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The Importance of Status in Markets: A Market Identity Perspective

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The Importance of Status in Markets: A Market Identity Perspective

Abstract
[Excerpt] The importance of status in markets is well established. Since Podolny (1993) introduced his status-based model of market competition, more than 160 articles published in top management and sociology journals have explored this area. These articles show that market status affects a broad range of outcomes, including the perceived quality and legitimacy of organizations, the costs of producing a given level of quality, the prices that organizations can charge for specific products, their attractiveness as exchange partners, and their ability to exercise agency. Despite the widespread agreement that status plays an important role in markets, there is less agreement about how to define status. Status has traditionally been defined as a position in a social system that can be ranked among other positions based on relative prestige or social esteem (Weber, 1968; Linton, 1936; Merton, 1957). Following Podolny (1993), however, status has more recently been redefined simply as a signal of quality, thus removing status from its traditional anchoring in the social system. We argue that defining status as a signal of quality unnecessarily limits the explanatory power of status and confuses status with other signals of quality, most notably reputation. We develop instead a framework for studying status in markets that integrates work on status as social positions (Linton, 1936; Merton, 1957) and work on identity as social categories (Hannan, Polos, and Carroll, 2007), thus providing a more comprehensive perspective on status in markets.

We seek to accomplish three specific objectives in this chapter. First, we develop a new conceptual framework that integrates theoretical research on status and identity to clarify what we understand by status in markets. Our status-identity framework builds on the definition of status as a position in a social system. However, we add that these positions entail identities that reside in the intersections of the horizontally and vertically differentiated social categories that define the social system. Our status-identity framework builds extensively on the existing research on status and identity because we seek to provide conceptual clarity to existing and future research on status and identity rather than distancing ourselves from that research. We emphasize that our framework must not only help distinguish status from other related theoretical concepts such as reputation and legitimacy, but must also be useful in empirical research by helping to develop theory-driven research agendas. Second, we use our status-identity framework to systematically review existing research on status in markets. Rather than reviewing all market status research, we use our framework to identify the most important theory-driven research questions, and then provide a selective review of how these questions have been addressed in empirical research. Third, having used the status-identity framework to identify important research questions and to evaluate how existing research addresses these questions, we then identify and discuss more systematically the most important areas for future research.

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status, markets, market identity, reputation

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4 *The importance of status in markets: A market identity perspective*

MICHAEL JENSEN, BO KYUNG KIM, AND HEEYON KIM

The importance of status in markets is well established. Since Podolny (1993) introduced his status-based model of market competition, more than 160 articles published in top management and sociology journals have explored this area. These articles show that market status affects a broad range of outcomes, including the perceived quality and legitimacy of organizations, the costs of producing a given level of quality, the prices that organizations can charge for specific products, their attractiveness as exchange partners, and their ability to exercise agency. Despite the widespread agreement that status plays an important role in markets, there is less agreement about how to define status. Status has traditionally been defined as a position in a social system that can be ranked among other positions based on relative prestige or social esteem (Weber, 1968; Linton, 1936; Merton, 1957). Following Podolny (1993), however, status has more recently been redefined simply as a signal of quality, thus removing status from its traditional anchoring in the social system. We argue that defining status as a signal of quality unnecessarily limits the explanatory power of status and confuses status with other signals of quality, most notably reputation. We develop instead a framework for studying status in markets that integrates work on status as social positions (Linton, 1936; Merton, 1957) and work on identity as social categories (Hannan, Pólos, and Carroll, 2007), thus providing a more comprehensive perspective on status in markets.

We seek to accomplish three specific objectives in this chapter. First, we develop a new conceptual framework that integrates theoretical research on status and identity to clarify what we understand by status in markets. Our status–identity framework builds on the definition of status as a position in a social system. However, we add that these positions entail identities that reside in the intersections of the horizontally and vertically differentiated social categories that define the social system. Our status–identity framework builds extensively on the existing research on status and identity because we seek to provide conceptual clarity to existing and future research on status and identity rather than distancing ourselves from that research. We emphasize that our framework must not only help distinguish status from other related theoretical concepts such as reputation and legitimacy, but must also be useful in empirical research by helping to develop theory-driven research agendas. Second, we use our status–identity framework to systematically review existing research on status in markets. Rather than reviewing all market status research, we use our framework to identify the most important theory-driven research questions, and then provide a selective review of how these questions have been addressed in empirical research. Third, having used the status–identity framework to identify important research questions and to evaluate how existing research addresses these questions, we then identify and discuss more systematically the most important areas for future research.

Before developing our status–identity framework, it is useful to briefly explain our philosophical and methodological approach. Philosophically, we view status simply as a theoretical construct and are therefore concerned less with the ontology of status and more with the epistemology of status. The epistemological value of status as a theoretical construct and therefore the value of our status–identity framework depends mainly on the specific insights obtained through its use in specific empirical research projects. Methodologically, we focus primarily on empirical research published in the *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *American Journal of Sociology*, *American Sociological Review*, *Management Science*, *Organization Science*, and *Strategic Management Journal* from 1993 to 2008. We focus on these journals and the period from 1993 onward because the vast majority of research on market status appeared in these journals and because the interest in status before Podolny (1993) introduced his status-based model of market competition was more sporadic. We also limit our review to macro-research focusing on markets and organizations, and do not consider micro-research that focuses on individuals and small groups, an area covered by other chapters in this volume.

The status–identity framework

Our survey of status in markets research revealed that fifteen of the thirty-nine articles that provide an explicit definition of status define it simply as a signal of quality. Therefore, we begin by discussing the theoretical foundations for research that defines status as a market signal and show how it sets the stage for equating status and reputation. We then revisit early sociological work on status as positions in social systems and more recent work on identity as social categories to develop the theoretical foundation for our status–identity framework.

