



The Effects of Firm Reputation and Status on Interorganizational Network Structure

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Abstract:	In this paper, we explore the differential effects of a firm’s reputation and status on its interorganizational network. We hypothesize that, due to its stable, unitary, and relational characteristics, status has a stronger influence on partner selection than reputation, which is less stable, multidimensional, and based more on perceptions of product quality and financial performance. Results from our analyses of the director networks of the 300 largest U.S. firms from 1985 to 1993 confirm that, across multiple measures of network characteristics, it is status that is the stronger predictor. In particular, high status firms, more than high reputation firms, have networks that are higher quality, less diverse, but more efficient. These results contribute to our understanding of the different effects of reputation and status on firm behavior by emphasizing the importance of studying both together in order to understand the effects of either. They also contribute to work on interorganizational networks by demonstrating how structure emerges primarily as a function of focal firm status.

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THE EFFECTS OF FIRM REPUTATION AND STATUS ON INTERORGANIZATIONAL NETWORK STRUCTURE

ABSTRACT

In this paper, we explore the differential effects of a firm's reputation and status on its interorganizational network. We hypothesize that, due to its stable, unitary, and relational characteristics, status has a stronger influence on partner selection than reputation, which is less stable, multidimensional, and based more on perceptions of product quality and financial performance. Results from our analyses of the director networks of the 300 largest U.S. firms from 1985 to 1993 confirm that, across multiple measures of network characteristics, it is status that is the stronger predictor. In particular, high status firms, more than high reputation firms, have networks that are higher quality, less diverse, but more efficient. These results contribute to our understanding of the different effects of reputation and status on firm behavior by emphasizing the importance of studying both together in order to understand the effects of either. They also contribute to work on interorganizational networks by demonstrating how structure emerges primarily as a function of focal firm status.

Keywords: Reputation, status, interorganizational networks, director interlocks

Reputation, Status, and Interorganizational Networks

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3 The tension between economic and sociological drivers of firm action is reflected in
4
5 the research on reputation and status. While reputation is a multi-dimensional construct that is
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7 more commonly associated with dynamic expectations of future economic performance based
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9 on changing perceptions of prior quality, status is a unitary construct that is more stable and
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11 linked to position or rank within the social structure (Jensen & Roy, 2008; Podolny, 2005;
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13 Washington & Zajac, 2005). Due to these different foundations, both constructs have been
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15 associated with important firm outcomes. Reputation, for example, has been shown to deliver
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17 higher sales (Shapiro, 1983), easier access to capital (Stuart, Hoang, & Hybels, 1999), and
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19 greater survival rates (Rao, 1994), while status brings increased opportunities (Washington &
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21 Zajac, 2005), greater product quality and valuation (Benjamin & Podolny, 1999), and lower
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23 levels of uncertainty (Podolny, 1994). While the literatures on reputation and status are
24
25 sizeable, however, studies that embrace both reputation and status are rare (cf. Dimov,
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27 Shepherd, & Sutcliffe, 2007; Jensen & Roy, 2008). As a result, while we know that
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29 reputation and status are important drivers of firm behavior, we know little about their
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31 differential effects in direct comparison to each other.
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36 An area of the management literature that speaks directly to understanding both
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38 economic and sociological drivers of firm action is the study of networks. Networks are
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40 important to firms because interorganizational ties both enable and constrain economic
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42 activity. Such ties are valuable because they act as conduits for information and trust
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44 (Granovetter, 2005), brokerage (Burt, 1992), and other valuable resources (Pfeffer &
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46 Salancik, 1978), but can also limit the range of action due to the embedded networks that
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48 form around firms (Uzzi, 1996). A particular area of interest is interlocking directorships,
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50 which have been identified as an important tie between firms along which ideas and practices
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52 diffuse (Davis, 1991; Haunschild, 1993; Pennings, 1980; Strang & Sine, 2002).
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3 In spite of the large body of work that has grown around understanding the
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5 consequences of networks in general and interlocking directorships in particular, we know
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7 much less about the antecedents of these kind of interfirm ties and, at the intersection of these
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9 three broad literatures, how a firm's reputation and status may enable or constrain the firm in
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11 its partner selection. One notable exception to this is the important work by Jensen and Roy
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13 (2008) who demonstrate empirical support for a staged model of firm behavior in which firms
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15 form resource exchange partnerships with other firms by, first, using status to identify the
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17 band of firms with whom they wish to partner and, second, using reputation to make a more
18
19 fine-grained selection. As indicated by the relative lack of work encompassing reputation,
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21 status, and network theory, however, this research stream is in the early stages of
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23 development and, to our knowledge, has not addressed interlocking director networks. As
24
25 such, there is still much to learn about when reputation matters, when status matters, and
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27 when they both matter in terms of a firm's ties to other firms.
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32 Theoretically, it is intuitive that reputation and status have different effects on
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34 network structure due to their fundamental differences. Previously, these differences have
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36 been difficult to capture empirically (Washington & Zajac, 2005), although welcome recent
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38 progress has been made in this respect (Dimov et al., 2007; Jensen & Roy, 2008). In this
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40 paper, we build on this emerging body of research and contribute to theory by exploring how
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42 a firm's reputation and status differentially influence the characteristics of its network
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44 partners and resulting network structure. In particular, we seek to determine the effects of
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46 reputation and status on partner selection in the context of the important ties formed among
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48 firms via their boards of directors. We contend that, due to its more stable, unitary, and
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50 relational characteristics, status has a stronger influence on partner selection than reputation,
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52 which is more dynamic, multidimensional, and based more on perceptions of product quality
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54 and financial performance (Jensen & Roy, 2008; Podolny, 2005; Washington & Zajac, 2005).
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Reputation, Status, and Interorganizational Networks

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3 As a result, we predict that high status firms (more than high reputation firms) will have
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5 networks that are characterized by higher quality, lower diversity, but greater efficiency.
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7 If true, we anticipate this study making the following contributions to research on
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9 reputation, status, and interfirm networks. Our primary contribution is to the literature
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11 working to tease apart the effects of reputation and status. By demonstrating a stronger
12
13 relationship between status and network structure, we are helping to understand the
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15 differential effects of status and reputation on firm behavior (in this case, network partner
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17 selection). This is particularly valuable because studies at the intersection of the reputation,
18
19 status, and network literatures are rare (cf. Jensen & Roy, 2008), and because much prior
20
21 work has focused on market, rather than behavioral, implications of status and reputation
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23 (Podolny, 1993, 2005; Rindova, Williamson, Petkova, & Sever, 2005; Shapiro, 1983).
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27 Second, we contribute to the organizational network literature by theorizing the
28
29 effects of two independent determinants of partner characteristics and network structure—the
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31 status and reputation of the focal firm. While we understand the consequences of network ties
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33 for a firm's status (e.g., Podolny & Phillips, 1996; Stuart et al., 1999) and its reputation (e.g.,
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35 Raub & Weesie, 1990), the reverse relationships (status or reputation as antecedents of
36
37 network ties) are rarely tested (cf. Zaheer & Soda, 2009) and, as noted above, are even more
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39 rarely studied in combination (cf. Jensen & Roy, 2008).
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43 These contributions emerge from our analysis of a longitudinal dataset of the
44
45 interlocking director network ties of the largest 300 firms in the U.S.
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REPUTATION AND STATUS

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49 Although related and often confounded, reputation and status are now considered
50
51 independent constructs (Washington & Zajac, 2005). While reputation is defined more in
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53 terms of economic performance—a signal of observable quality (dynamic and continuous);
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55 status draws on a sociological foundation and is defined more as an actor's position within
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2
3 the social structure—a signal of less observable quality (stable and categorical) (Dimov et al.,
4
5 2007; Jensen & Roy, 2008). High levels of status and good reputation carry many important
6
7 benefits for firms and their effects have been well-studied.
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10 The literature on reputation is extensive (for a comprehensive review of recent work,
11
12 see Lange, Lee, & Dai, 2010). In short, reputation is a multi-dimensional construct (Fombrun
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14 & Shanley, 1990; Rindova et al., 2005) that largely revolves around a firm “being known for
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16 something” (Lange et al., 2010: 156). The idea of reputation as “perceived quality” (Rindova
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18 et al., 2005: 1035) refers to the firm’s ability to create value on a consistent basis in a way
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20 that is evaluated positively by stakeholders. This external perception, based on past economic
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22 performance and product quality, acts as a proxy for full information about the firm’s
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24 operations that informs stakeholder expectations regarding future performance (Shapiro,
25
26 1983). As such, reputation is considered an asset and an important component of a firm’s
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28 strategic competitive advantage (Fombrun, 1996).
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32 Organizational status, in contrast, is based largely on sociological concepts of markets
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34 (for recent reviews, see: Bitektine, 2011; Jensen, Kim, & Kim, 2010; Podolny, 2005); it is
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36 generally thought of in network terms and is allocated to firms according to their location in
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38 the social structure (Podolny, 1993). As such, status can be observed from firm affiliations
39
40 with prominent network partners. Such ties are particularly valuable in the absence of other
41
42 sources of information as stakeholders infer specific qualities about the focal firm due to their
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44 connections to high status others (Podolny, 1994, 2001; Stuart et al., 1999).
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48 In spite of the important work that has been done in identifying the antecedents and
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50 consequences of reputation and status independently, much less work has attempted to test
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52 the differential effects of these two constructs within the same study. On the contrary, with a
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54 few notable exceptions (Dimov et al., 2007; Jensen & Roy, 2008; Washington & Zajac,
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56 2005), researchers are more likely to treat reputation and status as interchangeable constructs
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Reputation, Status, and Interorganizational Networks

