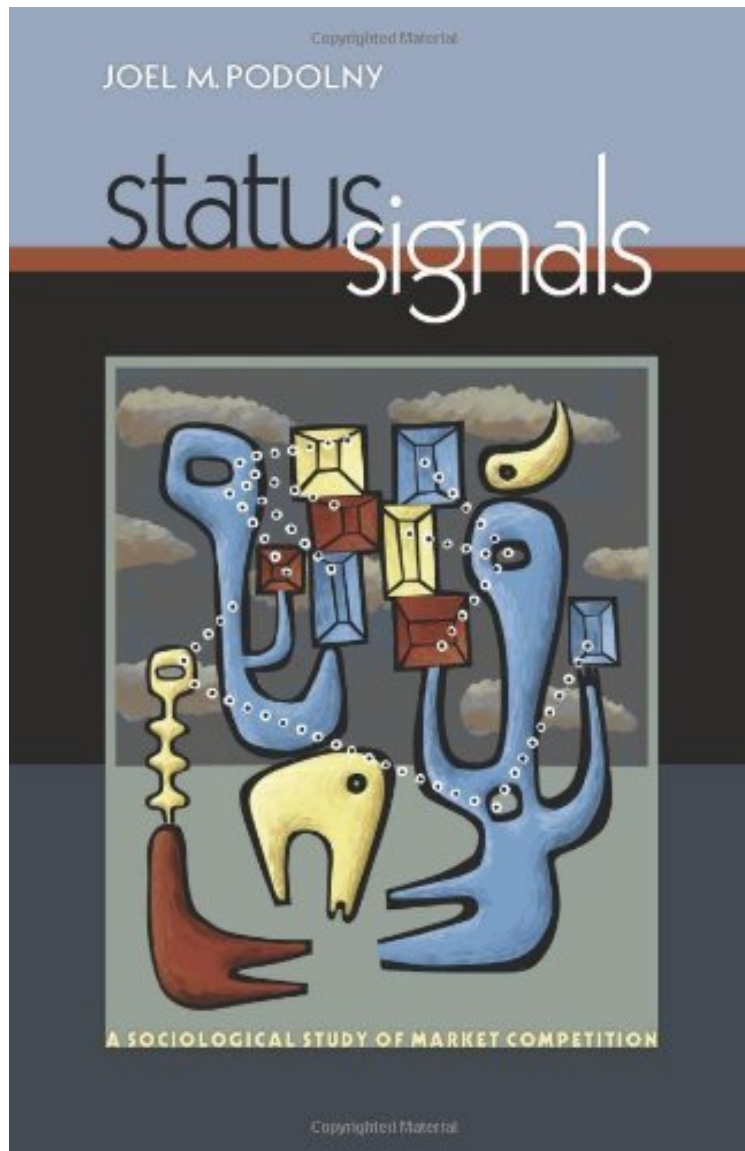


[Read now] Status Signals: A Sociological Study of Market Competition

## Status Signals: A Sociological Study of Market Competition

*Joel M. Podolny*

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**Joel M. Podolny : Status Signals: A Sociological Study of Market Competition** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Status Signals: A Sociological Study of Market Competition:

9 of 10 people found the following review helpful. Reputation Signals?By Herbert Gintis`Status' is not a term widely used in economic analysis, but it is extremely common in sociological theory. Social status may be inherited, it may be acquired at great cost, and it can be dissipated through insouciance and poor judgment. Like material wealth, high status both causes and is a sign of social dominance. How, then, does social status relate to traditional economic

