Middle-Status Conformity: Theoretical Restatement and Empirical Demonstration in Two Markets[1]

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This article aims to reestablish the long-standing conjecture that conformity is high at the middle and low at either end of a status order. On a theoretical level, the article clarifies the basis for expecting such an inverted U-shaped curve, taking care to specify key scope conditions on the social-psychological orientations of the actors, the characteristics of the status structure, and the nature of the relevant actions. It also validates the conjecture in two settings that both meet such conditions and allow for the elimination of confounding effects: the Silicon Valley legal services market and the market for investment advice. These results inform our understanding of how an actor's status interacts with her role incumbency to produce differential conformity in settings that meet the specified scope conditions.

INTRODUCTION

A compelling paradox captured much sociological and social-psychological attention at midcentury: the idea that conformity is high in the middle yet low at the top and bottom of a status hierarchy. Following dramatic evidence of social influence on individual judgment (e.g., Asch 1951; Fes-

tinger, Schachter, and Back 1950; Sherif 1935), a series of studies indicated that the force of such social control varies, producing an inverted U-shaped (IUS) relationship between status and conformity (Blau 1960, 1963; Dittes and Kelley 1956; Harvey and Consalvi 1960; Homans 1961; Menzel 1960; see also Ranulf 1938). As explained by Dittes and Kelley (1956), conformity increases as actors value their membership in a group yet feel insecure in that membership. Since high-status actors feel confident in their social acceptance, they are emboldened to deviate from conventional behavior (Hollander 1958, 1960). At the same time, low-status actors feel free to defy accepted practice because they are excluded regardless of their actions. Finally, in contrast to the relative freedom experienced by high- and low-status actors, middle-status conservatism (compare Homans 1961, pp. 357–58) reflects the anxiety experienced by one who aspires to a social station but fears disenfranchisement. Such insecurity fuels conformity as middle-status actors labor to demonstrate their bona fides as group members.

Interestingly, despite its intuitive appeal and advocacy by prominent scholars, the conjecture of an IUS relationship between status and conformity never gained wide acceptance, and relevant research all but ceased in the 1970s. Studies of the diffusion of innovation devoted the most sustained attention to this idea, in the form of tests of a U-shaped relationship between status and innovation. But such tests generated contradictory findings that were never resolved. In particular, medical diffusion researchers favored an elaboration of this U-shaped curve proposed by Blau (1963, p. 202; also see Marsh and Coleman 1956; Menzel 1960) and supported by Becker (1970); that is, high-status actors are more likely to adopt innovations that mesh with prevailing group norms, while low-status actors originate counternormative innovations. By contrast, agricultural diffusion scholars discarded the notion of such a U-shaped relationship upon finding that groups of low socioeconomic status (SES) lag in adopting innovations. Instead, debate raged over whether the positive relationship between SES and innovation is linear or cubic (Cancian 1967, 1979; Gartrell 1977).

The IUS conjecture also failed to gain firm footing in other relevant research traditions. For instance, while social psychologists were prominent contributors to early work on this idea (e.g., Dittes and Kelley 1956; Harvey and Consalvi 1960; Hollander 1958, 1960), they subsequently shifted focus from the question of how status determines action to the analysis of the ways various actions and characteristics confer status or influence (e.g., Moscovici and Nemeth 1974; Ridgeway 1978, 1981; Wahrman and Pugh 1972, 1974). At the same time, network research has centered on the channels through which social contagion occurs rather than on variation in susceptibility to contagion (e.g., Marsden and Friedkin

1993; but see Galaskiewicz and Burt 1991, p. 100). Finally, the idea of an IUS relationship between status and conformity never attracted interest in the criminological literature despite comments and findings that are consistent with such an idea (Nye, Short, and Olson 1958; Matza and Sykes 1961, p. 715; Hagan, Gillis, and Simpson 1985, p. 1155; Jensen and Thompson 1990, p. 1017; also see Veblen [1899] 1960, p. 160). Indeed, the very notion of white-collar crime (Sutherland 1983) echoes the distinction between normative and counternormative innovation found in the medical diffusion literature. Nevertheless, debate in criminology has been framed around the question of whether the relationship between class and deviance is linear (e.g., Tittle, Villemez, and Smith 1978; Jensen and Thompson 1990; Tittle and Meier 1990; Hagan 1992) rather than whether there might be a curvilinear association between status and deviance.

