

# Market Categories and Strategic Positioning: When Deviating From Prototypes Hurts Performance Less

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Jaime Gómez<sup>1</sup>, Raquel Orcos<sup>1</sup> , Sergio Palomas<sup>2</sup>   
and Henk W Volberda<sup>3</sup> 

## Abstract

Audience expectations within categories often create pressures for firms to conform to prototypical behaviors. Drawing on categorization theory, this study examines how strategic deviation from the category prototype influences firm performance. While prior research has highlighted the penalties associated with nonconformity, recent work suggests that these effects may vary depending on firm- and category-level characteristics. This study proposes three factors that moderate the negative impact of strategic deviation on performance: firm reputation, category distinctiveness, and category social mission. Empirical evidence is drawn from a panel dataset comprising Spanish retail banking firms between 2000 and 2007. Results from fixed-effects models with Driscoll-Kraay standard errors indicate that firms that deviate from the category prototype exhibit lower performance. However, this effect is significantly attenuated for firms with strong reputations, those operating in highly distinctive categories, and those belonging to categories aligned with socially valued missions.

**JEL CLASSIFICATION:** L10, M10

## Keywords

categories, strategic deviation, category distinctiveness, category social mission, firm reputation

## Introduction

Audiences rely on systems of categories to interpret and make sense of markets (Zhao et al., 2013). In market settings, categories are collective cognitive structures that organize audiences' understanding of firms and products. They operate simultaneously at three levels: cognitive, by grouping similar entities and simplifying sense-making; evaluative, by providing the criteria through which members are compared and ranked; and normative, by conveying expectations about what constitutes appropriate or legitimate behavior within a field (Arjaliès & Durand, 2019; Hsu, 2006; Kovács & Hannan, 2015). Through these three dimensions, categories act as both classification and judgment devices that shape how audiences interpret, evaluate, and morally assess organizations. Each category is typically associated with a prototype comprising the core

attributes that audiences expect from category members (Barlow et al., 2019; Vergne & Wry, 2014). Research on market categories has proliferated in recent decades due to their central role in shaping market dynamics (Hannan et al., 2007; Hsu, 2006; Navis & Glynn, 2010; Negro, Koçak, & Hsu, 2010; Zuckerman, 1999).

Prior research on categorization has primarily examined how firms select the categories to which they belong

<sup>1</sup>Universidad de La Rioja, Logroño, Spain

<sup>2</sup>Universidad de Zaragoza, Zaragoza, Spain

<sup>3</sup>University of Amsterdam, Amsterdam, The Netherlands

### Corresponding author:

Raquel Orcos, Universidad de La Rioja, Calle La Cigüeña, 60, Logroño 26006, Spain.

Email: raquel.orcos@unirioja.es



(Pontikes, 2018; Pontikes & Kim, 2017). However, firms must also decide how to position themselves within a given category (Barlow et al., 2019). The position a firm adopts within a category is crucial, as it shapes how audiences perceive it. Once a firm is categorized, audiences typically evaluate it by comparing its attributes to those of the category prototype, which defines appropriate behaviors and characteristics (Phillips & Zuckerman, 2001). This evaluative process may penalize firms that deviate significantly from prototypical attributes, as such deviations can hinder audience understanding (Gouvard & Durand, 2023). Conversely, audiences are more likely to favor firms that closely align with the category prototype, as this facilitates comprehension (Hannan, 2010; Hannan et al., 2019; Zuckerman, 1999). As a result, it is argued, firms are subject to a *categorical imperative* that constrains their strategic flexibility by requiring them to remain close to prototypical features (Paolella & Durand, 2016; Zuckerman, 1999).

Despite this, real-world examples challenge the notion of a categorical imperative. Some firms succeed despite diverging from the prototypical features of their category. For instance, piano manufacturer Steinway & Sons has thrived by targeting a niche market of virtuoso concert pianists who value craftsmanship, thereby differentiating itself from the category prototype (Cattani et al., 2017). Such cases have sparked interest in the contingent factors that shape the consequences of strategic positioning within a category. For example, Goldenstein et al. (2019) found that the effects of strategic positioning relative to the prototype are attenuated by firm age and amplified by category density. Soublière et al. (2024) argued that the degree of product heterogeneity within a category influences the constraints faced by firms when configuring their strategies. Finally, Barlow et al. (2019) showed that the impact of strategic similarity to the prototype depends on a firm's resemblance to the category's most prominent members.

This research aims to advance understanding of the factors that relax the constraints of the categorical imperative, thereby expanding their strategic latitude when positioning themselves within a category. Specifically, it addresses the following research question: What contingencies mitigate the negative impact of strategic deviation from the category prototype? To answer this question, the study proposes that firm reputation, category distinctiveness, and category social mission reduce the penalties firms incur when they diverge from prototypical attributes. *Firm reputation* refers to the perception of a firm's ability to create more value than its competitors (Deephouse, 2000); *category distinctiveness* captures a category's relative position within the broader classification system, emphasizing its separation from others (Lo et al., 2020); and *category social mission* reflects the extent to which a category is associated with a purpose aligned with broad social norms and values (Arjaliès & Durand, 2019). This research argues that these three factors

enable firms to adopt non-prototypical strategic positions without being penalized, as they reduce the difficulties audiences face in assessing a firm's capabilities, understanding its identity, and evaluating its normative adequacy.

To test these contingencies, we use data from the Spanish retail banking sector between 2000 and 2007. The results show that deviations from the category prototype negatively affect firms' subsequent performance. However, this negative effect varies substantially across firms. Specifically, firms with strong reputations, those operating in highly distinctive categories, and those in categories with a socially desirable mission experience less penalization when deviating from the category prototype. In other words, these firms exhibit smaller performance declines when departing from the central strategic attributes of their category. This suggests that the constraints imposed by the categorical imperative can be attenuated by specific firm- and category-level characteristics.

This study contributes to the literature on categories by advancing the understanding of intra-category dynamics (Soublière et al., 2024). While prior research has primarily examined the consequences of strategic positioning across categories (Pontikes, 2018; Pontikes & Kim, 2017), this article focuses on how a firm's strategic position within a category affects its performance. Specifically, it extends knowledge on the contingent factors that moderate the effects of strategic positioning within categories (Barlow et al., 2019; Goldenstein et al., 2019; Navis & Glynn, 2010; Tauscher et al., 2021). The findings indicate that firm *reputation*, *category distinctiveness*, and *category social mission* can mitigate the adverse performance consequences of deviating from prototypical behavior. These factors appear to alleviate the pressure to conform to defining category features. As a result, they expand the strategic space available to firms when determining their market position.

These findings offer important managerial implications by demonstrating that strict adherence to prototypical norms is not always necessary for success. Managers of well-reputed firms may pursue more distinctive strategies without necessarily incurring performance penalties. Similar considerations apply to managers operating in highly distinctive categories or in categories whose function is strongly aligned with societal values. By identifying the conditions under which deviation from the category prototype is more acceptable, this study supports more effective strategic positioning decisions.

The remainder of the article is organized as follows. It begins with a brief review of the literature on categories. The next part develops the theoretical framework, emphasizing firm-level and category-level factors that help mitigate the negative consequences of deviating from the category prototype. This is followed by a description of the research context and empirical methodology, after which the findings are presented. Finally, the article presents the main conclusions drawn from the analysis.