variables? The answer is doubtless complex and ill-understood. However, in this book Podolny restricts his study to the relative status of firms in an industry, with special attention to investment banking and retail jewelry. By choosing to study firms, Podolny faces an immediate problem: status in sociological theory is well-studied and categorized as an attribute of individuals and families embedded in complex social networks, but not of firms competing in the open market. Podolny handles this problem by situating his study within the network branch of what is known as the "new economic sociology." This research area owes its inspiration to a paper by sociologist Harrison White, "Where Do Markets Come From?" *American Journal of Sociology* 87 (1981): 517-547, followed by a famous declaration of purpose written by White's student Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness" *American Journal of Sociology* 91 (1985): 481-510. Granovetter noted that economic theory assumes that economic actors are socially isolated Homo Economicus type that prices and market conditions as given and simply maximize utility. This assumption is tenable only if it is reasonable to assume that all economic exchanges are completely specified and costlessly enforced (e.g., by the judiciary). When these assumptions fail, which is usually the case, economic theory does not tell us why parties to exchange carry out their contractual obligations. Granovetter also notes that the traditional sociological account of contract fulfillment is that agents are socialized to internalize the norms associated with their roles, and hence are generally honest and trustworthy if society values these character virtues. Faced with the "undersocialized" agent of economic theory and the "oversocialized" agent of sociological theory, Granovetter observes that markets are in fact "embedded" in social relations that take the form of enduring informal ties among producers, between firms and their suppliers, and between firms and their customers. These repeated interactions might be called networks of principal-agent interactions, except that the new economic sociology does not generally use mathematical models to describe social interactions, and networked principal-agent models are inherently much more complex than the dyadic principal-agent models of economic theory, because the information concerning an agent's behavior is networked among a plurality of agents. I should note that it is still possible to model such phenomena mathematically (e.g., Samuel Bowles and Herbert Gintis, "Persistent Parochialism: Trust and Exclusion in Ethnic Networks," *Journal of Economic Behavior and Organization* 55,1 (2004): 1-23), but sociologists generally avoid explicit reliance on the rational actor model, game theory, and mathematical modeling. Podolny is no exception. Once we situate markets in networks of embedded social relations, it becomes feasible to apply the term 'status' to firms. It is tempting to equate the status of a firm with its reputation. In an industry where the quality of a good or service cannot be contractually specified, a firm might establish a standard of quality in order to expand its clientele or increase its price above the market minimum. Such a "reputation effect" is well-known in economic theory (Herbert Gintis, "The Power to Switch: On the Political Economy of Consumer Sovereignty," in Samuel Bowles, Richard Edwards, and William Shepherd (eds.), "Unconventional Wisdom: Essays in Honor of John Kenneth Galbraith (New York: Houghton-Mifflin: 1989): 65--80). However, Podolny argues that the status of a firm is not equivalent to its reputation for quality, but rather is a more diffuse hierarchical notion in which a firm's status reflects its social eminence and power. Podolny argues that firms desire high status because customers have a "conspicuous consumption" preference for high-status firms, and are willing to pay accordingly. I think there may be something to Podolny's distinction between status and reputation. A fast food chain such as McDonald's may have a very good reputation (good value, consistent quality), but it does not have high status. Similarly, a purchasing agent may buy parts from a high status supplier rather than the highest quality supplier because, in case of quality failure, his superiors cannot fault him for his choice of supplier. Despite these differences, I think economists might value this book because status is very close to reputation in many ways, and Podolny's close empirical analysis of status in various industries provides strong support for the economic theory of reputation. Indeed, Podolny considers the central claim of his book that "the greater market participants' uncertainty about the underlying quality of a producer and the producer's product, the more that market participants will rely on the producer's status to make inferences about that quality." (p.18) The word "reputation" could replace the word "status," of course, with absolutely no loss of meaning. At some points, however, Podolny offers and tests hypotheses in which the difference between status (widely perceived position in the hierarchy of suppliers) and reputation (what the experts know about true quality) is key. For instance, Podolny notes that if one controls for the quality of a good or service, higher status leads to greater sales and higher profits. Equivalently, a high-status firm can supply lower quality goods than can a low-status firm. (p. 27) Podolny's insights are considerable, and his empirical work is well done and deserves to be followed up by additional data gathering that might clarify the relationship between status and reputation. This book is economic sociology at its best, although I would maintain that a skilful mathematical modeler could capture many of the phenomena described herein using the rational actor model, game theory, and network analysis.

1 of 3 people found the following review helpful. Good overview of author's work on status of firms  
By Jackal  
This is a good overview of the author's conception of status, which is provided in the introductory chapters. There is no grand theorising in the book, everything is empirically driven and several previously published studies are described in later chapters. For those of you who have read some of the author's academic articles, this book is valuable because this time he is very clear in defining what he means with status (and how it is different from reputation). It would have been nice with a bit more deep and fundamental discussion of status in the first couple of chapters. However, that is another book. The target

audience for this book is only academics studying organizational theory.0 of 10 people found the following review helpful. One StarBy CustomerBad condition, there are hundreds of highlights and memos

Why are elite jewelers reluctant to sell turquoise, despite strong demand? Why did leading investment bankers shun junk bonds for years, despite potential profits? Status Signals is the first major sociological examination of how concerns about status affect market competition. Starting from the basic premise that status pervades the ties producers form in the marketplace, Joel Podolny shows how anxieties about status influence whom a producer does (or does not) accept as a partner, the price a producer can charge, the ease with which a producer enters a market, how the producer's inventions are received, and, ultimately, the market segments the producer can (and should) enter. To achieve desired status, firms must offer more than strong past performance and product quality--they must also send out and manage social and cultural signals. Through detailed analyses of market competition across a broad array of industries--including investment banking, wine, semiconductors, shipping, and venture capital--Podolny demonstrates the pervasive impact of status. Along the way, he shows how corporate strategists, tempted by the profits of a market that would negatively affect their status, consider not only whether to enter the market but also whether they can alter the public's perception of the market. Podolny also examines the different ways in which a firm can have status. Wal-Mart, for example, has low status among the rich as a place to shop, but high status among the rich as a place to invest. Status Signals provides a systematic understanding of market dynamics that have--until now--not been fully appreciated.

"This is a terrific book, a must-read. It will undoubtedly wield tremendous influence on the development of economic sociology."From the Inside Flap"This is a terrific book, a must-read. It will undoubtedly wield tremendous influence on the development of economic sociology."--Ezra W. Zuckerman, Sloan School of Management, Massachusetts Institute of Technology"This book will appeal not only to organizational and economic sociologists but also to scholars in areas such as social inequality and status attainment, as well as to micro and industrial organization economists. Podolny advances his arguments with great care, and tests them with painstaking precision. The value of his ideas, and the research they will inspire, make this a worthy contribution to a number of fields."--Mark Mizruchi, Professor of Sociology and Business Administration, University of Michigan, author of The Structure of Corporate Political ActionFrom the Back Cover "This is a terrific book, a must-read. It will undoubtedly wield tremendous influence on the development of economic sociology."--Ezra W. Zuckerman, Sloan School of Management, Massachusetts Institute of Technology "This book will appeal not only to organizational and economic sociologists but also to scholars in areas such as social inequality and status attainment, as well as to micro and industrial organization economists. Podolny advances his arguments with great care, and tests them with painstaking precision. The value of his ideas, and the research they will inspire, make this a worthy contribution to a number of fields."--Mark Mizruchi, Professor of Sociology and Business Administration, University of Michigan, author of The Structure of Corporate Political Action