Status and signaling

Podolny (1993, p. 830) defined status as the perceived quality of an organization in relation to the perceived quality of other competing organizations and he noted that it is critical to view status as a signal of underlying product quality. Following Spence (1974), status can function as a signal of quality for two reasons: First, the status of an organization is partly decided by its previous actions, which means that an organization can exercise at least some control over its status. Second, the difficulty of acquiring high status is inversely related to the ability of organizations to actually deliver the corresponding product quality. Defining status as a signal of quality is not necessarily inconsistent with defining status as a position in a social system, but viewing status *only* as a signal of quality results in a narrower conceptualization of status. By viewing it in this way, status is ultimately dislocated from social structure, and turned into a resource that some organizations possess independently of other organizations. The conceptualization of status as a signal of quality dominates not only Podolny's own subsequent work on status, especially his early work (including Podolny, 1994, and Podolny and Stuart 1995), but also the work of other scholars including Baker, Faulkner, and Fisher (1998), Chung, Singh, and Lee (2000), Haas and Hansen (2007), and Chen, Hambrick, and Pollock (2008). Our main concern with defining status as a signal of quality is not that status does not function as a signal of quality – typically it does – but that it is not always a signal of quality and that it is often more than a signal of quality.

Status and reputation

By viewing status as a signal of quality, Podolny (1993) provided the theoretical foundation for equating status with reputation in subsequent research, including Stuart (2000), Geletkanycz, Boyd, and Finkelstein (2001), Gulati and Higgins (2003), Rao, Monin, and Durand (2003), and Rhee and Haunschild (2006). Equating status and reputation does not necessarily question the empirical results of these studies because both status and reputation function as signals of quality. However, status is not the same as reputation. Most economists define reputation as a prediction about future behavior that is derived from the history of previously observed actions (Wilson, 1985, pp. 27–28), thus emphasizing the importance of reputation as a market signal. Even if both status and reputation function as signals of quality, it is important to distinguish theoretically between status and reputation, a point we are not the first to make. Washington and Zajac (2005, p. 284) suggested that reputation refers to a summary categorization of historical differences in quality among actors, whereas status refers to a socially constructed ordering or ranking of actors in a social system. More uniquely, they emphasized that reputation captures differences in quality that generate earned, performance-based rewards but that status captures differences in social rank that generate unearned, non-performance-based privilege.

Jensen and Roy (2008) also agreed that it is important to distinguish between status and reputation. They defined status as the prestige accorded to organizations because of their positions in the social structure and reputation as the prestige accorded to organizations because of how they have carried out particular activities in the past. Jensen and Roy did not restrict status to the unearned ascription of social rank, however, but allowed, as did Weber (1968), privilege-granting status positions to be earned (achieved status) or unearned (ascribed status). They emphasized instead that status is an actor–level concept, whereas reputation is an attribute–level concept – a social actor occupies only one status in *a* social system (but can occupy different statuses in different social systems), which gives the actor one status with the *same* audience, whereas an actor may simultaneously have a positive reputation and a negative reputation on different attributes with the *same* audience. Although Jensen and Roy (2008) did not define status and reputation as signals of quality, their distinction between status and reputation also affects how they *function* as signals of quality – status provides an assessment of the quality of the organization as a whole, whereas reputation provides an assessment of the quality of individual organizational attributes. Finally, even if Podolny (1993) first provided the impetus for defining status as a market signal and using status and reputation interchangeably, he later noted that status is best defined as a position in a social system that determines opportunities and constraints, and that reputation is best defined as an expectation of some behaviors based on past demonstrations of these same behaviors (Podolny, 2005).

Status and identity

We agree with Washington and Zajac (2005), Jensen and Roy (2008), and Podolny (2005) that it is important to distinguish between status and reputation and that status is best defined as a position in a social system. However, we add that it is useful to refine the definition of status as a position in a social system in two ways. First, following Linton (1936) and Merton (1957), we distinguish between social status and social roles, and argue that both concepts reflect commonly shared cognitive categories. Linton (1936, p. 113) defined social status as a position in a social system that encompasses a collection of rights and duties, and social roles as the enactment of a status that puts rights and duties into effect. Linton (1936, p. 114) continued by stating that status and roles together represent "the minimum of attitudes and behavior" that individuals must assume to participate in a given social system. Or, as expressed by Merton (1957, p. 110), status and roles serve to connect "culturally defined expectations" with the patterned conducts and relationships that define social systems. We argue that the minimal attitudes and behaviors or cultural expectations identified by Linton (1936) and Merton (1957) form the core elements of market identities. The two dominant market identities in French gastronomy, classical and nouvelle cuisines, for example, represent different positions in that they embody different expectations about cooking methods, typical ingredients, chef roles, and menu organization (Rao, Monin, and Durand, 2005).

The market identity of an organization is its membership in a social category that is used to identify a social actor and specify what to expect from the social actor (Jensen and Kim, 2009). The minimal attitudes and behaviors and culturally defined expectations identified by Linton (1936) and Merton (1957) correspond to the social codes or schema defaults that Hannan, Pólos, and Carroll (2007, p. 102) argued constitute the core elements of identities. Market identities serve an important function as interfaces between organizations and their audiences. They prescribe the minimal expectations to claimants of a particular identity and they allow the audiences to compare and evaluate different claimants of a particular identity (Zuckerman, 1999). Just as Linton (1936) argued that some minimal attitudes and behaviors must be assumed to participate in a social system, Hannan, Pólos, and Carroll (2007) argued that violations of the social codes that define identity bring about sanctions. The stock-market illegitimacy discount experienced by diversified organizations whose complex business portfolios did not conform to the focused industry categories used by security analysts illustrates the sanctions that can follow violating identity codes (Zuckerman, 1999). The identity expectations associated with a status–role complement are therefore ultimately what circumscribe the actions of the occupants of a status position. This conclusion is, interestingly, not foreign to Podolny (1993, pp. 846–847), who viewed identity as a position in the status order and argued that actors with an advantageous identity avoid actions that threaten their identity. Nor is it foreign to early sociology: Hughes (1937, p. 404) noted, for example, that "status assigns individuals to various social categories; each category has its own rights and duties."

