examining how timing and sequencing impact the efficacy of claims. For example, the study of Navis and Glynn (2010) of satellite radio points to the contingent nature of ventures' claims, the influence of which depends on the business category's stage of emergence. The study of the Italian manufacturer Alessi by Dalpiaz and DiStefano (2018) also notes the importance of sequence in rhetoric: the simultaneous mobilization of several rhetorical strategies—such as memorializing, revisioning, and sacralizing—may be more influential than utilization of a single strategy. Our framework extends this work in several ways. First, we shed light on a related stratagem—staging—and explore its role in the management of strategy transitions. Prior work focuses on when to initiate a course correction; our insights into staging shed light on pre- and posttransition stratagems that may prepare audiences for change, shape its tempo, and allow for a more gradual and effective pacing of change.

Second, we broaden the focus of scholarly work on rhetorical dynamics to nascent industries, because the resource-intensive strategies used by established firms in mature industries may not be accessible or useful to new ventures pioneering category-defying industries (DeSantola and Gulati 2017). For example, constructing a collective memory of change (a "memorializing" strategy) requires levels of time, resources, and cultural capital (i.e., long organizational histories) to which new ventures are unlikely to have access (Suddaby et al. 2010). By focusing on simple product frames rather than complete narratives, our framework proposes a set of stratagems that are economical yet potentially useful: they help buy time and extend the venture's runway. Our framework thus enriches the existing repertoire of cultural strategies and provides a complement to more elaborate strategic processes utilized by large corporations (such as IBM and Alessi), which typically unfold over years if not decades (Tripsas 1997, Agarwal and Helfat 2009, Dalpiaz et al. 2016, Raffaelli 2018).

Third, we revisit cultural skill in light of emergent ideas about pivoting in practice. Prior work acknowledges the need for diverse skills to influence disparate (and differentially vested) constituencies (Kellogg 2011) but has not specified "the mechanisms invoked to shape and hold the attention of diverse and fragmented audiences" (Weber and Dacin 2011, p. 295). Meanwhile, performative notions have recently seeped into popular discourse on pivoting: "Like any act of public relations, pivoting is also a performance. ... Though it arises from desperation, [the pivot] is nevertheless supposed to appear methodical" noted the *New York Times* (Silverman 2017). Taking such emergent notions of "pivoting as performance" seriously, our study animates new displays of cultural skill and explores "when and why the use of cultural symbols is successful in persuading audiences" (Weber and Dacin 2011, p. 291). Our framework implies that avoiding audience penalties during (self-initiated) pivots is as much a cultural accomplishment as it is an economic achievement.

Scope Conditions and Future Research

We expect our theoretical framework to be broadly applicable to new ventures (not established firms) competing in nascent industries (not mature industries in which customer needs, market demand, and technologies are already known) (Anderson and Tushman 1990, Chen et al. 2010, Katila et al. 2012). Facing significant ambiguity, ventures focus on adaptive learning so as to resolve uncertainty and quickly navigate to the most attractive business. They pivot frequently, and they are nimble (because of their small size) and flexible (few processes established) enough to change course. Although established firms have a resource advantage over new ventures (Burgelman and Grove 2007), they face a host of different challenges for adapting their strategies (Bowman and Singh 1993, Christensen and Bower 1996, Gao et al. 2017, Cohen and Tripsas 2018). Future attempts to draw comparisons may prove fruitful, and we welcome efforts to generalize our framework to other contexts and circumstances.

Conclusion

This study examined how new ventures can reorient their strategies while minimizing penalties from their key audiences. Because ventures attain legitimacy and resources based on claims that audiences find compelling, orchestrating a fundamental redirection in strategy represents a challenging conundrum. Through an inductive comparative case study of two ventures in a nascent financial technology sector, we develop a theoretical process model positing that reorientation without penalty depends on how ventures anticipate, justify, and stage changes for various audiences. By unpacking these rhetorical stratagems, we explore how ventures can alter strategy while portraying faithfulness to enduring aims. Our study and framework advance research at the nexus of strategy, entrepreneurship, and organization theory by incorporating cultural entrepreneurship perspectives into existing research on adaptation and learning in new ventures. We hope that our study will motivate additional research in this vein.

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Endnotes

[1] The "lean-startup" concept—a prescriptive framework for launching and scaling new technology enterprises (Eisenmann et al. 2013)—has rapidly permeated business school curricula (Baron 2015) and popular culture: the HBO series *Silicon Valley* even titled an episode "Everybody Pivots."

[2] Strategy has been defined as a plan of action designed to achieve a particular objective (Casadesus-Masanell and Ricart 2010). Its components include the company's intended advantage (the superior position sought via the value created), scope (the array of customers and products for which the company will provide that advantage), and activities (the internal actions, which are configured to deliver the value/benefit to the target scope) (Rivkin 2006). Our analysis primarily centers on the first two components, advantage and scope, but also selectively incorporates activities.

[3] For example, anticipating the need to alter its original DVD-based strategy apparently led Netflix's CEO to reject the company name DVD by Mail (Shih et al. 2007).

[4] Aside from a heightened sensitivity to audience perceptions implied in this statement, we could not readily identify any precipitating factors for the conspicuous differences in Standard's and Poor's communication efforts (e.g. CEO background, management team experience, or role of PR). Understanding the origins of such strategies is an important avenue for additional research.

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