## Research on Categories

Categorization occurs across a wide range of contexts. For instance, movies are classified into genres (Hsu, 2006) and mutual funds into risk levels (Lounsbury & Rao, 2004). Categories function as “*organizational identities, what organizations are expected to be by their members and other social agents*” (Negro, Koçak, & Hsu, 2010, p. 4). They emerge when audiences recognize that certain firms share key characteristics that distinguish them from others. As a cognitive mechanism, categorization simplifies reality by allowing individuals to focus on a limited set of types. Once firms are identified as category members, audiences assume they exhibit the category’s defining traits; in other words, their organizational form becomes taken for granted (Negro, Koçak, & Hsu, 2010). Full-fledged members are easily recognized and understood, and are typically assigned widely shared labels (Hannan, 2010; Negro, Koçak, & Hsu, 2010). In the hospitality sector, for example, terms such as “hotel,” “bed & breakfast,” and “resort” have broadly accepted meanings. Firms bearing these labels are expected to reflect the category’s core characteristics.

The categories to which objects are assigned significantly influence how they are perceived by audiences. Accordingly, categories play a key role in how firms are interpreted, evaluated, and deemed appropriate. In this context, categories fulfill three main functions, commonly labeled as *assessment of skills*, *understandability*, and *morality* (Hsu, 2006; Jourdan, 2018; Kovács & Hannan, 2015).

The first mechanism, *assessment of skills*, refers to audience perceptions of a firm’s ability to meet their demands. Firms conform to the category prototype not only to signal alignment with its norms but also to attain recognition for quality (Durand & Kremp, 2016). Success in a given activity requires firms to learn and master the relevant skills. According to the population ecology principle of allocation, the ability to acquire such skills depends on a firm’s degree of strategic focus (Hannan et al., 2003; Hsu, 2006; Negro, Hannan, & Rao, 2010). Firms that closely follow a category prototype are better positioned to develop the necessary competencies. In contrast, those that deviate are assumed to be less effective at doing so. As a result, audiences often perceive them as less capable and undervalue their offerings (Hsu et al., 2009). Importantly, this is a perceptual effect: firms may, in fact, be competent but still appear less skilled due to nonconformity with the prototype.

The second mechanism, *understandability*, refers to the role of categories as sense-making tools. Audiences rely on categories to interpret their environment, reduce uncertainty, and identify relevant actors (Hannan et al., 2007; Hsu et al., 2009; Paoletta & Durand, 2016). Firms that display the defining characteristics of a category are assumed to resemble prototypical members across other dimensions as well. This facilitates trust-building and the formation of relationships. In contrast, non-conforming firms are harder

for audiences to interpret, which can result in reduced attention and fewer market opportunities (Zuckerman, 1999). Unlike the assessment of skills mechanism, this effect does not stem from assumptions about capability or competence, but from the uncertainty and distrust generated by a lack of cognitive clarity.

The third mechanism, *morality*, highlights the evaluative function of categories. Categories serve not only as classification devices that aid market comprehension but also as instruments of judgment, enabling audiences to assess the appropriateness of a category’s purposes and values (Arjaliès & Durand, 2019). They are defined by both descriptive attributes, which refer to observable strategic or functional features, and normative attributes, which reflect underlying purposes and values. While the former facilitate understanding, the latter shape moral judgments (Arjaliès & Durand, 2019). Some categories are viewed as morally appropriate due to their alignment with prevailing social norms, while others are perceived as morally questionable when they conflict with societal expectations (Vergne, 2012). For example, criminal organizations represent low-morality categories, as they violate core social norms (Vergne & Wry, 2014). In contrast, socially responsible investment funds belong to high-morality categories due to their alignment with social welfare goals (Arjaliès & Durand, 2019).

When a firm is assigned a category label, audiences evaluate it against the expectations associated with that category (Hannan, 2010). These expectations are typically represented by the category prototype, which reflects the central attributes audiences expect from category members (Vergne & Wry, 2014). A firm is considered appropriate to the extent that it conforms to this prototype (Hannan, 2010; Negro, Koçak, & Hsu, 2010). Firms whose features match the prototype are rewarded, while those that deviate are penalized (Goldberg et al., 2016). In this context, Zuckerman (1999) introduces the concept of the *categorical imperative*, which posits that firms fitting well-defined categories tend to receive favorable treatment, whereas those that diverge face sanctions. His study shows that firms misaligned with the categorical schemas used by financial analysts are devalued, primarily because they are less likely to be covered. This lack of coverage reduces visibility and, consequently, attractiveness to investors.

Recent studies have shown that not all firms are equally subject to the categorical imperative. For example, Durand and Kremp (2016), in their study of major U.S. symphony orchestras, found that convergence toward the category prototype varies with organizational status. Similarly, Goldenstein et al. (2019) demonstrated that category density and firm age influence the consequences of deviation from the prototype. These findings suggest that certain contingencies expand firms’ strategic leeway, allowing greater flexibility in determining their strategic position. This study proposes that firm reputation, category

distinctiveness, and category social mission are such contingencies, as they attenuate the negative impact of strategic deviation on firm performance.

## Hypotheses

Our analysis is structured around four hypotheses. The baseline hypothesis proposes that firm performance declines when firm behavior does not align with the category prototype. The remaining hypotheses examine three factors that moderate the extent to which firms are penalized for deviating from the prototype. The reason to select these three factors is that they are related to the three mechanisms that explain the negative effect of strategic deviation on firm performance. Specifically, the framework posits that firm reputation, category distinctiveness, and category social mission alleviate the pressure to adopt the category's defining attributes, thereby reducing the negative performance impact of strategic deviation.

### *Strategic Deviation From the Category Prototype and Firm Performance*

As discussed earlier, conformity with the category prototype enhances perceptions of competence and capability in performing core functions (Hsu et al., 2009). It also clarifies the firm's identity, making its behavior more predictable and thereby fostering audience trust (Hannan et al., 2007; Hsu et al., 2009). These effects support the development of relationships and facilitate exchange, which can ultimately improve firm performance.

Conversely, deviation from the category prototype may expose firms to several penalties. For example, Phillips et al. (2013) show that high-status corporate law firms face disapproval when engaging in personal injury law, as clients perceive this practice as inconsistent with their established identity. Firms that violate category norms or diverge significantly from prototypical attributes are more likely to be overlooked, have their offerings questioned, or be dismissed as inappropriate (Hsu, 2006; Negro, Koçak, & Hsu, 2010). Misaligned firms may also face reduced prices (Hsu et al., 2009).

As discussed above, firms that position themselves far from the category prototype are perceived as lacking competence, are harder to interpret, and may be judged as misaligned with the normative expectations associated with the category. Strategic deviation from the prototype undermines audience perceptions along three dimensions: assessment of skills, understandability, and morality, which increases the difficulty of forming exchange relationships and securing support. Accordingly, the baseline assumption of this research aligns with the categorical imperative (Zuckerman, 1999). This leads to the following hypothesis:

**Hypothesis 1:** *Strategic deviation from the category prototype negatively affects firm performance.*

### *Firm Reputation and Assessment of skills*

Reputation is commonly defined as the perception of a firm's ability to create more value than its competitors. It is inherently comparative (Deephouse & Carter, 2005) and is often viewed as an intangible asset that can generate sustainable competitive advantages (Barney, 1991; Fombrun & Shanley, 1990). More formally, it has been described as "a generalized expectation about a firm's future behavior or performance based on collective perceptions (either direct or, more often, vicarious) of past behavior or performance" (Deephouse & Suchman, 2008, p. 59). Because reputation is rooted in perceptions of past value and quality, it shapes expectations about future performance (Jensen & Roy, 2008). Observers tend to infer current or future quality from past evaluations, which gives reputed firms certain advantages. For example, they are often presumed to have positive attributes by default, without needing to demonstrate them repeatedly. A strong reputation can thus substitute for current actions as the primary basis for evaluating a firm's capabilities.