Second, following Sorokin (1959) and Jensen (2010), we argue that positions within a social system are usefully defined along a horizontal and a vertical dimension. The horizontal dimension divides the social system into different categories based on different properties and attributes, while the vertical dimension divides the social system into different categories based on a shared ranking of the members of a particular horizontal category. The horizontal dimension of the social system, for example, refers to an array of product categories and the vertical dimension refers to a ranking (whether based on size, quality, exchange partners, or something else) of the organizations within a

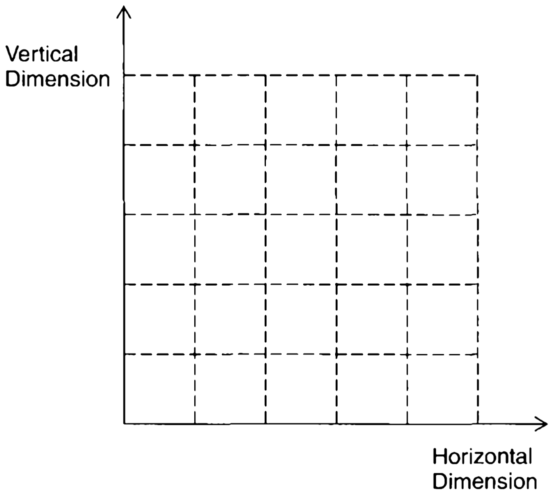

Figure 4.1 Status–identity framework

particular product category. When Linton (1936) and Merton (1957) defined status as positions in a social system, they referred mainly to the horizontal dimension, as evidenced by their examples of statuses such as male, physician, and professor. It is important to distinguish between horizontal and vertical dimensions, however, because the differences within a horizontal category may be as important or even more important than the differences between horizontal categories. The prestige granted to professors, for example, probably varies as much within an academic discipline (vertical) as does the prestige of different academic disciplines (horizontal). In summary, when we define status as a position in a social system, we therefore refer to a particular horizontal and vertical intersection, and when we define market identity as a social category, we refer to the schema that codifies the expectations to that particular intersection.

Figure 4.1 illustrates our status–identity framework. The horizontal axis arrays the social actors based on similarity in attributes and the vertical axis arrays the social actors based on similarity in rank, with the intersection defining a status market and its corresponding identity. A bank may, as shown in Figure 4.2, be categorized horizontally as an investment bank based on its business portfolio and vertically as highly ranked based on its market share or client portfolio, which together gives the bank its status market and identity as

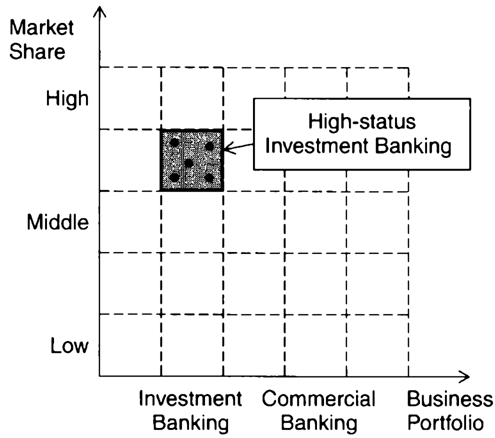

Figure 4.2 Market space of the banking industry

a "high-status investment bank." In other words, our status–identity framework suggests that the horizontal and vertical dimensions in isolation simply represent categories of similar organizations, but that their intersections represent a status position and its corresponding market identity. The minimal attitudes and cultural expectations (Linton, 1936; Merton, 1957) or social codes and schema defaults (Hannan, Pólos, and Carroll, 2007) are only fully specified in the intersections. Although most current research on status in markets focuses only on the vertical status differences between organizations within a horizontal category, we seek to clarify the relationship between status as positions and identity as categories by emphasizing *both* the horizontal *and* the vertical dimensions. Having outlined our status–identity framework, we next use it to review prior status research and identify promising new research areas.

Market status research

Regardless of the specific empirical context, our status–identity framework raises three different types of research questions. The first type of question focuses simply on the advantages and disadvantages of memberships in specific horizontal and vertical categories within the market space. The second type of question takes the horizontal and vertical categories for granted but allows mobility within the current configuration of categories. The third type of question treats the horizontal and vertical categories as endogenous structures and focuses on the creation and destruction of the horizontal and vertical categories themselves.

Market spaces without organizational mobility

The first type of research question takes the current configuration of horizontal and vertical categories as well as the positions organizations occupy within the market space for granted. With the configuration of the market space and the position of organizations within the market space fixed, the main focus becomes how the positions organizations occupy affect their behavior and performance. Although organizations differ in both the horizontal and the vertical positions they occupy, the common identification of status with vertical positions leads us to focus mainly on the advantages and disadvantages of vertical positions. The advantages and disadvantages of horizontal positions are the main focus in industrial organization (Caves, 1980; Porter, 1979), but this research is beyond the scope of our chapter.

Advantages of vertical positions

Based on our review of status research in markets, we found that most research focuses on how vertical positions affect quality, grant agency, and provide legitimacy.

Quality. Vertical positions affect perceived quality in two different ways. First, by functioning as signals of quality, vertical positions affect the perceived value of organizations, which ultimately increases their revenue streams and attractiveness as exchange partners. When the quality of the products is unobservable or otherwise difficult to determine *a priori*, customers depend instead on the observable status of the organizations behind the products to infer the actual quality of the products (Podolny, 1994). The products of organizations in higher vertical positions are therefore perceived to be higher quality and less risky than those of organizations in lower positions, which allow them to charge a premium for their products and to attract potential exchange partners. Several studies have tested different versions of this argument, including Podolny (1994), Eisenhardt and Schoonhoven (1996), Podolny, Stuart, and Hannan (1996), Stuart (2000), Gulati and Higgins (2003), Hoetker, Swaminathan, and

Mitchell (2007), and Rosenkopf and Padula (2008). Benjamin and Podolny (1999), for example, showed that a high-status winery could charge a higher price for a bottle of wine than other organizations, even after controlling for the quality of the wine and the cost of the grapes. In addition, Baker, Faulkner, and Fisher (1998) argued that client organizations used the status of advertisement agencies as an indicator of quality and that they therefore assigned more value to relationships with high-status advertisement agencies, which lowered the risk of dissolving their relationships with these agencies.

