

INTRODUCTION

While there have been a number of previous studies of status dynamics, none have considered situations in which two actors combine to form a new actor, and cease to maintain independent identities.¹ Combination as a type of “relationship” between actors has probably not been examined because it is simply not relevant in an interpersonal context. Although people may form lasting connections, in no case do two people actually become a single person. In contrast, my research argues that actor combinations are not only observable, but highly consequential in the organizational setting. Mergers are among the most carefully considered relationships that firms establish. Furthermore, they are often undertaken precisely in hopes of bettering a firm’s quality and strategic position. Exploring the status consequences of these transactions, therefore, yields two benefits. First, it broadens our understanding of status dynamics by analyzing them outside the context of inter-firm exchange relationships. Second, it allows for a more robust evaluation of mergers by measuring their impact on status, a key strategic asset.

THEORY

Every merger consists of two distinct firms—a “focal” firm (which could be *either* the target or the acquiring firm) and another “partner” firm (again, which could be the acquiring or target firm, respectively). Except in the case of hostile takeovers, both parties have agreed to participate in the transaction. Following the transaction, a single entity remains. This new firm occupies a distinct status position in the market which may compare favorably or unfavorably with the status of the focal and partner firms prior to the transaction. Similarly, the merged firm may also have higher or lower status relative to the “expected” status outcome of the transaction. My empirical analyses specifically aim to understand what factors drive status outcomes for focal firms, where the “outcome” is simply the difference between the status of the surviving firm and the status of the focal firm prior to the transaction. However, given the generality of my theoretical arguments (remember the focal firm is not role-specific) it should be clear that this approach in fact helps us to understand the status outcome for any firm involved in a merger.

¹ Throughout, I use Podolny’s (1993: 830) definition of status: “the perceived quality of [a] producer’s products in relation to the perceived quality of [its] competitors’ products.”

In the context of affiliations, prior research has shown that status is transferred from the high status firm to the lower status one (Podolny and Phillips, 1996). This is attributable to the mutual agreement of the parties to participate in the relationship, and its observability by others in the industry (Blau, 1964; Podolny, 2001). In this way, mergers are similar to the affiliations analyzed in previous studies. Excluding hostile transactions, firms jointly agree to participate in a merger, and these transactions are very visible (i.e. via press coverage, regulatory filings, etc.) to others. Therefore, merger partnerships are also predicted to exhibit status transfer. *It is expected that the status outcome for the focal firm will suffer as the firm becomes increasingly superior in status relative to its partner.*

In other respects, the status dynamics of firm combinations are expected to be very different from those documented to date, because of the need to integrate firms. Achieving integration requires making operational decisions and control decisions. Operational decisions are explicit choices about what name, people and practices will be retained by the surviving firm. Changes may be extensive or quite limited. Operational choices pose a threat to status to the extent that the features which drive the reputational capital of each firm may be altered by integration or eliminated entirely. Control decisions may be explicit or implicit, and concern how merger partners go about making operational choices. If neither firm assumes control of the integration process, operational decisions may be made haphazardly, or not at all. At the other extreme, if the firms struggle for control, key assets (i.e. management attention) may be lost or diverted to deal with political issues.

High total status is generally perceived as a positive attribute of firm dyads. However, I argue that this is not the case for firm combinations. All else equal, as the total status of the merger partners increases, it is also increasingly likely that both firms have a history of success in the industry. Research has shown that a legacy of success can lead to organizational inertia and resistance to change (Tushman and Anderson, 1986; Leonard-Barton, 1992; Christensen and Bower, 1996). Therefore, the firms are likely to actively defend the practices and people associated with their past success. This resistance obstructs integration changes and may

prevent synergies from being realized; both adversely effect the perception of the surviving firm. *As a result, it is expected that the status outcome for the focal firm will decline as the total status of the merger partners increases.*

Fear of status transfer often leads firms to affiliate exclusively with others of similar status. This is why status homophily so often characterizes patterns of affiliations. When deviations from homophily are observed it is generally because firm status has become entrenched and is, therefore, more a function of past status than firm actions (Hollander, 1958; Becker, 1970; Phillips and Zuckerman, 2001). Merger partnerships exhibit greater variance in their degree of homophily because of the correlation between status and size. *Unlike prior findings, status dissimilarity between merger partners is expected to be associated with better outcomes for focal firms than status homophily.* Homophily complicates operational decisions by making it, on average, more difficult to identify which firm has superior people, practices, etc. In addition, status differences can act as a dispute resolution mechanism by indicating which party should defer to the other (i.e. Hayward & Boeker, 1998). Under conditions of homophily this deference signal is ambiguous or absent, thus increasing the chance of control disputes. As discussed, control struggles adversely effect the perception of the firm because they lead to the attrition or diversion of key assets.