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3 (Porac, Ventresca, & Mishina, 2002; Rindova, Pollock, & Hayward, 2006; Rindova et al.,
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5 2005).¹ Scholars tend to study one or the other, but not both, “considering status at least a
6
7 strong correlate of reputation or a dimension that stabilizes reputation ordering” (Rhee &
8
9 Valdez, 2009: 153). Yet, there are fundamental differences between these two constructs that
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11 are likely to result in differential effects on firm behavior. As Washington and Zajac (2005:
12
13 283) note, “Studies of organizational status do not control for real or perceived differences in
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15 quality or merit, which in turn makes it impossible to determine whether one is capturing
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17 differences in social status or simply reputational differences based on an organization’s
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19 ability to generate higher versus lower product quality.” Without studying both constructs
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21 together, it is difficult to understand fully the underlying drivers of the measured outcomes
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23 and the relative importance of status and reputation as predictors of firm behavior.
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28 In terms of network structure, the status and reputation of a firm’s partners have
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30 independently been shown to be consequential—affecting outcomes in situations related to
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32 resource acquisition (Stuart et al., 1999) and alliance formation (Ebbers & Wijnberg, 2010).
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34 Some work has also been done on the effects to network structure following a negative
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36 change in focal firm reputation (Sullivan, Haunschild, & Page, 2007) and network structure
37
38 has been shown to be a vehicle by which reputation penalties are transferred among firms
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40 (Kang, 2008). In addition, recent work has begun to investigate drivers of firms’ willingness
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42 to enter into heterophilous status relationships (e.g., Castellucci & Ertug, 2010; Shipilov, Stan
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44 Xiao, & Greve, 2011). It is much rarer, however, for scholars to address the differential
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46 effects of both firm reputation and status in the context of interfirm networks (cf. Jensen &
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48 Roy, 2008). We seek to advance this important work by adding to our understanding of how a
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50 focal firm’s reputation and status influence tie formation and network structure.
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56 ¹ Some attribute Podolny’s (1993) characterization of status as an indicator of quality as the root cause of this
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58 confusion (Jensen et al., 2010: 89-90). Similarly, Podolny and Phillips (1996) define organizational status as a
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60 combination of both past performance and network affiliations.

SOCIAL NETWORKS AND INTERLOCKING DIRECTOR TIES

Social networks are important because they both enable and constrain action. Due to the prevalence of networks among firms, there has been a great deal of research devoted to documenting the consequences of various network structures and partner characteristics. In particular, network structure has been associated with important outcomes that include practice adoption (Palmer, Jennings, & Zhou, 1993), learning and innovation (Powell, Koput, & Smith-Doerr, 1996), and firm survival (Podolny, Stuart, & Hannan, 1996). While there has been much debate and work on the consequences of various types of network structures, however, there has been much less research on the causes of these structures, with a few exceptions (e.g., Gulati, 1995; Gulati & Gargiulo, 1999; Zaheer & Soda, 2009).

Where such research has been done, it has focused on firm motivations to network with certain types of partners in order to alleviate uncertainty (Beckman, Haunschild, & Phillips, 2004) as a result of performance feedback (Baum, Rowley, Shipilov, & You-Ta, 2005; Shipilov et al., 2011), or to provide learning opportunities (Kogut, 1988). We build on this work to understand why some firms have networks with particular structural characteristics. Specifically, we theorize why some firms have networks that are higher in quality, lower in diversity, but more efficient in terms of reach. Importantly, therefore, contrary to prior work that has looked independently at the effects of network structure on either reputation (Raub & Weesie, 1990) or status (Podolny & Phillips, 1996), we study the reverse relationships by looking at the simultaneous effects of both reputation and status on partner characteristics and network structure.

We develop and test our theory in the context of one particular network form—interlocking directorates, which are consequential for firms and central to prior research that has investigated interorganizational network ties (e.g., Davis, 1991; Haunschild, 1993; Pennings, 1980; Strang & Soule, 1998). We selected this form of network tie because it is

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3 particularly appropriate to the organizational-level, relation-based arguments on which we
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5 draw to motivate our hypotheses. One of the key roles of directors is to act in an information
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7 advisory capacity and directors are selected, in part, for their access to relevant experience
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9 and knowledge that is gained from working for organizations with which the focal firm
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11 wishes to partner (Haunschild & Beckman, 1998; Lorsch & MacIver, 1989: 27). While
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13 directors serve officially in an individual capacity, therefore, their value to the focal firm is
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15 drawn primarily from their organizational affiliation. As such, while recognizing that board
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17 interlocks bridge individual- and firm-level networks and that, in addition to
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19 interorganizational predictors, the formation of these ties can be driven by personal self-
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21 interest (Useem, 1984; Zajac, 1988) or social relations among firm leaders (Westphal, 1999;
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23 Zajac & Westphal, 1996), we argue that the primary motivation for an invitation issued by
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25 the focal firm to a specific director is to form a firm-to-firm tie, particularly in the case of the
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27 large, public firms that we study. Thus, while our theory extends to all network ties where
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29 information is sought from the partner organization, it is particularly appropriate in the
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31 director interlock context.
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36 In the following sections, we first theorize why firm status is likely to be a more
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38 important predictor of partner selection than reputation. We then hypothesize why it is that
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40 these specific characteristics, which give high status firms the opportunity to select from the
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42 widest range of potential partners, result in networks that are higher in quality, lower in
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44 diversity, but more efficient.
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47 NETWORK QUALITY

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49 As discussed above, studies that include both reputation and status in the same model
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51 to address their potentially competing influences are rare. Given the different economic and
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53 sociological foundations of reputation and status (Washington & Zajac, 2005), together with
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55 our emerging understanding of their different effects on firms' network partner decisions
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3 (Jensen & Roy, 2008), therefore, analyzing the effects of both constructs simultaneously is
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5 essential to provide a more comprehensive understanding of the underlying relationships
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7 among reputation, status, and network structure. A measure of particular interest to high
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9 reputation and high status firms, we suspect, is the quality of their network partners, a proxy
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11 for which is partner reputation.
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14 Although reputation and status are clearly related and, we believe, will both predict
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16 the reputations of a firm's network partners, they are also conceptually different (Washington
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18 & Zajac, 2005). As such, we do not anticipate that reputation and status will be equally
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20 important predictors of which network partners firms choose. Specifically, we contend that
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22 focal firm status will be a more important predictor of partner selection than focal firm
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24 reputation. This argument is grounded in prior research that has identified status as the
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26 primary determinant in tie formation (Jensen & Roy, 2008), which enables high status firms
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28 to have their first choice of partners (Podolny, 2001). Central to the theory we build to
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30 support these effects is the conceptualization of status as a more stable construct than
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32 reputation. It is this stability that elevates status as a more permanent fixture in external
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34 perceptions of the firm, which makes it a more salient determinant of tie formation and
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36 allows high status firms first choice among potential partners.
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43 **Insert Figure 1a and Figure 1b here**
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46 This conceptual distinction is demonstrated empirically by viewing the different
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48 distributions of reputation and status in Figure 1a and Figure 1b. While status is more
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50 skewed, reputation scores are more normally distributed. This has important theoretical
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52 implications because the skewed distribution of status increases the visibility of high status
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54 firms. When you consider the quality (reputation) and prestige (status) of car brands, for
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56 example, high status cars are more prominent than high reputation cars partially due to this
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58 distribution effect (Rhee & Haunschild, 2006). In a sense, our cognitive map distinguishes
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Reputation, Status, and Interorganizational Networks

