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Status Signals: A Sociological Study of Market Competition

Joel M. Podolny

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Joel Podolny's *Status Signals* is a rich and engaging work and a major contribution to the sociology of markets. Going beyond the 'embeddedness' tradition in economic sociology (Granovetter, 1985), Podolny's book brings together the fruits of his decade-long research program focusing on status-based stratification of market relations in a variety of industries, ranging from investment banking to semiconductors. Compelling theoretical arguments and careful empirical analyses reveal why and how status distinctions both within the market domain and in other domains are implicated in exchange relations, market segmentation, pricing, technological innovation, financial performance and industry evolution. I cannot attempt to do justice to the richness of Podolny's empirical findings within the scope of this review, so I will focus primarily on what Podolny has to say about the status construct, since I suspect that this construct will play an increasingly important role in studies of organizational populations and fields.

As Podolny emphasizes, the concept of status presupposes the existence of a certain hierarchical order and refers to an actor's position within that order. Specifically, status is 'a consequence of the network ties that are perceived to flow to an actor' (p. 5). An actor's status at a given point in time affects the

willingness of others to show deference towards or to be otherwise associated with that actor, and is itself an outcome of perceived past instances of deference and association. Moreover, an actor's status affects and is affected by the status of all other actors to whom that actor has ties; in the case of an association between two actors with unequal status, the status of the lower-status actor will tend to be increased by the association, while that of the higher-status actor will tend to diminish. This tendency of status to 'leak' gives rise to 'status homophily' (reluctance to associate with lower-status actors), which is in turn one of the central mechanisms through which the status order is maintained and stabilized.

Finally, in the context of market relations, status is a signal of quality. In chapter two, Podolny argues persuasively that there are cost advantages to status that make it more profitable for higher-status actors to produce high-quality goods than for lower-status actors, leading in turn to a positive correlation between status and quality. Interestingly, the cost advantages of status considered by Podolny are themselves rooted in 'the view of status as a signal that reduces the reluctance of market participants to enter into an exchange relationship with a particular producer' (p. 29). Thus, as Podolny acknowledges (p. 31), his explanation of why status is a signal of

quality may appear tautological, but in fact it serves to underline the socially constructed nature of status-related phenomena: a collective belief in the existence of an empirical association between status and quality becomes a self-fulfilling prophecy, giving rise to and helping to sustain that very association.

These characteristics of status are used by Podolny to motivate a distinction between status and reputation. Podolny employs the term 'reputation' in the economic sense of 'an expectation of some behavior or behaviors based on past demonstrations of those same behaviors' (p. 13). Given this definition, it is clear that reputation, like status, can be an indicator of quality. However, unlike status, reputation does not flow through exchange relations and consequently has no relational component, or so Podolny suggests. (He writes that 'if reputation has a relational component, then reputation is essentially status, and it is simply a question of semantics whether one wants to employ the terminology of status or of reputation-cum-relational component' (p. 102).) Podolny then goes on to argue that when there is some uncertainty about a firm's reputation, status becomes an additional valuable indicator of quality. In chapter five, Podolny shows that the relationship between past demonstrations of quality and the price of wine (which Podolny interprets as a reputation effect) is moderated by winery status. He concludes that the 'medium' of status 'provides the lens' through which the 'message' of reputation for quality is perceived (p. 105).

An interesting question is whether status not merely interacts with reputation in leading to differences in economic returns, but is also one of the direct antecedents of reputation. Unfortunately, Podolny explores this question only briefly in his book. Based on the finding that a winery's status has a positive effect on its subsequent investments in quality, Podolny argues that 'the status ordering helps to determine which firms will develop reputations for quality and which will not' (p. 130). This is an indirect effect of status on reputation that is mediated by investment in quality. However,

status may also have a direct effect on reputation insofar as it may influence observers' assessments of the firm's past actions and their judgments about the firm (Barnett *et al.*, 2006). Reputation would then be partly a function of network position, implying that the relational aspect of status can no longer serve as a basis for distinguishing it from reputation. Ultimately, the distinction between status and reputation can only be maintained by stipulating *a priori* that reputation for quality is a judgment that is based solely on past demonstrations of quality, with any biasing influences factored out. This seems to be an overly narrow conception of reputation.

The discussion of Podolny's view of status has so far focused on the level of an individual actor or firm. However, in the later chapters of his book Podolny also shows the fruitfulness of adopting a more macro-level perspective on status. Status distinctions entail a status-based stratification of the market. Densely connected groups of firms with similar status emerge through status homophily, while the connections across groups are limited. Furthermore, certain discontinuities in the status ordering may arise through the operation of institutional and cognitive factors (Saunders, 2006), as well as through evolutionary processes. Chapter 9 of Podolny's book provides an illustration of the latter mechanism by showing empirically that 'partitioning processes associated with market concentration affect the overall shape [of the status ordering] as the presence of larger firms makes middle-status positions increasingly less viable' (p. 257). However, interesting questions related to the macro-level perspective on status remain. For instance, while Podolny demonstrates that a firm's association with lower-status firms can reduce the firm's status, one could also ask whether such an association will also affect the status of the whole group, to which the firm belongs. If such an effect exists and is sufficiently strong, it may create a problem for firms similar to the reputation commons



problem discussed in the literature on corporate reputation (King *et al.*, 2002).

These open questions only serve to underscore the relevance of Podolny's work to research on corporate reputation; it can provide plenty of conceptual and methodological resources to scholars working in this area. However, the book is also an impressive achievement in its own right and I would recommend it to anyone interested in economic sociology.

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