Reputed firms are generally perceived as more capable of generating value, as audiences expect them to sustain superior performance over time (Pfarrer et al., 2010). Indeed, firms with strong reputations are often evaluated more favorably than lesser-known firms, even when engaging in similar behaviors, a phenomenon known as the "Matthew effect" (Merton, 1968). In contrast, firms without an established reputation must demonstrate their ability to create value and meet expectations through other means. One such strategy is to conform closely to the category prototype, thereby signaling quality and competence (Durand & Kremp, 2016; Hsu et al., 2009).

Within a given category, some firms enjoy stronger reputations than others due to factors such as superior profitability, greater advertising intensity, or larger organizational size (Fombrun & Shanley, 1990). As a result, reputation varies across category members. Research on category spanning suggests that highly reputed firms are less likely to be penalized when crossing category boundaries (Goldberg et al., 2016; Vergne & Wry, 2014). For example, in their study of French gastronomy, Rao et al. (2003) argued that reputed firms can adopt attributes from other categories and deviate from established norms without being criticized for lacking authenticity. In line with this perspective, this study proposes that strategic deviations from the category prototype are more likely to be tolerated when the firm holds a strong reputation. Conformity to category norms becomes less critical when audiences can rely on a firm's past performance or reputation to assess its competence and ability to meet their expectations (Durand & Thornton, 2018). Accordingly, highly reputed firms face weaker penalties for deviating from the prototype, as their capabilities are presumed to be sufficiently high. This leads to the following hypothesis:

**Hypothesis 2.** *The negative effect of strategic deviation from the category prototype on firm performance is weaker for firms with higher reputation.*

### Category Distinctiveness and Understandability

The primary function of categories is to provide structure and help audiences make sense of their environment. The category to which an object belongs clarifies both what it is and, equally important, what it is not. Categories define inclusion and exclusion: they indicate the attributes an object should possess, as well as those it is expected to lack (Glynn & Navis, 2013). A classification system is effective when it enables audiences not only to recognize members of a category, but also to draw sharp boundaries that distinguish them from non-members (Vergne & Wry, 2014; Zerubavel, 1991). Accordingly, categorical meaning is inherently oppositional, structured through contrasts between inside and outside. Categories are more intelligible and useful for sense-making when they are clearly differentiated from one another.

Categories occupy different positions within the conceptual space of audiences. Some are closely situated, while others are more distant (Lo et al., 2020). This spatial variation underlies the notion of *category distinctiveness*, which refers to a category's relative position within a classification system, specifically, its separation from other categories at the same hierarchical level (Lo et al., 2020). Distinctiveness reflects how unique a category's prototype is compared to those of other categories in the system (Tauscher et al., 2022). Highly distinctive categories overlap less with others, enhancing their effectiveness as classification tools and improving contextual comprehension (Majzoubi et al., 2025). In such cases, audiences can more easily differentiate the category, resulting in greater cognitive clarity. Conversely, categories with low distinctiveness (i.e., those that significantly overlap with others) are more ambiguous and more likely to be misunderstood (Lo et al., 2020; Rosa et al., 1999). For example, the categories of *haute cuisine* and *nouvelle cuisine* became increasingly indistinct as chefs blended practices and ingredients from both, reducing their utility for understanding culinary identity and firm positioning (Rao et al., 2003).

Category distinctiveness influences how audiences interpret strategic deviations from the category prototype (Tauscher et al., 2022). A category that is clearly differentiated within the classification system allows its members to deviate from the prototype with less risk of being misclassified or penalized for category spanning. Distinctiveness is associated with clearer conceptual boundaries (Vergne & Wry, 2014), which facilitate the recognition of a firm as a category member. This study proposes that the greater cognitive clarity afforded by distinctive categories reduces the need for strict conformity to be understood by audiences. As a result, firms in such

categories enjoy greater strategic flexibility. Based on this reasoning, the following hypothesis is proposed:

**Hypothesis 3:** *The negative effect of strategic deviation from the category prototype on firm performance is weaker for firms operating in highly distinctive categories.*

### Category Social Mission and Morality

Categories are often defined not only by their descriptive attributes, such as physical or functional characteristics, but also by normative attributes, which reflect the purposes and values associated with the category (Arjaliès & Durand, 2019). For example, Weber et al. (2008), in their study of the U.S. market for grass-fed meat and dairy products, found that the category was primarily framed through binary oppositions conveying normative judgments: sustainability over exploitation, and natural over artificial. In this case, the category's mission, centered on respect for life and natural resources, played a more central role in its definition than descriptive attributes such as calorie content or fat level.

Normative attributes are closely linked to moral judgments, as audiences assess whether they reflect what is considered good or bad (Arjaliès & Durand, 2019). In organizational fields, categories differ in their moral standing (Hannan et al., 2007). Firms operating within categories aligned with widely accepted moral values tend to enjoy greater acceptance among stakeholders. For example, Arjalies and Durand (2019) show that socially responsible investment funds attained higher standing in France than other funds due to their alignment with socially desirable goals. In contrast, firms associated with stigmatized industries, such as weapons manufacturing, tobacco, abortion services, or pornography, may face persistent disadvantages linked to their membership in categories perceived as unethical (Vergne, 2012).

Some missions and abstract values are broadly accepted and shared by audiences (Kraatz et al., 2020). In this study, social mission refers to the alignment of a category with such widely accepted purposes and values. For example, EdTech firms focused on affordable and accessible education form a category defined by its social mission, where reducing educational inequities is the primary goal. In these cases, social impact becomes the main evaluative criterion, taking precedence over functional features. The argument advanced here is that categories with a social mission are defined primarily by normative rather than descriptive attributes. This distinction matters for how audiences assess firms' strategic positioning within such categories. Whereas descriptive attributes are often evaluated through comparison and similarity (Hsu et al., 2009), normative attributes elicit self-reflection rather than similarity-based reasoning. As a result, the weight

given to prototype conformity is reduced in categories with a pronounced social mission.

Once a firm is identified with a category primarily defined by its social purpose, it gains greater flexibility in strategic positioning, as deviation from the prototype becomes less consequential. In such cases, firms are judged more by their purpose than by observable features. Moreover, any ambiguity about what the firm does, or uncertainty regarding its capabilities, may be mitigated by the perception that it contributes to a socially valued goal. Based on this reasoning, the following hypothesis is proposed:

**Hypothesis 4:** *The negative effect of strategic deviation from the category prototype on firm performance is weaker for firms operating in categories with a strong social mission.*

## Empirical Analysis

### Categories in the Spanish Retail Banking Sector

This study examines the consequences of strategic deviation in the Spanish retail banking sector between 2000 and 2007. The sector included three types of financial intermediaries: commercial banks, savings banks, and credit unions. These categories differed in ownership and geographic scope. Commercial banks were shareholder-owned; savings banks were non-profit institutions; and credit unions were mutual organizations (Delgado et al., 2007). While commercial banks operated nationwide, savings banks and credit unions typically focused on specific regions (Gómez et al., 2014). This setting is suitable for this research because each intermediary type represents a distinct category with specific audience expectations.