Second, vertical positions also affect the cost at which organizations can produce a given level of quality. The aforementioned advantages of higher vertical positions and their at least partial transferability through exchange relationships make organizations in these positions attractive exchange partners and allow them to form exchange relationships at a lower cost than other organizations. Several studies have tested different versions of this argument, including Podolny (1993), Stuart, Hoang, and Hybels (1999), Sine, Shane, and Di Gregorio (2003), and Uzzi and Lancaster (2004). Podolny (1993) found that high-status investment banks could underwrite bonds at a lower cost than low-status banks because they generally had lower transaction costs. Stuart, Hoang, and Hybels (1999) similarly reported that endorsements by prominent institutions enabled privately held biotech organizations to go to IPO faster and to earn better IPO valuations than those without endorsements because the prominent endorsements helped increase the perceived quality of the biotech organizations. Uzzi and Lancaster (2004) showed that corporate clients also preferred transactions with high-status law organizations. They reasoned that although high-status law organizations initially charged higher prices than other law organizations, the overall costs of legal services provided by high-status organizations were lower than those provided by low-status organizations because of their higher quality.

Agency. Vertical positions affect not only quality but also provide a source of agency that allows some organizations to exercise more control over their surroundings and act more independently than other organizations. A few studies have tested different versions of this argument, including Stuart (1998), Phillips and Zuckerman (2001), and Guler (2007). Stuart (1998) argued that high-status organizations are in a position where they have superior bargaining power over low-status organizations, which enables them to secure favorable contract terms. Phillips and Zuckerman (2001) focused on the middle-status conformity argument and found that middle-status law organizations were the least likely to deviate by beginning to practice family law compared to low- and high-status law organizations. According to their argument, high-status organizations have a secure membership in the given category, so they experience less pressure to conform to the norms of the category and avoid practicing family law. Low-status organizations also have the freedom to defy because they are not perceived as legitimate players in the category and audiences in general do not care much about their behavior. Middle-status organizations, however, may lose the opportunity to move upward in the status hierarchy or may even risk losing their position as legitimate players by not conforming to the norms. Guler (2007) argued similarly that high-status organizations can act independently of social pressures and showed that high-status venture capitals were more likely to terminate their investments in less promising organizations.

Legitimacy. In addition to quality and agency, vertical positions also provide organizations with legitimacy or social acceptability. The diffusion of new practices reflects an important legitimacy concern. Status-based imitation provides a solution to the problem of whether or not to adopt new practices or abandon established practices to earn legitimacy through direct or indirect affiliations. Some studies have tested different versions of this argument, including Davis and Greve (1997), Haunschild and Miner (1997), Rao, Monin, and Durand (2003), and Sanders and Tuschke (2007). Davis and Greve (1997) emphasized the positive effect of the participation of high-status organizations in the diffusion of the poison pill, a then new controversial corporate governance practice. Participants also imitate high-status organizations in order to claim indirect affiliations, if there exists no direct association with high-status organizations which increases their perception of legitimacy and visibility. Haunschild and Miner (1997) argued that organizations adopted an organizational practice of hiring an investment bank to obtain advice on acquisitions in an attempt to raise their status level by imitating high-status organizations. Rao, Monin, and Durand (2003) focused on the effects of high-status chefs on the institutional change from classical cuisine to nouvelle cuisine in the French restaurant industry. They argued that the high-status positions of early defectors conferred legitimacy on the identity movement from classical cuisine to nouvelle cuisine, encouraging more chefs to abandon the rules of classical cuisine to embrace nouvelle cuisine.

Disadvantages of vertical positions

A vertical position can also limit agency and therefore organizational growth. Although organizations in higher vertical positions are able to produce a given quality at a lower cost and generate higher revenue streams, they cannot necessarily expand their market to that of organizations in lower vertical positions. Podolny (1993) argued that when high-status organizations start expanding into markets frequented by low-status organizations, they could lose the benefits that come with their higher vertical positions. The reason is status leakage (Podolny, 1994) – because status is transferred through affiliations, affiliating with low-status organizations could reduce the status of a high-status organization, thus threatening the organization's own vertical position. Podolny (1994) showed empirically that high-status investment banks did not totally dominate the primary securities market, despite the fact that they were able to issue a security of a given quality at a lower cost. These high-status investment banks were reluctant to enter the non-investment grade market which was generally populated with low-status investment banks. Gould (2002) approached the same phenomenon from a different angle and argued that the limit of the number of ties that high-status organizations can form circumscribe high-status organizations from entering into low-status markets. Because high-status organizations use most of their limited resources to form a relationship with other high-status organizations or categories, they lack resources to expand beyond their own high-status markets.

Vertical positions can also magnify negative consequences of failure, which is referred to as an inverse Matthew effect: the more you have, the more that can be taken away (Jensen, 2006). As mentioned above, high-status organizations have a secure membership in the given category and thus can deviate from the prevailing norms more easily (Phillips and Zuckerman, 2001). High-status organizations may be punished more severely, however, if they deviate from core aspects of their market identity (Hsu and Hannan, 2005). High-status organizations are more conspicuous in the eyes of their audiences and the audiences tend to have higher expectations of these organizations. As such, deviations from the core aspects of market identities are more easily noticed by the audiences and they may even regard these deviations as severe threats to the standing of the market identities, causing audiences to punish those deviated high-status organizations more severely (Jensen, 2006). Several studies have tested different versions of this argument, including Jensen (2006), Rhee and Haunschild (2006), and Durand, Rao, and Monin (2007). Jensen (2006) argued that Arthur Andersen, a high-status auditing firm, collapsed more dramatically after its association with accounting fraud following the collapse of Enron in 2001 because its clients valued it primarily for its uncompromised high-status position. Similarly, Durand, Rao, and Monin (2007) analyzed French haute cuisine restaurants to examine the inverse Matthew effect and found that the attempts of high-status restaurants to change social codes that defined the core aspects of the market identities tended to receive less positive evaluations from food critics.