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3 among different status levels on a binary basis (high/low), whereas reputation is used to
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5 refine partner choices based on relative quality within specific status bands (Jensen & Roy,
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7 2008). It is status that is more stable (there is less likely to be movement among bands), while
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9 reputation is more susceptible to fluctuation in changing perceptions of product quality or
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11 some other dynamic measure of firm performance. As such, we anticipate that firm status will
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13 be a more important and consistent determinant of tie formation than reputation.
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17 Reinforcing this notion of status as a more dominant determinant of partner selection
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19 is the idea of status as a unitary, all-encompassing assessment of the firm. As Jensen and
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21 colleagues argue (Jensen et al., 2010; Jensen & Roy, 2008), while status is unitary (evaluated
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23 for the firm as a whole), reputation is multi-faceted (tied to different firm characteristics in
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25 different areas of performance). In other words, while firms tend to have one social status
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27 within a social system (good or bad), they can have multiple reputations within that system
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29 based on different attributes (some good, some bad). As such, “status provides an assessment
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31 of the quality of the organization as a whole, whereas reputation provides an assessment of
32
33 the quality of individual organization attributes” (Jensen et al., 2010: 90-91). We argue that
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35 these different characteristics imply different opportunities for high status firms (they are
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37 better placed to select the high reputation partners they seek), even while those choices form
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39 structural constraints (high reputation partners are selected from a narrow range of similar
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41 ‘quality’ firms), and result in a stronger predictive power for status in tie formation.
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46 Finally, in addition to being more stable and unitary than reputation, a further
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48 distinguishing characteristic of status is that it is more relationally-based. In particular, while
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50 “reputation captures differences in quality that generate earned, performance-based rewards
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52 ... status captures differences in social rank that generate unearned, non-performance-based
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54 privilege” (Jensen et al., 2010: 90). In other words, because status is socially embedded (and
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56 includes quality, but is not limited to quality), while reputation is grounded in economic
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3 performance (focusing primarily on product quality), status is likely to be a stronger predictor
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5 of board interlock tie formation than reputation due, in part, to the social nature by which
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7 such ties are formed (Westphal, 1999; Westphal & Stern, 2007; Zajac & Westphal, 1996).
8

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10 These three points of distinction suggest that the more stable, unitary, and relational
11
12 characteristics of high status will generate different firm-level network outcomes than the
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14 more dynamic, multi-faceted, and performance-based characteristics of reputation. In
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16 particular, they suggest that status will be a stronger predictor of partner selection than
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18 reputation because, given the preferential ability to choose, firms will likely seek to maximize
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20 this advantage. We predict that high status firms will choose partners with high reputations
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22 because reputation is a salient signal of perceived quality in firm products and economic
23
24 performance. Thus, high reputation firms will be thought more likely to have good
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26 information about such operational matters and high status firms will select these firms as
27
28 partners in an attempt to access that information.
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31
32 *Hypothesis 1: Focal firm status will be a stronger positive predictor of partner*
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34 *reputation than focal firm reputation.*
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36 As suggested above, in addition to high status (rather than high reputation) presenting
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38 firms with greater opportunity to select the partners with which they choose to network, high
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40 status can also constrain decision making. Although such firms have the freedom to select
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42 partners from across the reputation spectrum, for example, they are more likely to select high
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44 reputation partners. While justifiable in any isolated decision, once this tendency is
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46 generalized across all partner decisions, it carries the potential to produce networks that
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48 contain less diversity and greater density as high status firms select among the narrow group
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50 of acceptable higher reputation partners. Low status firms, in contrast, faced with selecting
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52 among firms below the upper reputation echelon, have a less restricted range of partner
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54 choice and, as a result, end up with more diverse and less dense networks. If true, this
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56 relationship is of interest given that, while homogenous, dense networks are more efficient in
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3 terms of the flow of ideas, they tend to be less effective in terms of decision making quality
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5 (Beckman & Haunschild, 2002).
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7 We test this proposition, grounded in our theory that focal firm status will generate
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9 different network outcomes than focal firm reputation, by studying the effects of status on
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11 two network attributes (network partner variance and network two step reachability), while
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13 controlling for focal firm reputation. If true, we anticipate that the dense networks of high
14
15 status firms will be less diverse, but more efficient than the networks of low status firms, and
16
17 that high reputation will have a much weaker effect on network structure (or no effect at all).
18
19

20 21 **NETWORK DIVERSITY** 22

23 In contrast to pressures that push firms toward homophily in tie formation (Beckman
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25 & Phillips, 2005; Seidel & Westphal, 2004), firms also tend toward self-enhancement. In
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27 other words, all else equal, firms will aspire to network with others that have higher
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29 reputations than their own (Ebbers & Wijnberg, 2010). This is likely because of the referred
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31 benefits a high reputation partner confers. Acting as a constraint on this ambition, however, is
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33 a countervailing force—a firm's ability to network with others (i.e., the focal firm's
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35 attractiveness to potential partners). While lower status firms might aspire to partner with
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37 higher reputation firms, for example, their ability to do so is constrained because higher
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39 reputation firms have little incentive (in terms of their own enhancement) to reciprocate and
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41 partner with them (Kang, 2008; Podolny, 1994). High status firms, on the other hand, have
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43 both the aspiration and ability to form ties with high reputation partners. If true, this should
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45 result in high status firms partnering with high reputation firms, but lower status firms unable
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47 to connect with higher reputation firms.
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52 In practice, the consequence of the combined effects of both the aspiration and ability
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54 to partner is that the higher the status of the focal firm, the narrower the range of desirable
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56 partner choices. Any firm that is situated at the upper echelons of the status hierarchy, for
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3 example, faces a relatively small pool of attractive reputation partners. In contrast, a firm
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5 lower in the status hierarchy, with less ability to connect with the very highest reputation
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7 firms, but with the same desire towards self-enhancement, faces a much larger pool of firms
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9 with which they are willing to partner. This effect should produce a concentration in the
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11 network partner characteristics of high status firms, while resulting in greater diversity among
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13 the network partners of lower status firms.
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16 This mechanism is central to our argument. We agree with Podolny and Phillips
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18 (1996) that the issue of status mobility is an empirical question that is yet to be determined in
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20 the literature, especially in terms of how the status distribution evolves over time and whether
21
22 the rate of mobility is constant across status levels. Our study helps address this question by
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24 arguing that status has differential effects on firm actions at different points along the status
25
26 hierarchy (Bothner, Kim, & Smith, 2011; Phillips & Zuckerman, 2001). In particular, we test
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28 the hypothesis that there are mobility barriers at the higher echelons of the status hierarchy
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30 that constrain the choices of network partners made by firms.
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34 Rather than having a smaller choice set per se, we argue that high status firms choose
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36 to limit their range of network partners to those they consider most desirable, while those at
37
38 the bottom place fewer restrictions on their potential partners. High status firms could, in
39
40 theory, select a diverse set of partners because of the advantages of diversity for decision
41
42 making (Beckman & Haunschild, 2002). In fact, it would be easier for them to do so because,
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44 due to their location at the higher echelons of the status hierarchy, they are at the front of the
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46 queue for partner selection—they are sought out as potential partners and, therefore, have
47
48 more choice about who they can select (Podolny, 2001). Similar to Seidel and Westphal
49
50 (2004), however, we argue that these firms generally do not take advantage of the breadth of
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52 possible choices because of the salient attractiveness of high reputation. Thus, the larger pool
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54 of firms available as acceptable partners for lower status firms suggests that the reputation
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3 variance among these firms' network partners is likely to be higher than the partner
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5 reputation variance for firms at the higher end of the status hierarchy.
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7 We do not anticipate that this relationship will hold equally, however, for high
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9 reputation firms. As noted above, due to the conceptual differences between reputation and
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11 status, we theorize that status will be the dominant predictor of network structure. In
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13 particular, we argue that, due to its more stable, unitary, and relational characteristics, status
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15 will be a stronger predictor of tie formation than reputation, which is more dynamic, multi-
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17 faceted, and based more on firm performance. Drawing on the same theory used to predict
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19 the average reputations of a firm's network partners (H1), therefore, we hypothesize that
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21 these differences will also generate different outcomes in terms of partner reputation variance
22
23 as high status firms are more able to select their high reputation partners of choice.
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26

27 *Hypothesis 2: Focal firm status will be a stronger negative predictor of network*
28 *partner reputation variance than focal firm reputation.*
29
30