The failure of the IUS conjecture to take hold likely stems from interrelated theoretical and empirical difficulties. Theoretically, the assumption of three social ranks—high, middle, and low—is troubling because it seems rather arbitrary. Any well-developed theory on the relationship between status and conformity must clarify why there could not be more or fewer statuses. Perhaps the most serious theoretical difficulty with the IUS hypothesis derives from a failure to delineate clear scope conditions and define key concepts, thus dooming it to contradictory results. For example, the mixed findings in the diffusion literature might lead one to reject the IUS conjecture. However, it is possible that differences in operationalization—for example, the variables taken as indicators of innovation and status—may account for the different findings. Without clearer guidelines on applying the IUS conjecture in particular contexts, contradictory results are inevitable.

The main empirical challenge to demonstrating an IUS curve relationship between status and conformity lies in disentangling the effects of status from those of other stratifying variables. For example, to the extent that status correlates with quality or ability and the behavior in question is regarded as an indicator of performance, middle-ranked actors may appear to act more conventionally simply because such actors perform at an average level.[2] Similarly, if the action in question requires the possession of certain resources and higher status actors are more resourceful, then the lowest rank's failure to conform may simply reflect an inability, rather than a lack of social pressure, to do so (Han 1994). Finally, effects

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[2] Below, we also discuss recent economic models that have proposed specific theories of "herding" and "countersignalling" based on differences in ability.

of social rank can often be attributed to differences in information access.[3] To the extent that high- and low-ranked actors have more extragroup ties than do those of the middle rank, they enjoy greater exposure to alternative practices and are thus more likely to adopt them (Weimann 1982).

In this article, we aim to shed greater light on the relationship between status and conformity. First, we develop a theoretical framework that addresses the central difficulties in past formulations. The heart of our model is the observation that an actor may occupy only one of three possible locations with respect to a given social boundary that divides the members and nonmembers of a desirable social designation: one may be on the inside, on the outside, or on the dividing line. Those who straddle this boundary—actors who tend to be viewed as middling in status—work feverishly to solidify their social standing by demonstrating their conformity with accepted practice.

A key feature of our theoretical restatement of the IUS conjecture is the identification of scope conditions on actors' social-psychological orientations, on the nature of the status hierarchy, and on the type of actions involved. Such restrictions appear to define a rather narrow range of contexts in which it is appropriate to expect a curvilinear relationship between status and conformity. Accordingly, the second objective of this article is to analyze two settings that do fall within this range—the Silicon Valley legal market and the market for investment advice—and to examine two relevant actions—the opening of a family law practice and the issuing of a "sell" recommendation. These settings are attractive because they allow for the examination of the effect of social rank independent of other stratifying variables. In addition, as we discuss below, economic markets such as the ones we study are relatively simple social settings that are more likely to satisfy the scope conditions. Ironically, while the IUS curve has not previously been documented in a market context, our analysis suggests that the market constitutes a particularly good setting in which to explore traditional sociological thinking on status and role dynamics.[4] In what follows then, we pursue two objectives: first, to reestablish the IUS conjecture, being careful to provide scope conditions and

[3] A related problem is that an actor's status, which reflects position in networks of evaluation, typically correlates with his integration or centrality in networks of interaction (Burt 1982, pp. 199–203; Coleman, Katz, and Menzel 1966, pp. 111–12). Indeed, many scholars use status and integration interchangeably (e.g., Blau 1960; Menzel 1960; Becker 1970).

[4] The partial exception is Han (1994). However, Han understands his results as reflecting an opinion-leadership process. In addition, his analysis of the selection of auditors cannot disentangle the effect of status from that of differential resources. Nevertheless, his analysis is largely consistent with the IUS curve.

guidelines for empirical application, and second, to demonstrate its presence in two markets that do fall within that range.

THEORETICAL FRAMEWORK

The Candidate-Audience Interface

Following Zuckerman (1999, pp. 1401–3), consider an interface between one set of actors, termed candidates, who seeks entry into relations with a second set of actors, termed the audience. Candidates present offers to the audience, and the latter select their preferred offer. That is, candidates and audience members stand opposite one another in a role relationship in which a candidate's role incumbency is contingent, not given. Candidates compete with one another to align their "announcements" of identity with the audience's "placements" (see Stone 1962).