Advantages and disadvantages of occupying multiple positions

In developing our status–identity framework, we focused on organizations that only occupy one position within the market space. However, some highly diversified organizations occupy more than one position within a horizontal category or across horizontal categories. Most research on status and identity concentrates on the disadvantages of occupying multiple positions. If organizations occupy more than one vertical position in the same horizontal category, status leakage suggests that they may lose some of the prestige accorded to the high-status position (Podolny, 1994). If organizations occupy more than one horizontal category, the multiple positions may attract a broader audience from different categories, but the fit of each position to the corresponding horizontal category expectation is worse than those of single-position organizations (Hsu, 2006; Hsu, Hannan, and Koçak, 2009). Therefore, in both cases, organizations experience negative consequences by occupying multiple positions. Moreover, multiple-position organizations may be understood less easily by their audiences who, in many cases, use one-category schema to recognize potential members of the category, which ultimately affects organizations negatively. For example, Zuckerman (1999) showed that security analysts tended not to cover diversified companies that spanned various industries

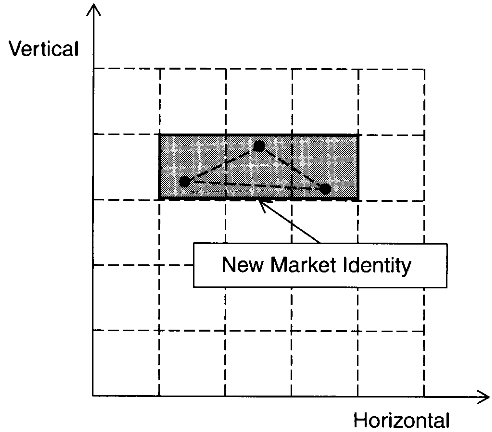

Figure 4.3 Multiple positions in the market space

which did not fit into the simple and traditional categories of securities analysts and caused the companies to experience the stock-market illegitimacy discount.

We suggest that occupying multiple positions need not always be disadvantageous if the organization can shift the audience's attention to a new category with different minimum attitudes and behaviors (Jensen, 2010), in other words, to a new market identity as presented in Figure 4.3. The conditions under which multiple positions affect organization positively are still relatively unexplored. A potentially important condition for successfully occupying multiple positions is that the multiple positions across different horizontal categories are within the same vertical status. When multiple horizontal positions are located within the same vertical status category, status leakage between the different positions is unlikely – all the business units are of approximately the same status. The US conglomerate GE provides an example. The business units of GE include financial service (GE Capital), technology (GE Technology Infrastructure), energy (GE Energy Infrastructure), and entertainment (NBC Universal). Although in different horizontal categories, GE's business units are all vertically ranked highly in their horizontal category. According to our framework, the company is not perceived as a high-status organization in any one industry, such as financial service or energy, or any combination of different industries, but as a high-status conglomerate with distinct attitudes and behaviors. There is little research on how spanning multiple positions can affect organizations positively and we suggest that future research on multiple-position organizations will help us develop a more nuanced understanding of our status-identity framework.

Future research on static market spaces without organizational mobility

In addition to the future research suggested above, there are other possibilities for future research on market status within the boundaries of static market spaces without organizational mobility. First, a closer examination of the origins of status has been proposed in several studies (D'Aveni, 1996; Chen, Hambrick, and Pollock, 2008). Chen, Hambrick, and Pollock (2008) pointed out that we still have a limited understanding of the initial forces that create the vertical status structure itself. D'Aveni (1996) also argued that more research on the inputs that create status can help us better understand how each organization initially comes to occupy a particular status position. Second, future research should examine questions related to the vertical distribution of organizations within a horizontal category. Some markets have a pyramid distribution with few high-status actors and many low-status actors, while other markets have actors distributed more evenly across vertical status levels. What are the factors that determine this distribution? What are the implications of different distributions or, in other words, how does the distribution of organizations within a horizontal category affect the advantages and disadvantages of occupying a certain position? Third, future studies should focus on providing a more nuanced understanding of how the perception of an organization is affected by its operations in other categories. While most research on organizations occupying multiple positions has been directed at organizations occupying multiple horizontal positions, future research should also examine organizations occupying multiple vertical positions.

Market spaces with organizational mobility

The second type of research question allows organizations to change positions within the market space but view the current configuration of horizontal and vertical categories as exogenously given. Organizational mobility can take two forms: organizations can move horizontally from one product category to another and vertically

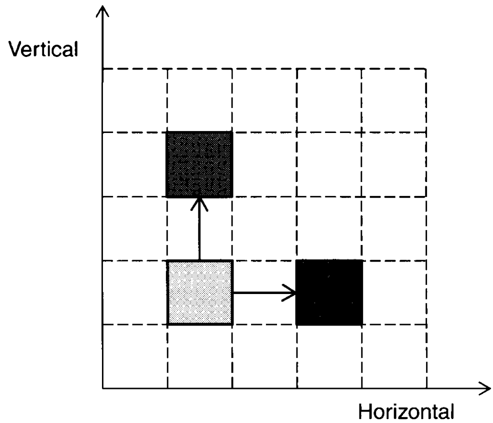

Figure 4.4 Vertical and horizontal mobility in the market space

from one status category to another, as shown in Figure 4.4. Again, given the common identification of a status position with a vertical position, we focus mainly on vertical mobility and examine only horizontal mobility to the extent that it relates to vertical position. Our review of market status research shows that there is considerably less research on vertical mobility within the market space than on the advantages and disadvantages of occupying particular vertical positions. This prioritization is not surprising given that the vertical distribution of organizations within the market space tends to be relatively stable over time, with more organizations staying in the same positions than moving from one position to another.