31 NETWORK EFFICIENCY

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33 Network reachability measures the efficiency of a firm's network and is defined as the
34
35 number of steps necessary for the focal firm to reach any other firm in its network (Kilduff &
36
37 Tsai, 2003). This measure is an important additional test of our theory because it is likely
38
39 that, as a firm's status rises and it seeks to form ties with partners of higher and higher
40
41 reputations, the pool of attractive potential partners will shrink. As the pool of actors at the
42
43 top of the status and reputation hierarchies concentrate and the variance within a high status
44
45 firm's network decreases, the percentage of its ego network that can be reached in two tie
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47 steps will increase. In other words, we expect greater embeddedness among the focal firm's
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49 partners as the focal firm and partner networks increasingly overlap. Consistent with our
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51 hypotheses above, we also anticipate that focal firm status will be a stronger predictor of this
52
53 outcome than focal firm reputation.
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3 Assuming that the desire to partner with high reputation others is relatively stable
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5 across firms, but the ability to partner varies, high status firms are better able to select the
6
7 small subset of high reputation firms as partners than lower status firms. This means that a
8
9 firm's network density will increase the further it is along the status continuum as it
10
11 increasingly interconnects with high reputation firms. If true, this also suggests that high
12
13 status firms will have fewer structural holes in their networks (at the ego network level of
14
15 analysis, ego betweenness decreases as cohesion increases) and, thus, fewer opportunities to
16
17 access diverse knowledge (Burt, 1992). This loss in information diversity is a direct
18
19 consequence of an increase in the efficiency of the focal firm's network as the percentage of
20
21 partners that it can easily reach rises.
22
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25 As theorized above, we expect that focal firm status will be a stronger predictor of
26
27 network efficiency than focal firm reputation. Due to their conceptual differences, high status
28
29 firms are better able to form ties with their target partners than high reputation firms and,
30
31 therefore, will likely have networks that are more efficient as they compete more effectively
32
33 for the narrow range of the most attractive partner firms.
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36 *Hypothesis 3: Focal firm status will be a stronger positive predictor of network two*
37 *step reachability than focal firm reputation.*
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39

40 To summarize, we have theorized that, due to its stable, unitary, and relational
41
42 characteristics, focal firm status will be a more important predictor of network structure than
43
44 focal firm reputation. In practice, this means that high status firms will have networks that are
45
46 higher in quality, lower in diversity, but more efficient than the networks of high reputation
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48 firms. We have theorized that the mechanism that leads to these results is self-constraint in
49
50 the partner selection process. Paradoxically, while high status affords greater freedom for
51
52 firms to select from the widest range of partners, they instead limit themselves to selecting
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54 partners among the narrow set of high reputation firms.
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METHODS

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The data for this study were obtained from the 300 largest publicly-held service and manufacturing firms listed in the U.S. in 1990. We collected data on each of these firms and their network partners in the years 1985, 1990, and 1993. These years were selected in order to capture a sufficiently long period of time in which to study changes in the firms' director networks, while the intermittent periods between data collection points allowed us to test for different lag effects. In order to gather our network data, the proxy statements of each of the focal firms were obtained and coded to identify the direct interlock ties of that firm in each year. As such, we constructed the complete ego networks for each focal firm, including all of their partners. Some of these partners are among the 300 largest firms, but many are not.

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A focal firm's network consists of a combination of both sent and received ties. Sent ties occur when an officer of the focal firm sits on the board of another firm. Received ties occur when an officer of another firm sits on the board of the focal firm. We used both sent and received ties in our analyses because both contribute to the position of the focal firm in the larger firm network and the firm's status within that network. We also included indirect ties among firms, which occur when two firms have directors that sit on the board of a third firm but have no direct tie between them, because these ties are similarly critical to the comprehensive picture of the overall network needed for our measures (e.g., Bonacich centrality and network two step reachability). For example, if Google (focal firm) forms a tie with Apple because of Apple's high reputation and Apple has a tie with Starbucks for a similar reason, the status of Google is enhanced when its direct partner (i.e., Apple) is tied to other high reputation firms (i.e., Starbucks). In addition, the indirect tie opens an avenue for linking Google and Starbucks, even though there is no direct connection between the two firms. As such, we use both direct and indirect ties to construct our measures in line with

1
2
3 other interlock research (Palmer et al., 1995), while controlling for the proportion of sent and
4
5 received direct ties in each network.
6

7 Of the 300 firms in our dataset, complete network data were available for a total of
8
9 290 focal firms over the three years of our study—256 firms in 1985, 285 firms in 1990, and
10
11 265 firms in 1993. Our total dataset, therefore, comprises the ego networks of interlocking
12
13 director ties for each of these focal firms in 1985 (3,381 unique partners and 8,471 network
14
15 ties), 1990 (3,406 unique partners and 8,796 network ties), and 1993 (3,184 unique partners
16
17 and 7,898 network ties).
18
19

20 **Independent Variables**

21
22 There are two independent variables of interest in this study—focal firm reputation
23
24 and focal firm status. In order to measure a firm's reputation (stakeholder perceptions of firm
25
26 performance and product quality), we use the *America's Most Admired Companies* data
27
28 published annually in *Fortune Magazine*. The Fortune data have been produced annually
29
30 since 1982. They are a compilation of eight separate measures (Innovation, People
31
32 management, Use of corporate assets, Social responsibility, Quality of management,
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34 Financial soundness, Long-term investment, and Quality of products/services) that have been
35
36 widely used by researchers as an indicator of firm reputation, with firms being scored on a
37
38 scale from 0 to 10 (Deephouse, 2000). Figure 1a reveals that the reputation scores of the focal
39
40 firms in our dataset have a normal distribution that ranges from 2.98 to 8.86.²
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45 In spite of its widespread use as a proxy for firm reputation (e.g., Fombrun &
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47 Shanley, 1990; Staw & Epstein, 2000), many researchers have identified serious limitations
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49 with the Fortune data that include the compilation methodology, narrow stakeholder focus,
50
51 and large U.S. firm bias (Deephouse, 2000). In addition, other concerns exist, such as
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57 ² The normal tests we ran on the reputation data produced a result of -0.729. Any score over ±3 indicates a
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59 potential skew issue.
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Reputation, Status, and Interorganizational Networks

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3 construct validity, due to the fact that the ratings are largely determined by managers'
4 perceptions of financial performance (Brown & Perry, 1994; Fryxell & Jia, 1994). As such,
5 rather than use the overall Fortune score, we operationalized reputation in line with other
6 researchers who study reputation, but who share our concern with the raw data. In particular,
7 we use the within-industry rankings that are published in *Fortune Magazine* along with the
8 overall score for both the focal firms and their network partners (Love & Kraatz, 2009).
9 Fortune publishes the top 10 firms in a wide range of industries. As such, these data range
10 from 1 to 10, with 1 being the highest ranking reputation firm in a particular industry. Similar
11 to Love and Kraatz (2009: 322), we inverted these rankings to ensure that a higher positive
12 coefficient represents the effects of a better reputation.
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25 In additional analyses not reported here, we operationalized reputation in line with
26 other researchers who focus predominantly on high reputation (Pfarrer, Pollock, & Rindova,
27 2010). These researchers argue that, while appearing on the Fortune list represents
28 “prominence” (Mishina, Dykes, Block, & Pollock, 2010: 708), only those firms that are
29 awarded a high Fortune score can safely be considered to have a good reputation (Pfarrer et
30 al., 2010). We therefore created a dummy variable to represent high reputation, coding the
31 Fortune data available for both the focal firms and their network partners as 1 if the firm
32 scored at or above the 75th percentile for all available data (7.00 for focal firms and 6.72 for
33 network partners) and 0 otherwise. This alternative coding of the Fortune data generated
34 results that are consistent with those reported below.
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47 For our measure of focal firm status (a firm’s location in the social structure, as
48 indicated by its affiliations with others), we used the network data to calculate each focal
49 firm’s Bonacich centrality (Bonacich, 1987). This measure of centrality captures the extent to
50 which each actor is partnered with well-connected others in the total network and has been
51 widely used as a measure of status. In line with prior work, we weighted the beta value at 100
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3 percent of the reciprocal of the largest eigenvalue (Benjamin & Podolny, 1999). When we use
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5 a beta value that is 75 percent of the reciprocal (Podolny, 1993), the results are unchanged.
6
7 The UCINET output generates two measures (normalized and non-normalized power); the
8
9 non-normalized variable is included in the models because we already control for network
10
11 size, but results remain essentially the same to the ones reported below when we use the
12
13 normalized value. Figure 1b reveals that the status scores of the focal firms in our dataset
14
15 have a skewed distribution that ranges from 0 to 2205.84. For our regression models, we
16
17 divided the overall score by 100 to create comparability among the variable coefficients.
18
19

20 21 **Dependent Variables**

22
23 We created three dependent variables to capture the focal firm's ego network
24
25 structure. We used the Fortune data to calculate the measures of reputation among a firm's
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27 network partners that form the first two dependent variables in this study— average partner
28
29 reputation and partner reputation diversity. We use the coefficient of variation, the standard
30
31 deviation divided by the mean, to calculate reputation diversity. The coefficient of variation
32
33 is a commonly used measure for information-based arguments about diversity as a source of
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35 variety (Harrison & Klein, 2007; Sorensen, 2002).
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39 The network that we used to calculate the network reachability dependent variable
40
41 was formed by building a non-symmetrical, non-directional square matrix, R_{ij} , where i
42
43 represents ego in the director network, j represents ego's alters, and R represents the tie
44
45 between the two firms. The matrix was read into UCINET 6.0 (Borgatti, Everett, & Freeman,
46
47 2002) to create the matrices that represent the aggregate ego networks for each of the focal
48
49 firms in our sample. We then used UCINET's *Networks/EgoNetworks* analysis to calculate
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51 the two step reachability of each network, which calculates the extent of its network that the
52
53 focal firm can reach within two steps (Kilduff & Tsai, 2003). As such, this measure reflects
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55 the degree of interconnectedness between ego and ego's alters, and also among ego's alters—
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3 the higher the score, the higher the reachability of ego's network. Networks with higher
4 reachability scores possess a greater number of redundant ties among all actors in the network
5 (in terms of access to unique information) than networks with lower scores (Burt, 1992).
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9 10 **Control Variables**