It is useful to characterize the audience's selection process as consisting of two ideal-typical phases, which are mirrored in two stages of candidate behavior.[5] In the first stage, the field is set. In order to make their choice, audience members must be able to compare competing offers with one another. To the extent that a given offer hinders the audience's ability to calibrate an offer against the others, it will be screened out of competition and ignored. Such offers are impure (Douglas 1966) or illegitimate (Meyer and Rowan 1977; DiMaggio and Powell 1983) in the sense that they threaten the existing system of classification. The need for comparability is such that the interface collapses if offers are so different from one another as to make cross-offer comparison impossible (White 1981a). Thus, rather than optimizing over the full menu of alternatives, the audience limits its attention to a discrete consideration set of like alternatives (e.g., Shocker et al. 1991; Urban, Weinberg, and Hauser 1996). This choice process on the part of the audience pressures candidates to orient their offers to the comparative frame employed by the audience. In order to have a chance at having its offer accepted, a candidate must demonstrate that its offer *conforms* to the criteria that define members of the audience's consideration set, lest it be ignored as unintelligible.

The second phase begins once illegitimate offers have been eliminated and only those candidates recognized as full-fledged players remain. At this point, audience members compare the players' offers with one another and select the one they perceive as best. Mirroring such triage, players labor to distinguish their offers from one another to gain selection by

[5] While we discuss the two phases as occurring sequentially through time, this is a conceptual distinction rather than an empirical one. The stages of conformity/classification and differentiation/evaluation are temporally intertwined.

audience members. Whereas the first stage of competition induces conformity, the second generates *differentiation*. As stressed by Simmel ([1904] 1971, p. 297), conformity and differentiation stand in a dialectical relationship to one another (compare Hewitt 1989). Conformity on common standards and shared understandings enables individual differentiation to occur.

Generating the IUS Curve

The IUS relationship between status and conformity may be derived from two amendments to the candidate-audience interface. First, we assume that a candidate's present location along the interface depends not only on her actions, but also on her prior location. Such an assumption is consistent with the observation made in many economic markets, where entry barriers privilege the early mover and hinder the latecomer's efforts at establishing a presence (e.g., Saloner, Shepard, and Podolny 2001, chap. 9). Particularly relevant here are barriers that derive from the socio-cognitive capacity constraints on audience consideration sets.[6] As White and Eccles point out (1987, p. 984), the operation of an interface "require(s) small numbers" because "the complexity of making . . . comparisons [among players] grows geometrically as the number of [players] grows arithmetically" (compare Miller 1956; see Goode [1979, pp. 72–75] and Frank and Cook [1995, p. 3] for application to status structures). Social networks that separate audiences from a would-be player further reinforce such barriers (Podolny 1993, pp. 832–33). Thus, it is often the case that candidate locations are stable from one period to the next.

The second assumption we make is that the audience's classification of candidates entails a ranking of such actors. That is, if audience members rate candidates in terms of their appeal, the resulting hierarchy indicates a candidate's position along the interface. Players enjoy greater esteem in the eyes of the audience than do peripheral players; the latter are of higher status than are nonplayers. Figure 1, which elaborates on figure 1 in Zuckerman (1999), illustrates this idea. The audience's ranking of candidates places full-fledged players at the top, peripheral players in the middle, and mere candidates at the bottom. We depict the edge of the interface as relatively porous, thus dramatizing the anxiety of middle-status candidates as a state in which the prospect of classification as a full-fledged player and the threat of delegitimation both loom large. By

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[6] The constraints are social as well as cognitive in the sense that while a given actor restricts her consideration set to a small number of alternatives, the makeup of that consideration set tends to be extracted from the prevailing consideration set—or product category—in the market (Zuckerman 1999, pp. 1403–4).