Vertical organizational mobility

An organization can move to a higher or a lower vertical position in two different ways. First, when organizations understand the dominant criterion for ranking organizations within a particular market space, they can make targeted investments to improve their ranking. For example, if product quality is an important criterion to rank organizations, organizations may decide to invest more resources in product quality both to improve actual quality and to maintain an already-established reputation for quality. Shapiro (1983) argued specifically that if an organization decides to enter the high-quality segment of a market in which product quality is difficult to observe, then it must initially invest in building a reputation for product quality by actually producing quality products. The minimum cultural expectations for entering a particular vertical position therefore represent not necessarily an insurmountable barrier to entry, but function more like an entry cost. However, the entry cost could be high, because the organizations that already occupy higher-ranked vertical positions have several distinct position-based competitive advantages. As discussed above, the organizations in higher-ranked vertical positions can make products at a given level of quality at a lower cost than organizations occupying lower-ranked positions (Podolny, 1993) and they earn a higher return on their investments in product quality (Benjamin and Podolny, 1999).

Second, regardless of direct investments to improve their rankings, organizations may also attempt to move to a higher vertical position by affiliating with organizations in the desired vertical positions. To highlight the difference between reputation and status, Podolny (1994) argued that status, unlike reputation, which derives only from past performance, also derives from the status of affiliations and exchange partners. Podolny and Phillips (1996) developed a model of status growth according to which organizational status grows not only through their direct investments in reputation, but also through forming affiliations with high-status organizations. Similarly, Higgins and Gulati (2003) argued that by affiliating with prominent organizations, the focal organization can increase its status over time. They showed that the organizations with a greater number of upper-echelon members with prominent affiliations were able to attract a high-status investment bank as their lead underwriter for their IPO. However, obtaining the opportunities to affiliate with organizations from higher vertical positions could be illusive, due to status homophily. The incentives for organizations in higher vertical positions to affiliate with organizations from lower vertical positions are not clear, given the potential threat that such affiliations pose to organizations in higher-status positions (Podolny, 1994). As Burris (2004) showed in his study of academic status hierarchies, status hierarchies are generally reproduced over time because organizations located in similar positions have a tendency to form relationships with each other.

An important assumption in research on vertical organizational mobility is that moving to a higher vertical position is always beneficial. Despite the disadvantages of higher vertical positions discussed above, it is reasonable to conclude that higher vertical positions generally are more advantageous than lower vertical positions. However, this does not imply that moving from a lower to a higher vertical position cannot in itself have important negative consequences (Jensen and Kim, 2010). When organizations move from a lower vertical position to a higher position, they may gain access to more resources and opportunities, but they also risk cognitive and social dislocation. Because moving to a higher vertical position implies adopting a different market identity, upward mobility could result in transgressing the minimal expectations of an unfamiliar market identity, which could result in severe sanctions from important audiences. Similarly, to the extent that homophily pressures make it difficult to continue affiliating with organizations from lower vertical positions, moving to a higher vertical position could force the organization to rebuild its affiliation network, which could result in replacing trusted partners with unknown partners. The negative consequences of vertical organizational mobility have largely been neglected in market status research. We suggest that an initial research agenda should focus on the extent to which the size and suddenness of vertical dislocation affect its negative consequences.

Horizontal organizational mobility

The vertical position an organization occupies may also affect horizontal organizational mobility. Focusing on commercial banks entering the investment banking industry, Jensen (2003) reported that organizations were more likely to use commercial banks from high vertical positions in commercial banking as lead managers in investment banking. He argued that vertical positions can be leveraged across horizontal categories because they reduce the quality uncertainty associated with new entrants. Podolny and Scott Morton (1999) also examined the advantages of high-status organizations when entering new horizontal categories. Their empirical analysis indicated that entrants from high vertical positions were more easily accepted into British shipping cartels because incumbents viewed their status in the previous markets as a signal of future cooperation. However, when entering a horizontal category from a high vertical position in another horizontal category, the entering organizations may also experience discrimination from the incumbent organizations because they pose a particularly strong challenge to those organizations. Jensen (2008) found that incumbent investment banking organizations were indeed reluctant to partner with entering commercial banks from high vertical positions, which is consistent with the incumbent investment banks fearing that these entering commercial banks could more easily change the industry logics in ways that would favor commercial banks.

Given the ambivalent effects of vertical positions on horizontal organizational mobility, it is important to clarify under what conditions vertical positions affect horizontal mobility positively. We suggest that two factors are at work when vertical positions are beneficial for new entrants. First, vertical positions have positive effects when the market logics of the targeted new market are similar to those of the market from which entrants come. In the British merchant shipping industry, high-status entrants could enjoy the benefits of their vertical positions because of the similarity between the markets. The incumbents could understand how entrants earned their vertical positions in other markets and, in turn, believe that these entrants would uphold the moral community of the industry because of the similarity between the markets (Podolny and Scott Morton, 1999). On the contrary, the market logics of the commercial and investment banking industries were different, so high-status commercial banks could not fully enjoy the benefits of high status in the new investment banking industry. Second, vertical positions are advantageous for horizontal mobility when it is difficult for potential exchange partners to evaluate product quality *ex ante*. Podolny (2001) argued that occupying high vertical positions is most valuable for organizations when it is difficult for their audiences to evaluate the quality of their products, which implies that organizations in high vertical positions are more likely to focus on markets in which audiences face more uncertainty.

Future research on market spaces with organizational mobility

Whether vertical mobility is primarily due to targeted investments or targeted affiliations, or whether vertical positions have a positive or negative effect on horizontal organizational mobility, future research must consider the extent to which basic characteristics of the market space itself affect mobility. We propose three future research questions that address how the market space with different characteristics could affect vertical and horizontal mobility. First, because the distribution of organizations across vertical positions varies from market to market, it is important to examine whether organizational mobility is more likely in market spaces with continuous vertical positions or in spaces with discontinuous vertical positions. Second, some categories have clear and unambiguous boundaries, whereas others have fuzzy boundaries. Future studies should examine how the characteristics of the boundaries around vertical and horizontal categories affect vertical and horizontal organizational mobility. Third, future research should approach the status–identity framework from a dynamic market perspective and ask whether vertical status or horizontal organizational mobility is more likely in new market spaces with emerging vertical positions or in old market spaces with established vertical positions.