11 To rule out alternative explanations for our findings, we controlled for several factors.

12
13 *Focal firm industry.* The uncertainty associated with a specific industry is expected to
14 influence both the kinds of partners a firm seeks (Beckman et al., 2004) and the value of
15 reputation as a signal of quality or location in the social structure (Podolny, 1994). As such,
16 we use a measure of uncertainty related to the focal firm's industry as our industry control
17 (Beckman et al., 2004). This variable is operationalized as the mean monthly stock price
18 volatility of all sampled firms in the focal firm's industry grouping in the year in which the
19 firm's network was constructed. The monthly volatility is calculated as the coefficient of
20 variation for a firm's monthly stock closing price (the standard deviation of the monthly
21 closing price divided by the mean price). The greater the variation in the stock prices of firms
22 throughout the industry, the greater the uncertainty facing the focal firm. As such, this
23 uncertainty variable offers a control that is more proximate to the mechanism by which
24 industry should matter. In addition, given that 41 different 2-digit SIC industries are
25 represented in our data, this variable also serves to retain statistical power in our analyses.
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43 *Focal firm network size.* The size of the focal firm's network (measured as the total
44 number of partners) was included in each model as a control. It may be that the networks of
45 higher or lower reputation/status firms tend to be either larger or smaller and, as a result, have
46 specific structural characteristics. Controlling for a firm's network size removes these
47 possible alternative explanations from our analyses and provides a more accurate comparison
48 of measures across networks. This variable was logged due to its skewed distribution.
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3 independence that is a necessary condition for OLS. Given the continuous nature of our
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5 dependent variables, we used Generalized Estimating Equations (GEE) with robust standard
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7 errors to analyze our data, with repeat statements by firm to account for the non-independent
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9 observations (Liang & Zeger, 1986).³ GEE models with a specified log link function (due to
10
11 the distributions of the dependent variables) and a Gaussian (i.e., normal) distribution provide
12
13 an appropriate analysis of these longitudinal data (Rhee & Haunschild, 2006). All regressions
14
15 were run using a first-order autoregressive correlation structure, although, due to the limited
16
17 number of time lags in our data, alternative correlation structures (unstructured, independent,
18
19 and exchangeable) produced the same results.
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23 Focal firm reputation is one of the independent variables of theoretical interest in our
24
25 analyses. By definition, however, Fortune reputation scores are not available for all firms. In
26
27 order to account for any potential selection bias among our reputation data, therefore, we
28
29 conducted all analyses using a two-stage Heckman Selection model (Heckman, 1979), which
30
31 corrects for potential bias by controlling for those factors that predict inclusion in the Fortune
32
33 data (Deephouse, 2000). In constructing our selection parameter, which we used as a control
34
35 variable in our main regression models, we regressed a dummy variable indicating the
36
37 presence of a reputation score for a given firm onto three variables—industry uncertainty, the
38
39 log of network size, and the log of the firm’s employees (which was excluded from our
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41 second stage regression models).
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47 **Insert Table 1 here**
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49 Table 1 presents the simple statistics and pairwise correlation coefficients for all the
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51 dependent, predictor, and control variables tested in our models. In order to be sure that
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56 ³ Before collapsing the data into one longitudinal regression, we tested the different possible lag effects cross-
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58 sectionally using GLS (3 year lag – 1990 predicting 1993, 5 year lag – 1985 predicting 1990, and 8 year lag –
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60 1985 predicting 1993). We obtained similar results to those presented below across the different lags and, as
such, felt confident combining the different time periods and testing our hypotheses using longitudinal data.

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3 multicollinearity is not an issue in our analyses, we calculated condition indices for all
4
5 models and found no cause for concern. In none of the main effects models did the reported
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7 condition indices rise above 6.43, well below the recommended level of concern of condition
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9 indices greater than 30 (Belsley, Kuh, & Welsch, 1980: 112). Variance inflation factors also
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11 did not suggest any cause for concern, with neither of our independent variables of interest
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13 higher than 2.22, well below the level of concern of 10 (O'Brien, 2007).
14
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16 We regressed each of the three dependent variables onto our lagged reputation and
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18 status measures (1985 predicting 1990 and 1990 predicting 1993). We ran two models for
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20 each dependent variable. The first model includes the control variables only, as a baseline
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22 point of comparison, while the second model adds our independent variables, focal firm
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24 reputation and status. We draw our conclusions about our hypotheses, therefore, from the
25
26 second, full model for each dependent variable. The GEE method invoked by the REPEAT
27
28 statement is not a likelihood-based method, which means that QIC is the only fit statistic
29
30 available for these models. As such, we conducted separate likelihood ratio tests to compare
31
32 both log likelihoods and AIC scores across nested models and estimate the value added by
33
34 our variables of interest. For both log likelihoods and AIC scores, a lower statistic indicates
35
36 better overall model fit. Table 2 reports the regression results and fit statistics for all models.
37
38 Two-tailed significance tests were conducted for all variables.
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45 **Insert Table 2 here**
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47 In Model 2, the dependent variable is average partner reputation. In this model, the
48
49 coefficients for both focal firm reputation (marginal) and status ($p < 0.05$) are positive and
50
51 significant. While not independently hypothesized, these results support the concept of
52
53 homophily, the “observed tendencies for similarity between the group affiliation of friends or
54
55 between their positions within a group” (Lazarsfeld & Merton, 1954: 24). While status
56
57 homophily has been shown to occur in various contexts such as investment banking
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2
3 (Podolny, 1994) and the California wine industry (Benjamin & Podolny, 1999), and has also
4
5 been shown to extend to the similarity of structural location in a network (McPherson, Smith-
6
7 Lovin, & Cook, 2001), however, the phenomenon of *reputation homophily* has not been
8
9 directly tested. The results presented in Table 2 suggest support for this concept.
10

11
12 In order to test H1, which predicted that a firm's status, rather than its reputation, is a
13
14 stronger predictor of the average reputation of its network partners, we first compared
15
16 significance levels and t values from the regression output, both of which demonstrate a
17
18 stronger effect for status as a predictor of partner reputation. In addition, we re-ran Model 2
19
20 using standardized reputation and status variables and compared the coefficients to see
21
22 whether status (0.1789) or reputation (0.1185) had a larger effect size. The combination of
23
24 the results presented in Table 2, together with our additional robustness checks, allow us to
25
26 conclude support for H1 that focal firm status is a more important predictor of the average
27
28 reputation of the firm's network partners than focal firm reputation.
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31
32 H2 predicted that the higher the status of the focal firm the lower the variance among
33
34 its network partners, and that focal firm status would predict this negative relationship more
35
36 strongly than focal firm reputation. In Model 4, where partner reputation diversity is the
37
38 dependent variable, the coefficient for focal firm status is negative and significant, while the
39
40 coefficient for focal firm reputation is non-significant. These results demonstrate support for
41
42 H2—while focal firm status predicts a lower level of diversity among the firm's ego network,
43
44 reputation has no effect. As an additional test of H2, we re-ran Model 4 using standardized
45
46 variables to compare the coefficients of status (-0.498) and reputation (-0.191) in order to
47
48 measure their relative effects. This result, combined with the significant status coefficient and
49
50 non-significant reputation coefficient in Model 4, provides strong support for H2.
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53
54 Next, we tested the effects of focal firm status on its network two step reachability,
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56 while controlling for the firm's reputation. In particular, H3 predicted that higher status firms
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3 will have networks that are more efficient than high reputation firms. In Model 6 in Table 2,
4
5 the coefficient for firm status is positive and highly significant, while the coefficient for
6
7 reputation again is non-significant. These results demonstrate strong support for H3 and were
8
9 provided additional support when we re-ran Model 6 using the standardized status and
10
11 reputation variables. Again, the coefficient for focal firm status (0.797) indicated that it had a
12
13 stronger effect on network efficiency than the coefficient for focal firm reputation (0.214).
14
15