Four key mechanisms shaped these expectations and the perceived conformity of each firm. First, although Spain liberalized much of its financial sector at the end of the 20th century, banking regulation historically imposed differentiated restrictions on founding, entry, investment ratios, commissions, interest rates, branch expansion, and cash reserves. These regulatory differences shaped distinct behavioral patterns across intermediary types. Second, each group has separate historical origins. Savings banks emerged in the early 19th century, with Caja Madrid founded in 1839, followed by a wave of similar institutions. Commercial banking expanded between 1845 and 1864, while credit unions gained presence in the early 20th century. These distinct timelines reinforce their categorization (Baron, 2004; McKendrick & Carroll, 2001).

Third, audiences consistently used distinct linguistic labels (*banco comercial*, *caja de ahorros*, and *cooperativa de crédito*) which reinforced their separate identities (Hannan, 2010). Finally, each type had a dedicated professional association with deep roots in the sector: AEB for commercial banks, CECA for savings banks, and UNACC

for credit unions. These institutions played a key role in maintaining the distinctiveness of each category (McKendrick et al., 2003).

The three categories examined in this study were legally defined, which has two key implications. First, assigning each financial intermediary to a category is straightforward, and there is strong consensus among audiences about category membership. Second, the legal foundation provides institutional stability, reinforcing the durability of each category.

Nonetheless, legal clarity and institutional stability did not prevent strategic shifts indefinitely. Beginning in the late 1980s, the broader regulatory and competitive environment began to change in ways that loosened the boundaries traditionally associated with each category. The strategic flexibility of Spanish banking firms increased significantly during the late 1980s and 1990s, as regulatory reforms progressively lifted many of the formal restrictions that had historically segmented the sector. This shift created both opportunities and pressures for institutions to reconsider their strategic positioning. On one hand, deregulation enabled firms to enter previously restricted markets, offer new financial products, and expand geographically beyond their traditional areas of operation. On the other hand, increasing competition, driven by national consolidation, market liberalization, and technological change, forced many firms to adapt to remain viable. In this context, strategic nonconformity often emerged not only as a response to new possibilities, but also as a necessary adjustment to a more dynamic and contested environment.

These changing conditions led some savings banks to expand into corporate lending, increase their exposure to financial markets, or extend their physical presence beyond their home regions. Commercial banks, traditionally focused on large-scale operations and institutional clients, began to compete more actively for retail customers and deposits in smaller municipalities. Similarly, some credit unions diversified their funding sources, increased their reliance on interbank markets, or broadened their service portfolios beyond their member base. These decisions marked a departure from the behavioral expectations historically associated with each category, thus constituting measurable forms of strategic deviation.

A potential concern to interpret our results is that our observation window (2000–2007) predates the most recent wave of digital transformation and the institutional changes that have reshaped the banking industry over the last decades. These developments may raise questions about the generalizability of the study to the current context. However, the 2000–2007 period is analytically valuable because it isolates strategic deviation mechanisms from later shocks. Spanish banking exhibited stable category definitions (banks, savings banks, credit unions) and well-understood audience benchmarks, yet enough competitive

freedom for firms to deviate. This balance is harder to achieve after 2008, when crisis dynamics, mergers, and extraordinary supervision confound behavioral inferences. Note that our claims concern mechanisms, that is, how category prototypes and audience expectations condition evaluations of strategic positioning. The concepts of category prototypes, audience expectations, and the moderating roles of reputation, distinctiveness, and social mission are grounded in cognitive and evaluative processes that transcend specific historical settings.

### Sample and Data Sources

This study focuses on firms operating in the retail banking sector. Some financial intermediaries, however, specialize in niche services and fall outside this scope. For example, certain commercial banks focus on investment services and operate through a limited number of branches in major cities, while some credit unions serve specific professional groups with similarly restricted coverage. These cases are considered outliers and excluded from the analysis. To ensure inclusion of retail banking firms, we retained only intermediaries with more than four branches in at least 1 year of the study period. This criterion guarantees that selected firms are recognized by audiences as part of the retail banking category and subject to standard service expectations. The number of firms in the sample ranges from 127 to 143 due to mergers and acquisitions. In 2007, the final year of observation, the sample included 35 commercial banks, 44 savings banks, and 48 credit unions.

Data were collected from three sources. First, annual reports published by each intermediary's professional association (AEB, CECA, and UNACC). Second, branch location data were obtained from *Guía de la Banca, Cooperativas de Crédito y Cajas de Ahorros*, edited by Maestre-Ediban. Third, information on market conditions was sourced from the Bank of Spain (Banco de España) and the National Statistics Institute (INE).

### Specification of the Model

**Dependent Variable.** Firm performance is measured using return on assets (ROA), calculated as pre-tax profits divided by total assets.<sup>1</sup> ROA is a standard indicator of financial performance and has been previously used in studies of the Spanish retail banking sector (e.g., Gómez et al., 2017; Zúñiga-Vicente et al., 2004).

**Independent Variables.** The main independent variable is *Strategic deviation*, measured as the distance between a firm's characteristics and the prototype of its category. In line with categorization theory, the prototype is defined by the central tendencies, that is, the average values, of key strategic attributes across category members (Durand &

Paolella, 2013). Strategic deviation captures how far a firm departs from these prototypical values.

*Strategic deviation* is calculated based on seven dimensions previously used to characterize banking strategies (Fuentelsaz & Gómez, 2006; Gómez et al., 2017; Zúñiga-Vicente et al., 2004). These dimensions are (1) Commercial banking (Commercial loans/ Financial investments), which measures financial activities directed to small firms and households, (2) Investment banking (Portfolio of securities/ Financial investments), which represents the tendency to invest in stock markets, (3) Institutional banking (Transactions with other financial entities and the public sector/ Financial investments), which reflects operations with the financial system and other institutions, (4) Net position in the financial system (Net position in the financial market/ Total liabilities), which captures the extent to which a banking firm borrows from the interbank market, (5) Traditional banking (Saving and deposits accounts of the private sector/ Total liabilities), which measures the obtaining of funds through classical financial products, (6) Human capital (Personnel expenses/ Operating income), which represents the relevance of human resources within a bank, and (7) Bank exposure (Net insolvencies/ Operating income), which proxies loans with a low probability of recovery.

Strategic deviation for every banking firm at time  $t$  is calculated as follows:

$$\text{Strategic deviation} = \frac{\sqrt{\sum_{d=1}^7 (Z_{idt} - Z_{adt})^2}}{\text{Max}_k \sqrt{\sum_{d=1}^7 (Z_{idt} - Z_{adt})^2}}$$

where  $d$  stands for each of the seven dimensions used to depict banking strategies,  $i$  is the focal banking firm,  $a$  is the average value of the analyzed dimension across all members of the same category, and  $k$  is the financial intermediary in the category showing the maximum distance from the average value of the dimension  $d$  (Fuentelsaz & Gómez, 2006). This variable takes the value of 0 when strategic deviation is minimal, and 1 when it reaches the maximum observed level.

To test Hypothesis 2, *Strategic deviation* is interacted with firm *Reputation*. Prior research suggests that reputation arises from consistent behaviors that lead to outcomes recognized and valued by audiences (Barnett et al., 2006; Gardberg & Fombrun, 2006; Pfarrer et al., 2010). Since firm size typically reflects a sustained trajectory of achievement and is easily observable, reputation is proxied by the logarithm of total assets. This assumes that larger firms are generally perceived as more capable of delivering value. This operationalization aligns with prior studies identifying size as a key antecedent of reputation (Fombrun & Shanley, 1990).