Dynamic market spaces

The third type of research question moves away from viewing the horizontal and vertical categories as exogenously fixed categories. By allowing the horizontal and vertical categories to change, the focus shifts from the positions organizations occupy in a market space to the market space itself and the boundaries that separate the categories that define the market space. Hannan and Freeman (1989) noted that it is important to identify and explain the segregating and blending processes that institutionalize and deinstitutionalize the boundaries that make it possible to distinguish between different categories. Our status–identity framework suggests focusing on identifying and explaining the segregating and blending processes that result in the creation and destruction of both horizontal and vertical categories.

Creating categories

A growing stream of research focuses on the emergence of new horizontal product categories, whereas hardly any research focuses on the emergence of new vertical status categories. The main emphasis in research on horizontal category creation is to identify and explain the segregation processes that ensure the emergence of a new category. We identified two different approaches to the segregation processes that ensure horizontal category emergence.

The first approach focuses on how nascent categories are populated. The main argument here is ecological density dependence (Hannan and Freeman, 1989; Carroll and Hannan, 2000). As the density (i.e., the number) of organizations in a nascent category increases, the nascent category gains constitutive legitimacy and becomes taken for granted as a category. Adopting this approach, Ruef (2000) first identified a comprehensive array of populated and unpopulated horizontal or market identities in the healthcare industry. Next he showed that the likelihood that an unpopulated category becomes populated depended partly on the density of healthcare organizations in similar neighboring horizontal categories. McKendrick *et al.* (2003) argued that horizontal organizational forms emanate from the density of producers that have a "perceptually focused identity" because they mainly operate within that particular horizontal category. They then showed that the density of focused disk array producers increased the entry rate into and decreased the exit rate from the horizontal disk array category, thus ensuring that the category was being populated. And Kennedy (2008) argued that the patterns of associations among market entrants found in the public discourse about the market provide an important basis for studying market formation. He found that another way to legitimate a new market is to enable a census of its entrants, which transforms the horizontal category into something that seems real to other market participants.

The second approach shifts the focus from how nascent categories are being populated to how the nascent categories emerged in the first place. Compared to the population of a category, there is less research on the actual emergence of categories. McKendrick and Carroll (2001) examined the creation of a market for disk arrays in order to understand when and where new organizational forms emerge. By tracing the early history of the disk array market, they concluded that the emerging category for disk array producers ultimately failed to cohere into a mature category because most disk array producers derived their primary market identities from other activities. Jensen (2010) examined the creation of a market for sex-comedy movies in 1970s Denmark to understand how market identities are used to legitimate new normatively illegitimate or socially unacceptable products. He traced how filmmakers created a new horizontal film genre by combining elements from pornography and comedy selectively in film posters to carve a new unique horizontal position for sex-comedies. Jensen also showed that the vertical positions actors occupied helped to ensure that film audiences actually viewed the new horizontal category as a normatively legitimate category. Middle-status actors were frequently used because they both provided legitimacy to the sex-comedies, unlike the low-status actors in illegitimate pornography, and had lower opportunity costs, unlike high-status actors.

Carroll and Swaminathan (2000) examined the emergence of the microbrewery category in the US brewing industry. They focused on the creation of a new market identity for the specialty beer segment that excluded major brewers from entering the specialty segment by emphasizing tradition and authenticity rooted in small organizations using craft brewing methods and natural ingredients. The microbrewery category raises an important question: is the microbrewery category a horizontal (product) category or a vertical (status) category? The microbrewery category is a new horizontal product category that encompasses different product characteristics including natural ingredients and traditional brewing methods, but it could also be viewed as a new vertical status category that positions microbreweries and specialty beers above the major breweries and mass-market beers. We view the microbrewery market identity as a combination: a new horizontal product category in which the distribution of members is skewed toward higher vertical positions. Even when the major breweries meet the quality standards set by microbreweries, many consumers are unwilling to accept them as members of the microbrewery category because they derive their core market identity from a product category with a lower vertical status distribution. It may therefore be easier for organizations from more distant product categories but with a higher vertical status distribution, such as wineries and restaurants, to enter the microbrewery category without concealing their core market identity.

Combining and splitting categories

Besides the creation of new horizontal or vertical categories, it is also important to examine how existing categories combine and split. Whereas research on the creation of new categories focuses mainly on the segregating processes that erect and protect the boundaries around new categories, research on combining and splitting categories focuses on the blending processes that erode existing category boundaries. Rao, Monin, and Durand (2003) examined first how nouvelle cuisine split off from classical cuisine as part of the broader 1960s anti-authoritarian social movements that also transformed other French cultural institutions including literature, theater, and film. They argued that activist chefs both exploited the foundations of classical cuisine, including its emphasis on simplicity, and celebrated their differences with its dominant orthodoxy, including the lack of autonomy for chefs in splitting off nouvelle from classical cuisine. Next Rao, Monin, and Durand (2005) examined how the categorical boundaries of classical and nouvelle cuisines weakened as the borrowing of elements from the rival category diffused broadly and resulted in the hybridization of the two cuisines. Although the authors (2005) focused on borrowing as a blending process that weakens the boundary between horizontal product categories, they also reported that the diffusion of borrowing was triggered by chefs in high vertical positions, which emphasizes that horizontal categories and vertical categories interact to shape market spaces.