16 Overall, these results provide very strong support for our theory and hypotheses.
17
18 Regressing multiple dependent variables on the same set of independent and control variables
19
20 in separate regressions, however, raises the potential for endogeneity. The extent to which
21
22 these dependent variables are related conceptually suggests that, at least in part, they are
23
24 derived from the same processes and likely have correlated error terms. A Seemingly
25
26 Unrelated Regression (SUR) analysis corrects for the possibility of correlation among the
27
28 error terms across regressions by analyzing all variables in the models simultaneously
29
30 (Greene, 1997; Zellner, 1962) and is increasingly being used by management researchers to
31
32 correct for this potential bias (e.g., Kennedy & Fiss, 2009; McDonald & Westphal, 2003).
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36 We conducted our SUR analysis using PROC SYSLIN in the SAS statistical program,
37
38 which is a command used to analyze cross-sectional data. At present, SUR models do not
39
40 accommodate longitudinal estimation with multiple dependent variables in an efficient way.
41
42 These SUR analyses replicated the results of our initial regressions. Although results gained
43
44 from running longitudinal data through cross-sectional estimation methods should be treated
45
46 with some caution, the fact that they replicate our initial analyses gives us confidence that our
47
48 reported results are robust and that we have adequately accounted for endogeneity across our
49
50 different dependent variables. In particular, we are encouraged that the test that the status β
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52 coefficient is statistically different from zero across models is highly significant ($p < 0.001$,
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54 2-tailed test) with a System Weighted R-Square of 0.607.
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DISCUSSION AND CONTRIBUTIONS

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5 The results presented above constitute a robust test of the theory that status and
6
7 reputation are independent predictors of interorganizational network ties. Status and
8
9 reputation, however, are differentially important in key aspects. Primarily, the effects of
10
11 status are consistently stronger than the effects of reputation in predicting partner
12
13 characteristics and network structure. In other words, having high status makes good
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15 reputation less important as a determinant of tie formation. In particular, high status firms
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17 (more than high reputation firms) have networks that are higher in quality, lower in diversity,
18
19 and more efficient. These results are important because much of our existing knowledge of
20
21 the effects of status and reputation has either assumed that these constructs are essentially
22
23 interchangeable, or has not tested one while controlling for the other. We show that, at least
24
25 in the context of interlock partner selection and resulting network attributes, status and
26
27 reputation have differential effects that need to be accounted for independently, both
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29 theoretically and empirically.
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34 We have presented two arguments in support of these findings. First, due to its more
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36 stable, unitary, and relationally-based characteristics, status has a stronger influence on
37
38 network partner selection than reputation, which is less stable, multidimensional, and based
39
40 more on perceptions of product quality and financial performance. And, second, in spite of
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42 being at the front of the queue for selection, a position that theoretically enables them to have
43
44 the widest range of partners, high status firms in fact confine themselves to selecting among a
45
46 narrower range of perceived high quality firms. Results provide compelling support for our
47
48 overall argument, demonstrating that status is a more important predictor of tie formation and
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50 that these high status effects generate networks that are qualitatively different than the
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52 networks of high reputation firms. That this support for our hypotheses is replicated using
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54 SUR analyses attests to our confidence in the robustness of our findings.
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3 These results contribute to the work on reputation and status because, although there
4 is a sizable body of research that has helped increase our understanding of the separate causes
5 and consequences of reputation and status, work that has helped understand their competing
6 influences is rare (cf. Dimov et al., 2007; Jensen & Roy, 2008). Our results complement those
7 of Jensen & Roy (2008), in particular, by adding to our understanding of the different roles
8 played by status and reputation in the partner selection process. These results also extend our
9 knowledge of the consequences of reputation and status beyond the market focus of much of
10 the prior research in this area (Podolny, 1993, 2005; Rindova et al., 2005; Shapiro, 1983).

11
12 These results also make a valuable contribution to the networks literature because,
13 while much work has focused on the outcomes of social networks, we know relatively little
14 about the antecedents of these structures, especially at the firm level of analysis (Brass,
15 Galaskiewicz, Greve, & Wenpin, 2004; Zaheer & Soda, 2009). We tested a theory that high
16 status constitutes a constraint on firm behavior that results in firms selecting partners from a
17 relatively narrower range than either low status firms or other high reputation firms, even
18 though their high status privileges them to select from a wide range of diverse possibilities.
19 We find specific evidence that this is occurring and that network structure is not random, but
20 emerges from multiple partner choice decisions by firms that aggregate to determine the
21 composition of the entire network.

22
23 In interpreting these results, it is important to note the dynamic nature of our data—
24 firm reputation and status at time $t-1$ predicts the change in partner characteristics and
25 network structure from time $t-1$ to time t (as we control for prior levels of characteristics and
26 structure using lagged dependent variables). Figure 2a and Figure 2b show the effect of such
27 changes in terms of the relationship between firm status and network structure (density and
28 two-step reachability) for two firms from our dataset over the period of our study. As can be
29 seen in Figure 2a for Amp, Inc., a firm whose status decreased significantly from 1985 to
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3 1993, director network density declined together with the firm's ability to reach a larger
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5 percentage of its extended network in two steps. In contrast, Figure 2b demonstrates the
6
7 changes in network density and reachability for FPL Group, Inc., a firm whose status
8
9 increased from 1985 to 1993, during which it saw a corresponding increase in its network
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11 density and two-step reachability.
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14 -----
15 **Insert Figure 2a and Figure 2b here**
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17

18 The dynamics inherent in our study respond to a call from Zaheer and Soda (2009) for
19
20 greater understanding in this area of network research. Interestingly, Zaheer and Soda (2009)
21
22 also examine the relationship between status and network structure, and find that status is
23
24 positively related to the number of structural holes in the current network. While, initially,
25
26 this finding seems to contradict our results that status is associated with dense networks and,
27
28 thus, reduces access to brokerage opportunities, we believe that our study complements
29
30 Zaheer and Soda's valuable work due to the different kinds of networks studied. Zaheer and
31
32 Soda studied the temporary networks of the Italian TV industry, where networks are formed
33
34 and dissolved on a project-by-project basis. In this situation, high status actors are likely to
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36 retain ties that quickly develop into sparse networks as colleagues leave one project and join
37
38 another. In our situation, the interlocking director ties of the largest 300 U.S. firms, however,
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40 the networks are more stable, with lower turnover rates and, therefore, different network
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42 characteristics and processes operating.
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46 The differences these two studies identify, therefore, suggest opportunities for further,
47
48 much-needed research into how network structure emerges, how it varies across networks,
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50 and what consequences it contains for firms. Prior research, for example, indicates that the
51
52 effects of status and reputation on network tie formation that we identify are consequential
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54 for firms—having more diverse partners in a network results in information benefits. In
55
56 particular, Beckman and Haunschild (2002) demonstrate the link between partner diversity
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3 and decision making by showing that firms with more diverse partners (on various diversity
4 dimensions) make better acquisition decisions than firms with less diverse partners. They
5 argue that this effect occurs because of the greater learning opportunities afforded to the focal
6 firm by the broader range of information and experience contained within a diverse network.
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11 Our findings that partner reputation diversity is lower for higher status firms and that
12 these firms have denser, more efficient networks, therefore, suggests that they might receive
13 lower levels of unique information from their network partners, which could, in turn, affect
14 performance. It is likely that similar firms with similar characteristics (e.g., status, reputation,
15 profitability, size) find themselves in similar circumstances and, as a result, have similar
16 experiences. As such, high status firms might be disadvantaged by having only high
17 reputation firms in their networks. Thus, in situations where firms turn to their network
18 partners for information and advice, such as when developing business strategy (Westphal,
19 Seidel, & Stewart, 2001) or under conditions of uncertainty (Haunschild, 1994), the
20 constrained diversity of information that is likely in the networks of high status firms
21 suggests that these networks are poorer sources of information than the networks of lower
22 status firms (Beckman & Haunschild, 2002). These findings add to research that has begun to
23 examine when both a good reputation (e.g., Rhee & Haunschild, 2006) and high status (e.g.,
24 Bothner et al., 2011) might constitute a liability for a firm by identifying the structural
25 implications of status and high reputation in terms of the firm's network. Different network
26 structures serve different purposes in different contexts. It would be useful, therefore, for
27 future research to explore the various contexts in which the network structures we identify in
28 this study are useful to firms and when they are not, and, by extension, when a firm's status
29 or reputation serves as a potential liability.
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54 In addition to our contributions to theory, our study also has practical implications for
55 managers. While we would not advocate managers doing anything other than building the
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Reputation, Status, and Interorganizational Networks