At the same time, it is recognized that reputation is a multidimensional and socially constructed phenomenon

that may not be fully captured by a financial indicator such as firm size. While size can reflect accumulated legitimacy, visibility, and perceived capacity, it does not account for other sources of reputational capital such as ethical conduct, innovation, or stakeholder trust. Moreover, the strength of the relationship between size and reputation may vary across contexts and industries. These considerations suggest that using size as a proxy should not be assumed uncritically and calls for empirical validation within the specific setting under study.

To that end, a validation exercise was conducted using independent data from MERCO, a widely recognized corporate reputation monitor in Spain. MERCO publishes annual rankings based on the assessments of multiple stakeholder groups, including executives, analysts, NGOs, journalists, and consumers. A binary variable was constructed indicating whether a firm was included in

MERCO's rankings of the most reputable companies in the Spanish retail banking sector between 2000 and 2007. A univariate logistic regression using the logarithm of total assets as the sole predictor showed a strong and statistically significant association with inclusion in the MERCO ranking. The model yielded a McFadden pseudo  $R^2$  of 0.76 and an area under the ROC curve (AUC) of 0.99, indicating near-perfect discriminative capacity. These results provide robust empirical support for the use of firm size as a proxy for reputation in this empirical context.

Hypothesis 3 is tested through the interaction between *Strategic Deviation* and *Category Distinctiveness*. Category distinctiveness serves as a proxy for the degree to which a given category is positioned apart from others within the strategic space. This variable is calculated for commercial banks, savings banks, and credit unions at time  $t$  as follows:

$$\text{Category distinctiveness} = \frac{\sqrt{\sum_{d=1}^7 (Z_{xdt} - Z_{jdt})^2} + \sqrt{\sum_{d=1}^7 (Z_{xdt} - Z_{ydt})^2}}{2}$$

where  $d$  stands for each of the seven dimensions used to depict banking strategies,  $x$  is the average value of the focal category for the considered strategic dimension, and  $j$  and  $y$  are the average values of the other two categories in the sector for the analyzed dimension. The higher the value of *Category distinctiveness*, the higher the distance between the prototype of the focal category and those of the other two categories. This means that the boundaries among categories are clearer as the value of *Category distinctiveness* increases.

Finally, Hypothesis 4 is tested by interacting *Strategic deviation* with *Category social mission*. This variable is coded as a dummy that takes the value "1" for savings banks and credit unions, and "0" for commercial banks. It identifies firms belonging to categories whose mission is highly valued by audiences. In the Spanish retail banking sector, savings banks and credit unions were seen as contributing to society beyond the creation of economic value, as they incorporated local community interests into credit decisions (Delgado et al., 2007). In the case of savings banks, this was largely achieved thanks to the composition of their boards, often including community representatives, and their legal obligation to allocate a portion of the net surplus to cultural and social programs (Hansmann, 1996). Credit unions, for their part, were rooted in rural areas and prioritized serving their members' needs over maximizing returns on capital (Tormo & Navarro, 2012). Both types of institutions also helped prevent financial exclusion by maintaining branches in small municipalities with limited access to banking services (Bernad et al., 2008). Given these characteristics, savings banks and credit unions were typically associated with socially desirable missions, which increases their perceived moral

valence among audiences. In contrast, commercial banks were primarily driven by profit maximization and are typically perceived as less socially oriented. Their governance structures emphasized profitability and efficiency rather than community or local government representation, and they were not legally required to reinvest profits in their members or in social and cultural initiatives. As a result, audiences tended to attribute lower moral or social valence to commercial banks, viewing them as organizations focused on private gain rather than collective welfare.

**Control Variables.** The empirical model includes three market-level control variables: *GDP per capita*, *Credit volume*, and *Category lack of contrast*. *GDP per capita* is calculated as the ratio between total GDP and population in the provinces where the focal banking firm operates, capturing the average wealth of potential clients. *Credit volume* is the total amount of credit granted in those provinces, serving as a proxy for market size. Both variables are expected to be positively associated with firm performance. *Category lack of contrast* is measured as the variance across the seven strategic dimensions among all members of the same category. Higher values indicate lower similarity among category members. Prior research has shown that contrast increases the clarity and salience of a category in the minds of audiences, which benefits its members (Hannan et al., 2007; Kovács & Hannan, 2015; Negro, Koçak, & Hsu, 2010).

The model includes several control variables at the firm level. First, *Risk* and *Inefficiency* are sector-specific controls. *Risk*, calculated as total credits over total assets, reflects the level of risk assumed in financial service provision. *Inefficiency*, measured as operating costs over

ordinary margin, captures how efficiently a firm deploys its resources (Carbó et al., 2003). Second, *M&A* is a dummy variable coded as 1 for the year in which the firm participated in a merger or acquisition, and 0 otherwise. A lagged version of this variable ( $M\&A_{t-1}$ ) accounts for delayed effects. Third, *Scope* proxies for the geographical reach of a firm, measured as the number of ZIP codes in which it operates. ZIP codes are used to define local markets, as they represent functionally proximate areas (Gómez et al., 2017). Fourth, the model includes two measures of competitive pressure: *Rivals* and *Category rivals*. The first counts all firms that compete with the focal firm in at least one ZIP code. The second counts only those competitors that also belong to the same category, thus isolating intra-category competition.

Finally, the model accounts for the potential direct effects of *Reputation* and *Category distinctiveness* on firm performance by including them as control variables.<sup>2</sup> Year dummies are included to control for industry-wide shocks. All explanatory variables are lagged by one period to mitigate concerns about reverse causality. Descriptive statistics and correlations are presented in Table 1.

**Model Estimation.** An important concern in this sample is spatial correlation. Many banking firms operate primarily within a limited number of regions, particularly savings banks and credit unions, which typically provide services only in their home provinces. Firms concentrated in the same geographic areas may exhibit spatially correlated behavior due to shared institutional ties, regulatory environments, local cultures, or demographic characteristics. While ordinary least squares (OLS) estimators remain consistent under spatial correlation, standard errors may be severely biased.

To address this issue, the analysis employs Driscoll and Kraay's (1998) method for estimating standard errors, which extends Newey and West's (1987) approach to panel data and is robust to spatial and serial correlation as well as heteroskedasticity. Simulation studies have shown that Driscoll–Kraay standard errors outperform alternative estimators even under moderate spatial dependence (Driscoll and Kraay, 1998; Hoechle, 2007). Although their efficiency improves with longer panels, they remain well-calibrated for panels as short as 5 years (Hoechle, 2007, pp. 298–299). Given that the data span 8 years (2000–2007), all fixed-effects model estimations report Driscoll–Kraay standard errors.

## Results

Table 2 reports the estimation results. All models are jointly significant, and explain between 21% and 27% of the within-firm variance. Wald tests, also shown at the bottom of Table 2, indicate that the inclusion of the theoretical variables significantly improves model fit. The fully

specified model (column 6) offers the highest explanatory power and is preferred over its nested alternatives. Accordingly, the discussion focuses on the results reported in column 6. Table 3 reports additional estimations of the fully specified model using alternative dependent variables (see footnote 1).