Audience   Candidates   Behavioral
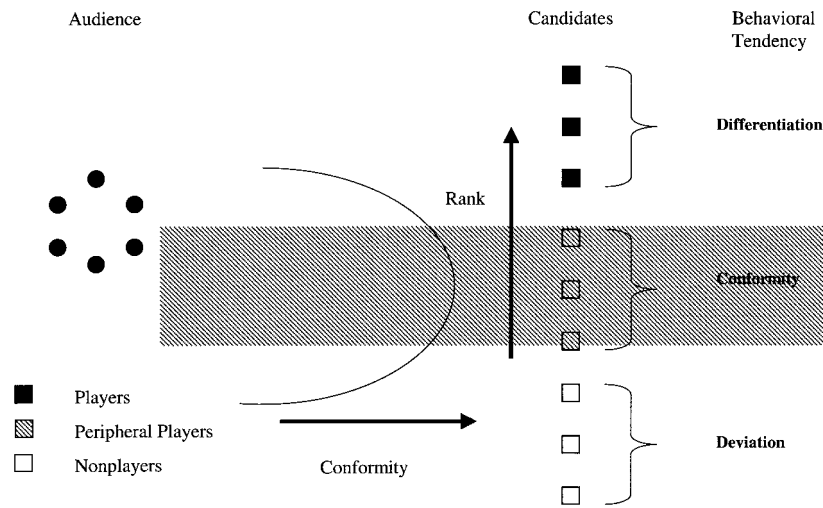   Tendency

FIG. 1.—Status and conformity in the candidate-audience interface

contrast, high-status players are secure in their identity as players, and the lowest status candidates are effectively screened out of consideration. While they occupy opposite ends of the status scale, the highest and lowest ranked candidates are both relatively fixed in their identities: the first is a player, the second is not.

These assumptions carry an important implication: to the extent that a candidate's identity is fixed, her actions cannot alter that identity. Thus, consider an action that the audience generally uses to ascertain who is a player. Clearly, any candidate who wishes to gain recognition as a player will feel pressure to conform to audience expectations concerning such an action. But if the low-status candidate is eliminated from consideration, regardless of her behavior, she gains nothing from conformity. Conversely, if the recognition of a high-status candidate is beyond doubt, there is likewise no reason for him to conform. That is, *an actor's status may override her actions as a basis for establishing her identity.* An action that ordinarily constitutes evidence that one is illegitimate will be disregarded when taken by someone whose legitimacy—or illegitimacy—is unquestioned. Moreover, if any benefit may be derived from undertaking the action, high- and low-status actors should be more likely to do so: neither of them has anything to lose. This act of nonconformity may serve as a basis for differentiation for the high-status player or provide some other type of benefit to either candidate. What is common to both, however, is freedom from the pressure to conform. In sum, as depicted in

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figure 1, an inverted U-shaped curve between status and conformity ensues.

It should be evident at this point that the three classes of the IUS curve have not been chosen arbitrarily. Rather, since social boundaries generally exhibit considerable permeability, there exist only three possible locations an actor can occupy with respect to a given boundary—he can straddle it or reside on either side of it. Further, the idea of two kinds of nonconformity at the top and bottom of a hierarchy (Blau 1963; Becker 1970; see also Menzel 1960) is quite consistent with the framework developed here. Since high-status actors derive great benefit from their recognition as players in the interface, their nonconformity should be of a rather limited sort. By contrast, low-status actors, as outsiders to the interface, are indifferent or even hostile to prevailing practice. As such, they are more open to altering the rules of the game and are less interested in change that reinforces the *status quo ante*. This difference may be expressed via the differential tendency to attach a disclaimer to deviance (see also Hewitt and Stokes 1975): while both high- and low-status actors deviate more often, the former may qualify their departure from convention by signaling to the audience not to interpret it as a sign that they are no longer players. Middle-status actors, by contrast, should feel less secure that a disclaimer will be recognized as such.

Theoretical Clarifications and Scope Conditions

It is important to emphasize that our theoretical framework for predicting an IUS relationship between status and conformity does not speak to possible relationships between other stratifying variables and conformity. To the extent that such effects exist, they must either reflect an underlying association with status or are due to other causal mechanisms than that responsible for the IUS curve—that is, the differential tendency to demonstrate membership in a desirable social designation. Of course, status tends to be strongly associated with such variables as class and power in real-world settings. But following Weber ([1922] 1946), it is useful to regard social status, or the amount of honor or esteem accorded to a person or social designation, as distinct from these and other variables. Accordingly, analyses that use SES or class to predict behavior (e.g., Cancian 1967, 1979; Gartrell 1977) have no clear implications for the relationship between status and conformity. Similarly, while recent economic models focus on the relationship between an actor's ability or quality and her tendency to engage in "herding" (see Scharfstein and Stein 1990; Zwiebel 1995) or "counter-signaling" (Feltovich, Harbaugh, and To 1999), our approach follows long-standing sociological tradition in asserting that an actor's status is often weakly related to her ability (e.g., Berger et al. 1977;