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3 best profiles for their firm in the eyes of external stakeholders, it is important to be aware of
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5 the potential negative consequences of certain actions in terms of information diversity.
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7 Castellucci and Ertug (2010) demonstrate there are performance advantages for higher status
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9 firms to enter into exchange relationships with lower status firms, but it is not clear that firms
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11 are aware of these benefits. Or, at least, it is not clear that they act on this knowledge when
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13 selecting partners. On the contrary, our results demonstrate that high status firms select
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15 partners in patterns that form denser networks with less diversity. Firms that are aware of this
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17 potential outcome can develop other sources of information to make informed decisions.
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20 Alternatively, as high status firms are in the most advantageous position in terms of selecting
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22 network partners, overcoming the tendency to have dense, homogeneous networks and
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24 partner with firms that possess different profiles is another way of bringing information
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26 diversity back in to the boardroom. As such, these actions, taken with the full knowledge of
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28 the consequences of a firm's network partner decisions, can help managers align their firm's
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30 network structure with its strategic goals.
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34 This discussion leads to one potential limitation of this study—we used the interlock
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36 network context. This has advantages in that these networks are responsive to status and
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38 reputational effects, we know a lot about what goes on in these networks because they are
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40 well-studied, and interlock data can be reliably obtained for publicly traded firms. In spite of
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42 our arguments to the contrary, however, we recognize the possibility that the interlock
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44 network may function differently than other interfirm networks. Alliance networks, for
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46 example, may operate differently as they are likely to be more functional and designed with
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48 specific goals in mind, and thus the relative importance of status and reputation may be
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50 different than what we found (cf. Jensen & Roy, 2008). We feel that our decision to motivate
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52 our hypotheses at a more general network level is valid, however, because the implications of
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54 the network structures that result from high status (low levels of information diversity) likely
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3 extend to all firms that draw on different kinds of network partners for information in making
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5 decisions. Of course, in each case, there may be alternate sources of information that could be
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7 consulted and the status of the firm relative to the status of the individual director in the
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9 network may not completely correspond and may vary across different network forms. Also,
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11 it is possible that there are different kinds of liabilities at different points along the status
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13 continuum—lower status firms may benefit from the network structures in the scenario we
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15 outline, but perform less well in other board activities such as alliance formation, which
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17 benefits from a history of prior network relations and established trust (Gulati, 1995).
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19 Exploring these alternative types of networks and how status and reputation affect their
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21 structure and information outcomes would be a useful direction for future research.
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25 A second limitation, arises due to the empirical constraints associated with our
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27 measure of status (Bonacich centrality), which meant we were unable to measure the status of
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29 each focal firm's network partners without engaging in a prohibitively exhaustive data
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31 collection effort to construct the complete networks of all the 3,400+ partner firms of our 300
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33 focal firms. As such, we limit our analyses in this paper to the relationship between the
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35 reputation and status of each focal firm and the reputations of their partners. Of obvious
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37 interest would be to look at the status of our focal firm's network partners and future work
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39 that can illuminate this issue would be a welcome addition to the results we present here.
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42 43 CONCLUSION

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45 This paper contributes to the growing body of work that seeks to understand when
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47 status matters, when reputation matters, and when they both matter. By looking at an under-
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49 theorized area of the networks literature (network structure antecedents) and by showing that
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51 status and reputation affect various outcomes in different ways, we have demonstrated that
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53 status effects are stronger than reputation effects, but that reputation also affects networks and
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55 the level of each seems to matter. By drawing on their respective economic and sociological
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Reputation, Status, and Interorganizational Networks

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3 roots to theorize why reputation and status cause different firm network outcomes, we extend
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5 research on reputation, status, and interorganizational networks. Outside the partner selection
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7 context, we anticipate that other important firm decisions and outcomes are differentially
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9 affected by status and reputation. These and similar questions are clearly important and
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11 deserving of further study.
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For Peer Review

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TABLE 1
Descriptive Statistics and Pearson Correlation Coefficients

Variables	Obs.	Mean	s.d.	Max.	Min.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1 Average partner reputation	545	2.41	1.29	0.00	10.00	1.00																
2 Partner reputation diversity	519	1.57	0.58	0.39	4.24	-0.87	1.00															
3 Two step reachability	550	9.88	5.46	0.03	27.67	0.64	-0.60	1.00														
4 1990 year dummy	550	0.52	0.50	0.00	1.00	-0.12	0.09	-0.02	1.00													
5 Industry uncertainty	550	0.12	0.03	0.05	0.22	0.02	0.03	0.00	0.01	1.00												
6 Firm network size (log)	550	3.38	0.51	0.69	4.42	0.33	-0.24	0.76	0.01	0.01	1.00											
7 Proportion ties sent (log)	550	0.15	0.10	0.00	0.69	-0.24	0.20	-0.22	0.23	-0.06	-0.15	1.00										
8 Proportion ties received (log)	550	0.35	0.20	0.00	0.69	-0.16	0.16	-0.13	0.86	0.02	-0.06	-0.01	1.00									
9 Firm profitability	550	3.96	5.53	-42.09	25.95	0.08	-0.09	0.03	0.06	-0.20	-0.01	-0.03	0.07	1.00								
10 Firm size (log)	550	9.01	1.16	6.38	12.44	0.38	-0.34	0.48	-0.05	0.02	0.36	-0.04	-0.11	-0.16	1.00							
11 Selection parameter	513	0.18	0.12	0.01	0.65	0.35	-0.29	0.61	0.02	-0.10	0.52	-0.11	-0.07	0.05	0.51	1.00						
12 Lagged DV (Avg. Part. Rep.)	512	2.25	1.32	0.00	10.00	0.61	-0.55	0.54	-0.04	0.06	0.28	-0.10	-0.15	-0.01	0.29	0.28	1.00					
13 Lagged DV (Part. Rep. Diversity)	477	1.65	0.62	0.39	5.10	-0.52	0.56	-0.49	0.05	-0.02	-0.22	0.12	0.12	-0.04	-0.26	-0.24	-0.87	1.00				
14 Lagged DV (Two step reachability)	517	11.17	6.73	0.03	35.42	0.56	-0.52	0.79	0.18	0.07	0.60	-0.15	0.04	0.01	0.45	0.54	0.61	-0.57	1.00			
15 Firm reputation	517	3.84	3.68	0.00	10.00	0.32	-0.23	0.35	-0.04	0.15	0.21	-0.02	-0.11	0.05	0.30	0.40	0.27	-0.20	0.37	1.00		
16 Firm status	517	4.00	3.80	0.00	22.06	0.55	-0.48	0.71	-0.09	0.05	0.48	-0.15	-0.17	-0.01	0.46	0.47	0.61	-0.56	0.78	0.33	1.00	

TABLE 2
The Effects of Focal Firm Reputation and Status on Network Structure
Normally-distributed GEE models. FirmID by Year (1990 and 1993), AR(1) correlation
structure, log links⁴

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-0.1926 (0.2499)	0.0481 (0.2641)	0.8085 *** (0.2241)	0.6991 ** (0.2234)	-0.5396 ** (0.1987)	-0.4245 * (0.2034)
1990 year dummy	0.0138 (0.1701)	-0.0117 (0.1797)	-0.0497 (0.0693)	-0.0390 (0.0684)	0.0806 (0.0611)	0.1061 ‡ (0.0546)
Industry uncertainty	-0.5710 (0.4728)	-0.8150 (0.5151)	0.4566 (0.5531)	0.6140 (0.5506)	-0.5450 ‡ (0.3288)	-0.5783 ‡ (0.3225)
Firm network size (log)	0.0323 (0.0681)	0.0014 (0.0736)	-0.0502 (0.0416)	-0.0142 (0.0434)	0.7048 *** (0.0517)	0.6953 *** (0.0535)
Proportion ties sent (log)	-1.0417 *** (0.2705)	-1.0041 *** (0.2505)	0.6698 *** (0.1750)	0.6468 *** (0.1711)	-0.1783 (0.1543)	-0.2535 ‡ (0.1472)
Proportion ties received (log)	-0.1631 (0.4691)	-0.0589 (0.5067)	0.2422 (0.1943)	0.1850 (0.1879)	-0.4901 ** (0.1605)	-0.4754 *** (0.1441)
Firm profitability	0.0133 ** (0.0043)	0.0099 * (0.0043)	-0.0058 * (0.0029)	-0.0054 ‡ (0.0029)	0.0023 (0.0031)	0.0017 (0.0029)
Firm size (log)	0.0786 *** (0.0169)	0.0636 *** (0.0163)	-0.0813 *** (0.0176)	-0.0701 *** (0.0179)	0.0402 ** (0.0123)	0.0309 * (0.0127)
Selection parameter	0.2052 (0.1376)	0.0803 (0.1439)	-0.0403 (0.1662)	0.0746 (0.1724)	0.2145 ‡ (0.1142)	0.2264 * (0.1151)
Lagged DV	0.1812 *** (0.0204)	0.1587 *** (0.0218)	0.2055 *** (0.0296)	0.1756 *** (0.0323)	0.0151 *** (0.0030)	0.0101 ** (0.0032)
Firm reputation		0.0121 ‡ (0.0064)		-0.0039 (0.0048)		0.0044 (0.0036)
Firm status		0.0106 * (0.0051)		-0.0186 ** (0.0062)		0.0100 *** (0.0027)
Obs.	479	479	441	441	484.00	484.00
Log likelihood	-662.27	-657.57	-264.56	-258.80	-1127.84	-1125.07
Δ fit		4.70		5.75		2.78
AIC	1346.54	1341.15	551.11	543.60	2277.69	2276.13
Δ fit		-5.39		-7.51		-1.56
d.f.		2		2		2

‡ p < 0.10 * p < 0.05 ** p < 0.01 *** p < 0.001. Two-tailed tests for all variables. Standard errors are in parentheses.