Hypothesis 1 posits that *Strategic deviation* negatively affects firm performance. The results support this claim: the coefficient for *Strategic deviation* is negative and statistically significant ( $\beta = -6.610$ ,  $p < .01$ ). This suggests that firms positioned further from the category prototype tend to perform worse than those that conform more closely.

The following hypotheses examine how the negative effect of *Strategic deviation* varies depending on firm- and category-level characteristics. Hypothesis 2 proposes that firm *Reputation* attenuates this negative effect. The interaction term between *Strategic deviation* and *Reputation* is positive and statistically significant ( $\beta = 0.121$ ,  $p < .10$ ). This result aligns with Hypothesis 2, indicating that the performance of reputed firms is less adversely affected when they deviate from the category prototype.

Hypothesis 3 proposes that firms from categories whose prototype clearly differs from that of the other categories are less penalized when they do not conform. Our results show that the interaction term between *Strategic deviation* and *Category distinctiveness* has a positive and significant effect ( $\beta = 13.487$ ,  $p < .01$ ). Consequently, our third hypothesis is also supported, suggesting that the negative impact of strategic deviation is attenuated for firms operating in conceptually distinct categories.

Hypothesis 4 proposes that firms belonging to categories with a socially valued mission face weaker penalties when deviating from the category prototype. The interaction between *Strategic deviation* and *Category social mission* is positive and statistically significant ( $\beta = 1.764$ ,  $p < .01$ ). This result confirms Hypothesis 4, indicating that the negative effect of strategic deviation on performance is mitigated when firms operate within categories associated with socially appreciated purposes.

To assess the economic relevance of our findings, we estimate the extent to which *Strategic deviation* reduces firm profitability and how the three moderating factors mitigate this effect. Specifically, we compare the performance of a firm that fully conforms to audience expectations (i.e., *Strategic Deviation* = 0) with that of a firm exhibiting the highest level of deviation observed in our sample (i.e., *Strategic Deviation* = 1). We then examine how this performance gap varies across three levels of each moderating variable; mean, high (mean + 1 standard deviation), and low (mean – 1 standard deviation). Each moderator is analyzed separately to clearly identify its specific contribution to mitigating the performance penalty. Note that the coefficient for *Strategic deviation* in the main estimations (Table 2, Column 6) reflects the estimated effect of moving from complete conformity to maximum

Table 1. Descriptive Statistics and Correlations.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Mean	0.85	0.69	0.67	0.002	208.80	65.23	22.87	0.01	6401.91	200086.90	14.22	0.29	0.70	0.25
Standard deviation	0.87	0.16	0.53	0.14	353.16	34.02	16.15	0.01	6273.28	161580.7	1.74	0.68	0.50	0.20
Minimum	-9.39	0.00	0.00	0.00	1.00	4.00	0.00	0.00	319.02	1139.37	10.46	0.19	0.00	0.02
Maximum	6.43	0.99	7.56	1.00	2503.00	141.00	48.00	0.04	25367.35	629754.80	19.16	0.44	1.00	1.00
(1) ROA	1.00													
(2) Risk	0.20	1.00												
(3) Inefficiency	-0.40	-0.12	1.00											
(4) M&A	0.00	-0.02	-0.04	1.00										
(5) Scope	0.05	-0.08	-0.10	0.18	1.00									
(6) Rivals	-0.04	-0.15	-0.03	0.17	0.63	1.00								
(7) Rivals from the category	-0.00	-0.16	-0.00	0.07	0.42	0.86	1.00							
(8) Category lack of contrast	-0.06	-0.23	0.16	0.09	0.14	0.40	0.42	1.00						
(9) GDP per capita	0.04	0.10	-0.02	-0.11	-0.40	-0.78	-0.72	-0.38	1.00					
(10) Credit volume	-0.07	-0.11	-0.03	0.11	0.58	0.89	0.75	0.41	-0.72	1.00				
(11) Reputation	0.13	0.04	-0.17	0.18	0.73	0.84	0.73	0.14	-0.68	0.74	1.00			
(12) Category distinctiveness	-0.09	0.04	0.08	0.01	0.05	0.12	0.00	0.67	-0.06	0.29	-0.04	1.00		
(13) Category social mission	0.05	0.22	-0.14	-0.07	-0.13	-0.40	-0.41	-0.99	0.37	-0.41	-0.13	-0.70	1.00	
(14) Strategic deviation	-0.11	-0.35	0.19	-0.01	-0.11	0.05	0.09	0.49	-0.10	0.11	-0.18	0.31	-0.50	1.00

**Table 2.** Estimations of Deviation From the Category.

ROA	(1)	(2)	(3)	(4)	(5)	(6)
Risk	0.790** (3.57)	0.826*** (5.55)	0.814*** (5.48)	1.184*** (8.84)	0.771*** (7.37)	0.878*** (7.46)
Inefficiency	-0.139*** (-4.61)	-0.139*** (-4.60)	-0.136*** (-4.58)	-0.133*** (-4.05)	-0.138*** (-4.61)	-0.120*** (-4.05)
M&A	0.0420 (1.03)	0.0433 (1.04)	0.0563 (1.26)	0.0403 (1.05)	0.0415 (0.99)	0.0327 (1.30)
M&A <sub>t+1</sub>	-0.0367 (-0.76)	-0.0317 (-0.73)	-0.0155 (-0.29)	-0.0794 (-1.48)	-0.0332 (-0.80)	-0.104 (-1.67)
Scope <sup>a</sup>	-1.01** (-2.51)	-0.979** (-2.54)	-0.750 (-1.34)	0.411 (0.67)	-1.01** (-2.84)	0.963 (1.31)
Rivals	-0.00330 (-1.51)	-0.00308 (-1.23)	-0.00404 (-1.50)	-0.00487** (-2.49)	-0.00300 (-1.24)	-0.00577** (-2.52)
Rivals from the category	-0.0307** (-3.30)	-0.0309** (-3.23)	-0.0285** (-2.91)	-0.0256** (-3.11)	-0.0307** (-3.13)	-0.0198* (-2.23)
Category lack of contrast	-23.98*** (-4.70)	-23.93*** (-4.70)	-24.04*** (-4.84)	-11.02 (-1.54)	-25.01*** (-4.00)	-14.01* (-2.19)
GDP per capita <sup>a</sup>	-0.194 (-1.71)	-0.191 (-1.78)	-0.203 (-1.88)	-0.206 (-1.85)	-0.185 (-1.66)	-0.172 (-1.74)
Credit volume <sup>a</sup>	0.0115 (1.79)	0.0110* (2.09)	0.0120* (2.38)	0.00852 (1.67)	0.0107 (1.91)	0.00582 (1.18)
Year effects	Yes***	Yes***	Yes***	Yes***	Yes***	Yes***
Reputation	-0.465** (-3.51)	-0.459*** (-3.77)	-0.556*** (-5.31)	-0.406*** (-3.77)	-0.467*** (-4.18)	-0.517*** (-7.26)
Category distinctiveness	-6.651 (-1.52)	-6.674 (-1.52)	-6.247 (-1.41)	-10.87* (-2.41)	-6.681 (-1.53)	-12.69** (-3.03)
Strategic deviation		0.0773 (0.43)	-2.207*** (-3.79)	-2.441*** (-10.09)	-0.0785 (-0.19)	-6.610*** (-4.68)
Strategic deviation* Reputation			0.172*** (4.26)			0.121* (2.09)
Strategic deviation *Category distinctiveness				9.049*** (7.53)		13.487*** (7.14)
Strategic deviation* Category social mission					0.206 (0.60)	1.764*** (4.03)
Observations	892	892	892	892	892	892
Adj. R2	0.2131	0.2134	0.2187	0.2460	0.2138	0.2696
Wald test vs. model 1		0.19	9.79**	98.79***	1.36	40.40***
Wald test vs. model 2			18.18***	56.70***	0.36	17.61***
Wald test vs. model 3						26.41***
Wald test vs. model 4						11.25***
Wald test vs. model 5						26.16***

t statistics in parentheses. Standard errors robust to heteroskedasticity, autocorrelation, and spatial correlation.