Finally, I anticipate that there will be an interaction between total status and status similarity. All else equal, integration will be more effective if one organization is clearly in control of the process. However, clear integration leadership becomes even more beneficial as total status increases. This is because it also provides a mechanism to help offset the organizational inertia associated with high total status. In contrast, under conditions of homophily, the organizations cannot even agree on the basic control of integration decisions, much less on how efforts to resist them can be overcome. *Therefore, the negative impact of high total status will be more pronounced when firms are also similar in status.*

METHODS

The dataset used in my research is unique because it provides longitudinal status data on 500 unique firms over a 20-year period. The data are drawn from investment banks' activities in the U.S. equity underwriting market during the period 1980-2000. Following prior research (Carter & Manaster 1990; Podolny 1991, 1993 & 1994; Carter, Dark & Singh 1998), tombstone advertisements are used to measure firm status. Tombstones appear in newspapers and industry magazines following a new securities issue. The ads detail the type, number and price of the securities, as well as the firms which underwrote the issue. The firms that acted in management capacity (i.e. lead or co-manager) on the deal always appear first. The remaining firms in the syndicate follow and are grouped into brackets. Bracket positions are hotly negotiated among firms because a firm's position is widely agreed to reflect its status relative to other firms in the syndicate. Firms vie to appear in top brackets, alongside firms of similar or higher status. During the sample period, there were documented cases of firms withdrawing from a syndicate because they were unhappy with their bracket position; these firms chose to pass on the deal rather than be grouped with firms of inferior status (Eccles & Crane 1988). When tombstones first appeared in the early twentieth century they advertised the sale of new securities; now that they appear only as a matter of record their main purpose is to provide an opportunity for firms to publicize their work and affiliations. Using electronic and microfilm archives, all tombstones for common stock issues that appeared in the *Wall Street Journal* in the years 1980, 1985, 1990, 1995 and 2000 were collected. Each of these tombstones was then converted to electronic format to facilitate analysis. The final sample contained 1,637 advertisements.

Using the tombstone advertisements, matrices were constructed to represent the status relationships among syndicate firms. Cell c_{ij} of the matrix is equal to the number of times firm i appeared in a higher bracket position than firm j , divided by the number of deals in which both i and j were syndicate members. After constructing the annual matrices, Bonacich's (1987) eigenvector measure was employed to calculate firm status. Note that the Bonacich measure is appropriately interpreted here as a measure of status, not centrality, because the relational matrix is asymmetric.

Data on mergers involving underwriter firms between the years 1981 and 1999 was gathered from two sources: annual Securities Industry Association (SIA) Yearbooks and the SDC merger database. My current research focuses exclusively on mergers between investment banks because the status of both firms prior to the merger, as well as that of the surviving firm following the merger, can be measured using tombstone data. The final merger sample contains 43 transactions. Recall that my arguments concern the impact of features of the focal firm/partner firm *dyad* on status outcomes. However, because the focal firm is not role-specific (i.e. it could be the acquiring firm or target firm) each pair of merger partners enters the analysis twice.² Hence, there are a total of 86 focal firm/partner firm dyad observations. These observations are used to obtain OLS estimates of the effects of status superiority, total status and status similarity on focal firm status outcomes.

RESULTS

Empirical results strongly support the theoretical arguments presented earlier. Consistent with prior research, merging with a firm of lower status impairs status outcomes for focal firms. However, in contrast to research on inter-firm affiliations, I show that merger partnerships characterized by status similarity and high total status are associated with worse status outcomes for firms. Furthermore, the negative consequences of high status are more pronounced under conditions of status homophily. Thus, high status firms face difficult tradeoffs in the selection of a merger partner. As they seek to minimize the status erosion attributable to merging with an inferior partner, they instead face decline stemming from contentious integration management.

COMPLETE REFERENCES AVAILABLE UPON REQUEST.

² In the first observation, the target firm will be the focal firm and the acquiring firm the partner firm; in the second observation these assignments are reversed. This is the same setup used by Piskorski & Casciaro (2006) in their paper on power and profit payoffs in inter-firm bargaining situations. My analysis is patterned after their empirical strategy.