⁴ The observations for each dependent variable vary due primarily to the lagged variables included in the models. Models 3 and 4 are reduced further due to the nature of the coefficient of variation calculation, which produces a missing value when either the numerator (standard deviation) or denominator (mean) is 0.

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FIGURE 1a
Distribution of Focal Firm Reputation

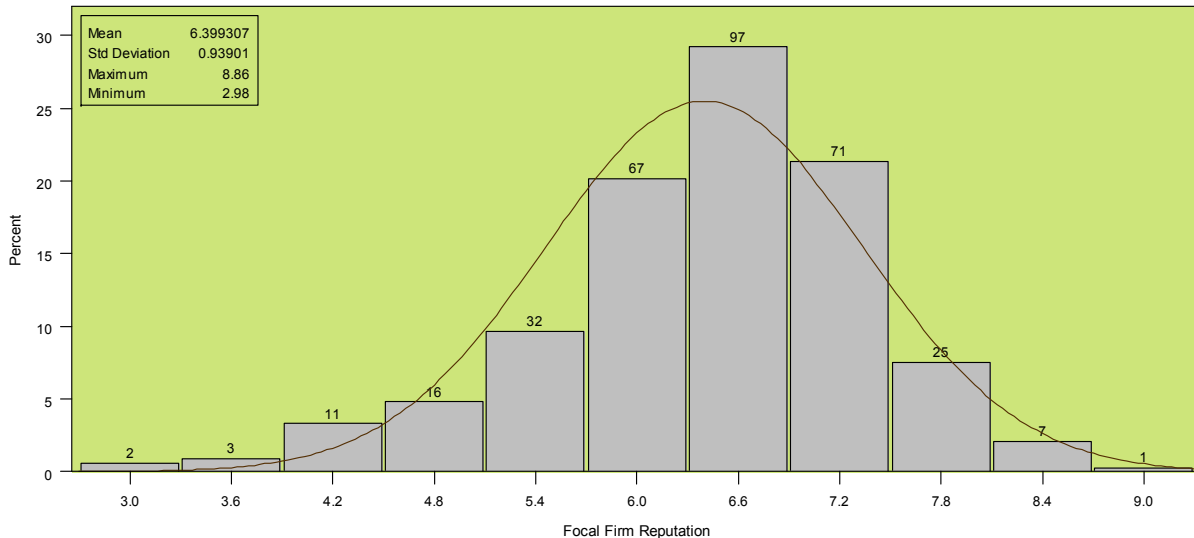


FIGURE 1b
Distribution of Focal Firm Status

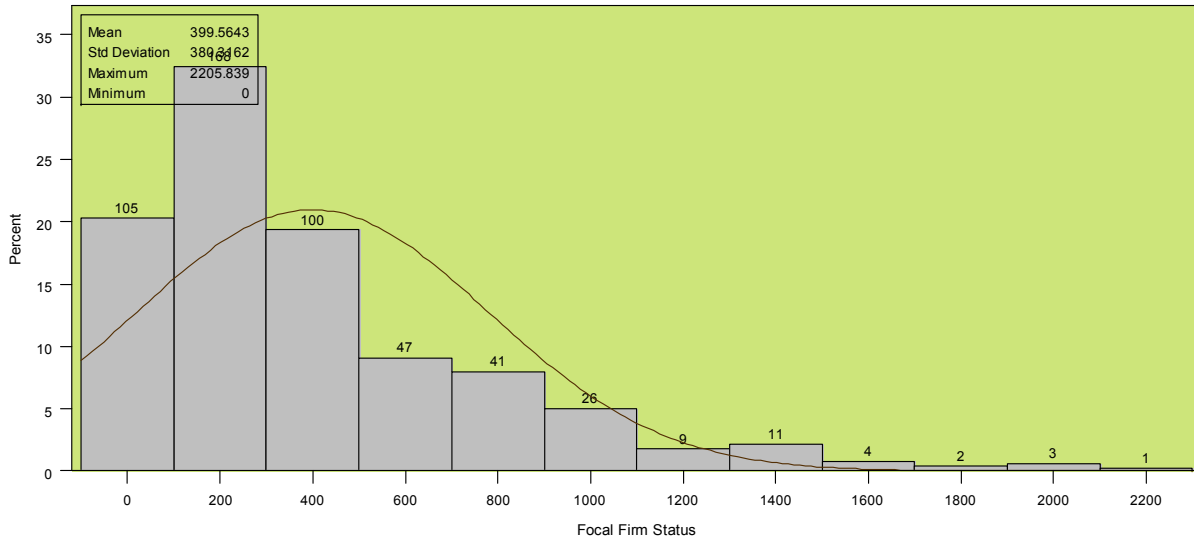
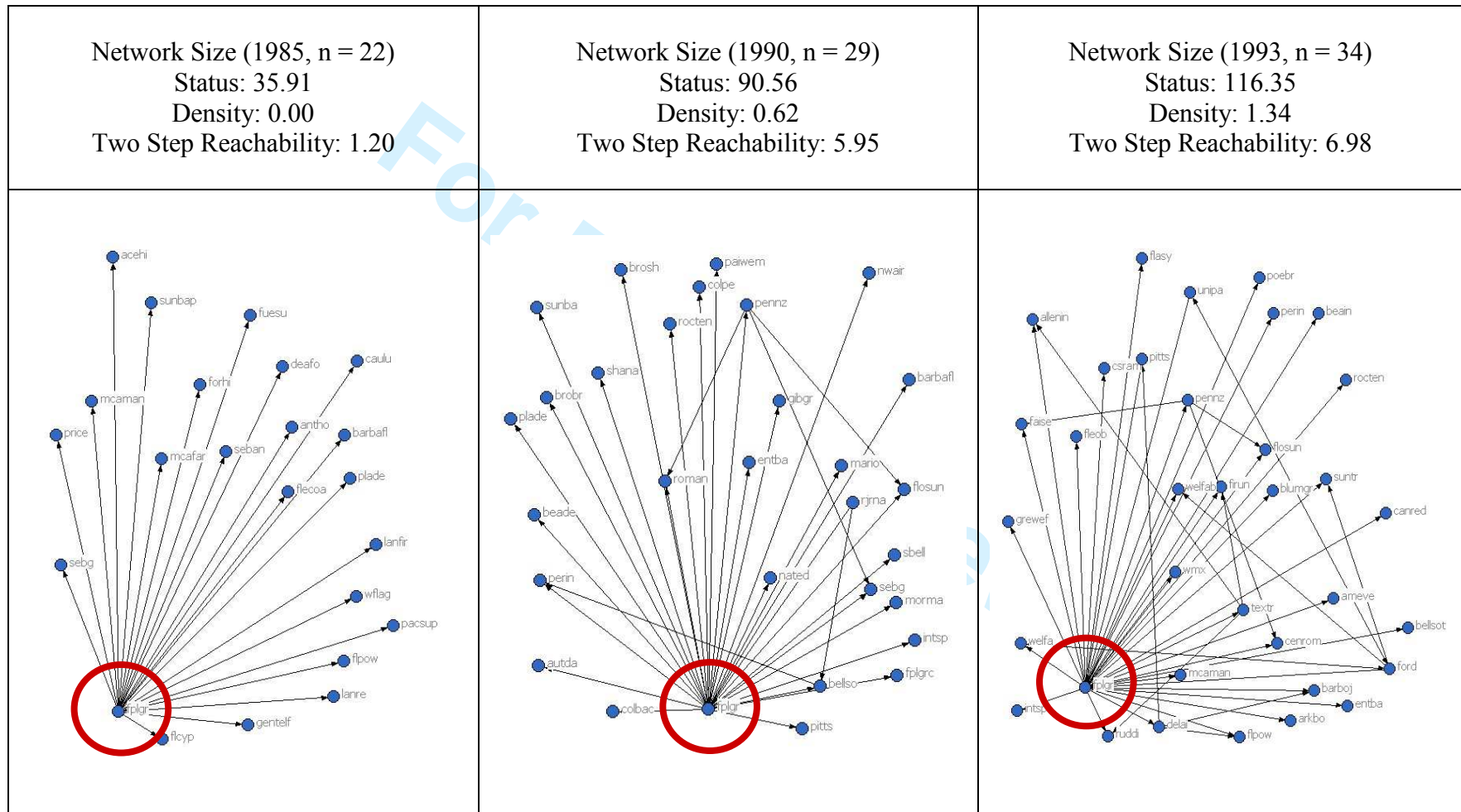


FIGURE 2b
The Effects of an Increase in Status on Network Density and Two Step Reachability (FPL Group, Inc)⁶



⁶ Focal firm is circled.

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