<sup>a</sup>Divided by 10,000.

Two-tailed significance tests: \* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ .

observed deviation. In this baseline scenario, where no mitigating factor is present (i.e., all moderators set to zero), the firm with the highest deviation is expected to exhibit a return on assets (ROA) that is 6.610 percentage points lower than that of a fully conforming firm ( $p < .01$ ).

Focusing on the first moderating factor, for a low level of *Reputation* (mean - 1 standard deviation), the estimated effect of maximum *Strategic deviation* is -5.101 ( $p < .01$ ). For average and high values of reputation, the effect is

-4.891 ( $p < .01$ ) and -4.681 ( $p < .01$ ), respectively. Regarding *Category distinctiveness*, the performance penalty associated with maximum deviation is -3.628 ( $p < .05$ ) for low values, -2.718 ( $p < .05$ ) for average values, and -1.807 (not significant) for high values. Finally, when considering *Category social mission*, savings banks and credit unions show a deviation penalty of -4.845 ( $p < .01$ ), which is significantly lower than that of commercial banks, though still statistically significant. These results suggest

**Table 3.** Alternative Dependent Variables.

	Ordinary income/total assets	Operating profits/total assets
Risk	0.799** (0.311)	1.390*** (0.205)
Inefficiency	-0.335** (0.132)	-0.275** (0.108)
M&A	-0.075*** (0.009)	-0.043 (0.071)
M&A <sub>t-1</sub>	-0.019 (0.064)	-0.393*** (0.069)
Scope <sup>a</sup>	1.278*** (0.258)	1.778* (0.897)
Rivals	-0.014*** (0.001)	0.004** (0.001)
Rivals from the category	0.011*** (0.002)	-0.004** (0.002)
Category lack of contrast	-7.534 (5.727)	1.841 (4.374)
GDP per capita <sup>a</sup>	-0.265*** (0.048)	-0.126 (0.085)
Credit volume <sup>a</sup>	0.003*** (0.001)	0.008*** (0.001)
Year effects	Yes***	Yes***
Reputation	-0.174 (0.111)	-2.133*** (0.127)
Category distinctiveness	-0.316 (1.024)	-3.471*** (0.760)
Strategic deviation	-3.355** (1.161)	-1.343 (0.877)
Strategic deviation* Reputation	0.103* (0.051)	-0.028 (0.038)
Strategic deviation *Category distinctiveness	6.112*** (0.921)	3.288* (1.348)
Strategic deviation* Category social mission	0.491 (0.434)	0.775* (0.317)
Observations	892	892
Adj. R2	0.1976	0.6163

t Statistics in parentheses. Standard errors robust to heteroskedasticity, autocorrelation, and spatial correlation.

<sup>a</sup>Divided by 10,000.

\*p < 0.10; \*\*p < 0.05; \*\*\*p < 0.01.

that *Category distinctiveness* exerts a stronger buffering effect against the negative consequences of strategic deviation than either firm *Reputation* or *Category social mission*, at least within the context of our sample. Figure 1 illustrates the moderating effects of the three variables on firm performance.

## Discussion

This study contributes to the literature on intra-category dynamics by examining how strategic deviation from the category prototype affects firm performance. The results show that firms positioned far from their category prototype perform worse than those that conform more closely, supporting the notion of a “categorical imperative”

(Hannan et al., 2007; Negro, Koçak, & Hsu, 2010; Zuckerman, 1999; Zuckerman et al., 2003). However, a key contribution of this research lies in identifying significant variation in the severity of this penalty. Specifically, firms with strong reputations, those operating in highly distinctive categories, and those embedded in categories with a valued social mission are less negatively affected by deviation. These findings suggest that such firms enjoy greater strategic latitude and face fewer constraints in departing from prototypical norms.

The findings of this study contribute to ongoing research in categorization theory. Prior work has focused on three main areas: the formation of categorization systems, the implications of single versus multiple category memberships, and the tension between conformity and

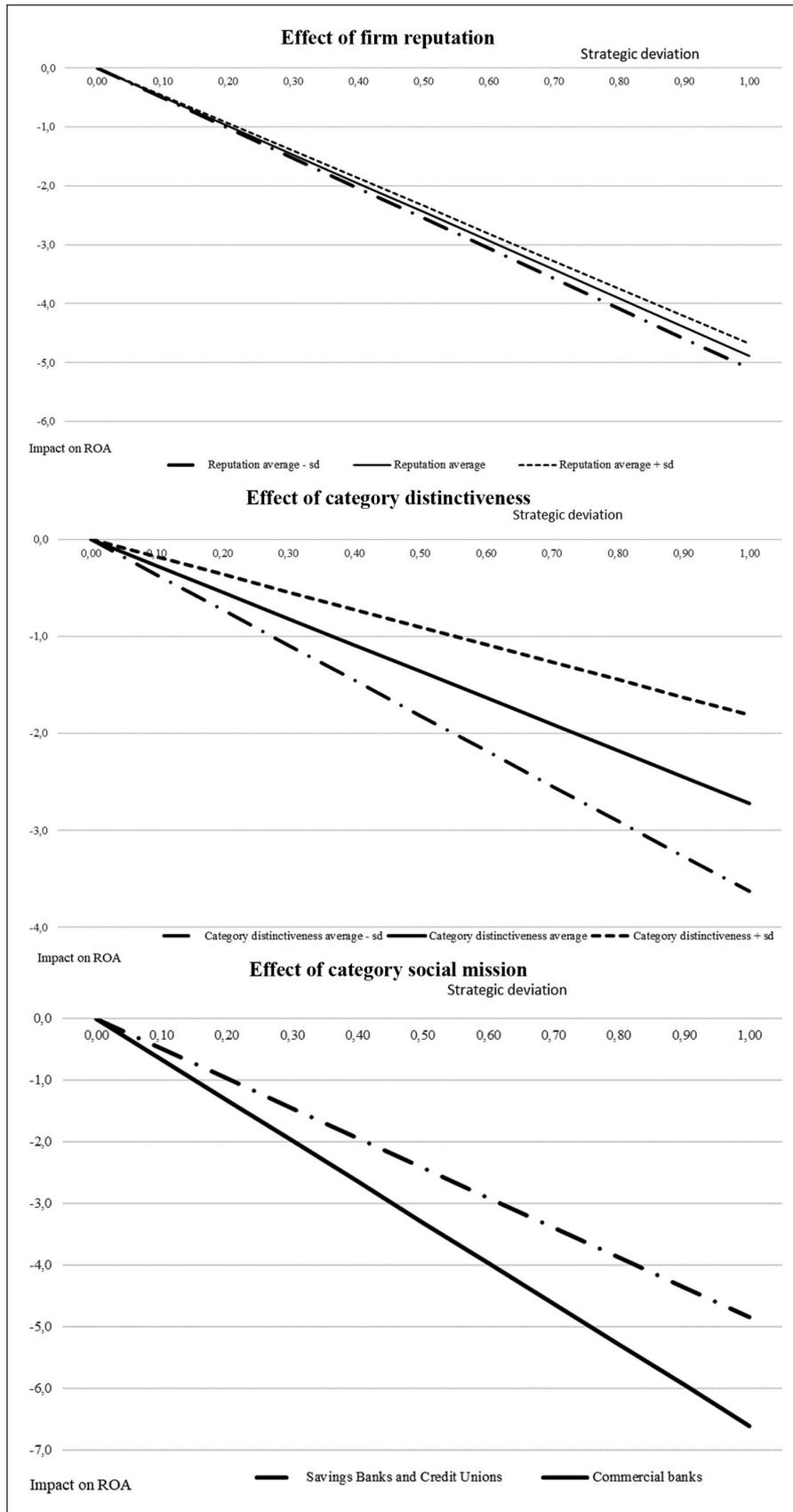


Figure 1. Graphical representation of moderating effects.