Kim and Jensen (2010) adopted a different approach. Rather than focusing on actually changing the horizontal product categories, they argued that horizontal product categories are constitutive parts of market identity taxonomies, and focused on how the taxonomic level at which organizations are identified affects their perceived market identity. They argued specifically that even if individual product categories remain exogenously fixed, an organization can still influence the taxonomic level at which it is identified by its audiences. Toyota, for example, can emphasize that it belongs to the subcategory "Japanese auto manufacturer" in some situations and the basic category "auto manufacturer" in other situations. Market identity taxonomies thus provide organizations with a source of agency that enables them to shape their perceived appeal depending on the specific situation and the specific audience with whom they interact. Or, to use the distinction between segregating and blending processes, market identity taxonomies are *both* segregating *and* blending mechanisms: they allow organizations to split categories by moving from categories to subcategories and they allow organizations to combine categories by moving from subcategories to categories. Simple moves between category levels can in themselves affect the market appeal of an organization: Kim and Jensen (2010) showed that opera companies that interspersed modern operas in their repertoires to avoid the emergence of a negative subcategory sold more season tickets even if the operas in the repertoire remained the same.

Future research on dynamic market spaces

There are still many areas to be explored in the domain of dynamic market spaces. First, relating back to the disadvantages of occupying a highly ranked vertical position, future research can focus on what constrained high-status organizations from creating or redefining categories. Durand, Rao, and Monin (2007), for example, suggested a further examination of how broader cultural factors such as social movements can restrict high-status organizations from taking advantage of new technologies. Rao (2009) provided a partial answer to the question by showing that the anti-biotechnology movement in Germany prevented high-status organizations from commercializing new technology due to their high visibility, while low-status organizations remained largely unaffected. Building on this study, future research can provide more evidence regarding the liabilities of high-status positions in creating new categories or changing their identities. Second, while some studies examine the creation of new horizontal categories, few studies focus on the creation of new vertical categories within a horizontal category. Organizations can, however, vertically expand a category, for example, by creating high-end products. Third, future research can explore how different vertical positions affect the creation of new categories and how organizations of different vertical positions respond differently to the newly created categories. Which organizations will be the first to create new categories, for example, and which organizations will be the first to move into a new category?

Conclusion

In this chapter, we have developed a new status–identity framework by integrating work on status as positions in social systems and market identity as membership in social categories. According to this framework, status refers to a position in a social system or intersection of horizontally and vertically arrayed social categories, and market identity refers to the schema that codifies the minimal expectations of that particular intersection. We used the status–identity framework to systematically review status research in markets and, more importantly, to identify promising areas for future research. Most research focuses on the advantages and, to a lesser extent, the disadvantages of occupying a particular vertical position, and emphasizes how they affect quality perceptions and production, organizational agency, and legitimacy. Some research focuses on vertical and horizontal mobility in the market space, most of which emphasizes the difficulties of moving to higher vertical positions or how a vertical position produces the opportunity for horizontal mobility by leveraging status from one horizontal category to another. The least researched area focuses on the creation and destruction of the horizontal and vertical categories themselves, in particular, as this area of research relates to the actual creation of categories rather than the density-dependent legitimization of nascent categories. Finally, we identified specific new research opportunities in all the three main research areas identified by our status–identity framework, including the consequences of occupying multiple positions in the market space, the extent to which the fuzziness of category boundaries affect organizational mobility, and how new vertical positions emerge.

Although we believe that our status–identity framework both provides conceptual clarity to status research and a systematic approach to identifying future research opportunities, it is also clear that the status–identity framework has its own limitations that require further conceptual development. First, the status–identity framework represents a single social system with a *single* audience that agrees on a single ranking of products and organizations. However, organizations sometimes participate in multiple markets for the same product and therefore have *multiple* audiences that may rank the *same* products and organizations differently. GM's Buick is considered one of the high-status automobiles among Chinese consumers, for example, whereas American consumers do not rate Buick automobiles so highly. We are less concerned with situations in which the different audiences are clearly separated, such as American and Chinese consumers, because these situations simply call for applying the framework separately to each of the audience groups. It is more problematic when different audiences are not clearly separated, which could happen when mobility across cultural boundaries allows different audiences to merge, if non-separation allows different rankings to coexist permanently. However, we find the permanent coexistence of radically different rankings unlikely, because interactions among the audiences will eventually lead to a convergence in rankings due to simple status arbitrage between audiences with different rankings (or the abandonment of rankings that are perceived to be less valid).

Second, the status–identity framework represents a market space at a particular horizontal and vertical category level, but most categories are parts of a broader nested category system that are not easily represented in the basic framework. As mentioned before, Toyota is a member of a number of different nested categories including "manufacturer," "auto manufacturer," and "Japanese auto manufacturer," and Toyota may emphasize its membership in each of these nested horizontal categories in different situations. Moving between category levels changes the market space and the included audience groups, and therefore calls for applying the framework at each category level. As with the case of multiple markets with different audience groups, if we want to examine any relationships across different category levels, we need to take into consideration the different audiences associated with each category level. Third, we assumed in our framework that all actors can be mapped unambiguously onto a particular position. However, some category boundaries can be relatively unclear or fuzzy, making it difficult to map the status positions onto the given framework. In the case of newly established categories such as sex-comedies or microbreweries, for example, it may be difficult to position a particular organization as high status, middle status or low status on the vertical dimension. In addition, the boundaries between the horizontal categories themselves may not always be clear. The framework may therefore be more directly applicable to established market spaces than to emerging market spaces.

We have developed and used the status–identity framework in the context of markets and organizations, but we believe that it can be generalized to other contexts. We have already discussed how the status–identity framework can accommodate different markets at the same level of analysis, such as the American and Chinese auto markets, and how it can accommodate different markets at different levels of analysis, such as "auto manufacturers" and "Japanese auto manufacturers." The abstract nature of the status–identity framework allows it to be used in market as well as non-market contexts and to focus on organizations as well as individuals, groups, and other social actors. When moving from one context to another, the horizontal and vertical categories obviously change but the fundamental insight remains the same: a status is an intersection of horizontally and vertically arrayed social categories, and status is important because it provides an identity that facilitates and constrains the actions of the social actors in that particular intersection. Regardless of its flexibility and generalizability, the ultimate value of our status–identity framework is determined mainly by the actual insights it provides by being used in specific empirical research projects.

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