differentiation within categories (Durand & Thornton, 2018). The latter line of research recognizes that category membership is not binary, but rather exists along a continuum. A firm's degree of membership depends both on the adoption and omission of categorical features and on the extent to which the firm aligns with what audiences expect from the category (Durand & Kremp, 2016). In this context, the traditional view of the "categorical imperative" (Zuckerman, 1999) has been refined. Recent studies highlight that firms may possess strategic latitude and are not always penalized for deviating from their category's prototype. For instance, Hsu and Grodal (2015), in their study of the light cigarette market, show that deviations from politically correct expectations, such as lower tar and nicotine, did not necessarily lead to audience sanctions.

This study advances the understanding of the tension between conformity and differentiation within categories by examining how strategic deviation from the category prototype impacts firm performance. It contributes to the literature by identifying factors that weaken the categorical imperative, thereby mitigating the negative consequences of atypicality and nonconformity. In doing so, it extends prior research on the firm- and category-level contingencies that shape the outcomes of strategic positioning within categories. For instance, Goldenstein et al. (2019) showed that category density and firm age influence the penalties associated with deviating from core category features. Glynn and Navis (2013) argued that the category's stage in its life cycle affects the strength of the categorical imperative. Barlow et al. (2019) found that positioning outcomes depend not only on similarity to the prototype, but also on resemblance to the category's most prominent members. Tauscher et al. (2021) further demonstrated that in familiar categories, distinctiveness may outweigh conformity, particularly for new ventures seeking crowd-funding support.

This study extends categorization theory by elucidating the mechanisms through which specific contingencies reshape audience evaluations. Reputation, category distinctiveness, and social mission constitute boundary conditions that relax the categorical imperative (Hannan et al., 2007; Zuckerman, 1999). Each operates by altering the cognitive frameworks audiences employ when assessing the fit between a firm and the expected behaviors of its category. A strong reputation provides a legitimacy buffer that decouples evaluators' judgments from strict prototype conformity, suggesting that categorical penalties are socially negotiated rather than structurally determined (Deephouse & Suchman, 2008). Category distinctiveness, in turn, transforms the informational environment of evaluation: when categories are more distinctive, the prototypical template becomes less salient, allowing atypical actors to redefine what is considered appropriate within the category (Kovács & Hannan, 2015; Negro, Hannan, & Rao, 2010). Finally, a salient social mission reframes the moral dimension of

evaluation, invoking higher-order logics of worth that transcend categorical boundaries. Taken together, these mechanisms demonstrate that the categorical imperative is contingent upon reputational, structural, and moral contexts, thereby extending the theory from a model of categorical constraint to one of conditional flexibility.

This study contributes to the literature by identifying new contingencies that influence the performance implications of strategic positioning within categories. In particular, it highlights firm *reputation*, *category distinctiveness*, and *category social mission* as key moderators of the negative effects associated with deviations from category prototypes. These findings have relevant managerial implications, especially in contexts where category structures are well-defined and audience expectations are strongly institutionalized.

For managers of firms with strong reputations, these findings point to a strategic opportunity: reputation provides greater leeway to depart from categorical expectations without incurring audience sanctions. Likewise, operating within a highly distinctive category or one defined by a socially valued mission offers protection against the negative evaluations typically associated with non-conforming strategies. In such contexts, differentiation becomes not only safer but potentially advantageous, as it allows firms to stand out without necessarily undermining the norms of category membership. These results challenge the notion that conformity is always the safest route to success. Instead, they offer a framework for identifying when and how firms can strategically diverge from category norms while preserving audience support. This is particularly relevant in dynamic markets, where the ability to innovate and differentiate is essential for sustaining competitive advantage.

### Limitations and Future Research

This research has some limitations that suggest avenues for future inquiry. First, although the empirical model includes controls for competitive pressure, it does not explicitly theorize the interaction between such pressures and the categorical imperative, which reflects conformity demands. Prior studies have documented the trade-offs firms face when responding to multiple external pressures. For example, Volberda et al. (2012) show that the effect of institutional compliance on performance depends on the degree of alignment with technical or operational requirements. In a similar vein, the effect of positioning relative to the category prototype may be shaped by the firm's strategic distance from its direct competitors. Future research could explore these interdependencies and examine how firms balance convergence with their category versus convergence with their rivals.

Second, this study examines strategic positioning from a global perspective, without distinguishing how firms

may align with or diverge from their category along specific strategic dimensions. It is plausible that banking firms prioritize conformity in dimensions that are more visible or valued by audiences, while differentiating in areas that are less salient. To better understand the interplay between conformity and differentiation, future research should analyze multiple strategic behaviors simultaneously, such as R&D investment or CSR disclosure. This would support the development of a “strategic orchestration” perspective, complementing existing work on resource orchestration (Chadwick et al., 2015; Sirmon et al., 2011).

Finally, prior research on categories has extensively examined category spanning, that is, when firms simultaneously belong to multiple categories at the same hierarchical level (Wry et al., 2014; Zhao et al., 2013). For instance, a “comedy-thriller” film spans two distinct genre categories (Vergne & Wry, 2014). In contrast, this study focuses on strategic positioning within category boundaries and does not consider whether deviation from the prototype brings firms closer to other categories or leads them to adopt attributes from them. Future research could build on this by examining the effects of strategic distance not only from the focal category prototype, but also from the prototypes of adjacent categories.

#### ORCID iDs

Raquel Orcos  <https://orcid.org/0000-0001-7171-1852>

Sergio Palomas  <https://orcid.org/0000-0001-8406-3540>

Henk W Volberda  <https://orcid.org/0000-0003-0654-6824>

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#### Data availability statement

The data that has been used is confidential

#### Notes

1. We also tested two alternative measures of profitability: ordinary income divided by total assets, and operating profit divided by total assets. The results are largely consistent across specifications, with only differences in the significance of some moderating effects. We retain pre-tax profit as our main dependent variable because it provides a more comprehensive measure of performance. Specifically, it captures both core banking activities and the financial consequences of risk management and non-recurrent events, while remaining unaffected by tax-related factors. These results are shown on Table 3, in the section where we discuss our results.
2. No control is included for the direct effect of category social mission, as the estimation relies on a fixed-effects model. Since categories in the Spanish retail banking sector remained stable over the period analyzed, their effects are absorbed by the fixed-effects specification.

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