Podolny 1993).[7] The basis for the IUS curve lies not in intrinsic attributes, which tend to be opaque, but in the social psychological dispositions characteristic of particular structural positions, which are generally quite visible and stable. At the same time, it is critical that any empirical examination of the IUS curve control for relevant stratifying variables either through the research design or through the use of statistical controls.

In considering our proposed theoretical framework, it is notable that, while classic studies of conformity generally took place in small groups (e.g., Asch 1951; Homans 1950, 1961; Festinger et al. 1950; Sherif 1935), we have depicted a social context that more nearly resembles an economic market. Indeed, a review of the assumptions that underlie our framework and that generate the scope conditions listed in table 1 suggest that economic markets are in fact particularly well suited for examining the IUS curve.

Key scope conditions relate to the social-psychological orientations of the actors involved. In particular, we have presumed a single interface that commands a strong degree of identification, particularly among middle- and upper-status actors. But actors often participate in a wide variety of role relationships, each of which produces distinct expectations that may conflict with the others (e.g., Merton 1968). For example, a

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[7] Feltovich et al.'s (1999) notion of "counter-signaling" is perhaps the most relevant here as it predicts an IUS relationship between an actor's quality and his tendency to signal low quality. According to this framework, high-quality actors deliberately signal low quality so as to differentiate themselves from middling-quality actors, who cannot be as confident that they will not be viewed as low quality. In addition to this signaling model, "herding models" in the principal-agent literature share important features with the IUS conjecture. In particular, Scharfstein and Stein (1990) understand the mimicry of prevalent behavior as an effort to gain a reputation for high quality, while Zwiebel's (1995) model predicts that actors of high and low quality are most likely to undertake a new line of activity. While space constraints prevent a full consideration of these models, it is important to recognize the main way they differ from the sociological tradition of the IUS curve: the emphasis on ability or quality in the former and status in the latter. In particular, none of these models shares with the current framework the interpretation of nonconformity among the lowest ranked as a symptom of structural blockage. Indeed, note a related theme in empirical research on herding, the idea that, because they are more secure in their jobs, actors with greater seniority take more unconventional actions than do their juniors (Chevalier and Ellison 1999; Hong, Kubik, and Solomon 2000; see also Lamont 1995). If one considers tenure as a proxy for status, these findings dovetail with the idea that high-status actors enjoy greater freedom to defy audience expectations. Unfortunately, these results are not interpreted in such a fashion. To the extent that an explanation is ventured, it involves assuming that audience members believe that seniors are supposed to deviate more than juniors (Avery and Chevalier 1999), an interpretation that we find tautological. In addition, an important consequence of the focus on tenure as attribute rather than as an indicator of structural position is that there is no basis for expecting the curvilinearity emphasized here: one cannot be an outsider to the tenure distribution in the same way that one can be excluded from a status hierarchy.

TABLE 1
Scope Conditions on the IUS Conjecture

Type of Condition	Scope Condition	Rationale
Social psychological ...	Greater identification with the interface among middle- and high- vs. low-status actors	Prerequisite for conformity to provide less value to low-status actors
	Greater security in role incumbency among high- vs. low-status actors	Prequisite for conformity to provides less value to high-status actors
Structural	Significant stability in status order	Prerequisite for felt security of high-status actors
	Presence of neighboring interfaces	Prerequisite for visibility of low-status actors' deviance
	Some (downward) mobility at middle range of status	Prerequisite for middle-status actors to perceive conformity to be valuable
	Commission of action must carry threat of delegitimation	Prerequisite for middle-status actor to perceive conformity to be valuable
Action	Threat of delegitimation must not be so great that it also discredits high-status actors	Prerequisite for high-status actors to see less value in conformity

middle-status candidate may not conform to a particular audience's expectations if she is oriented toward a different audience—perhaps one where she has achieved greater success (compare Matsueda et al. 1992).[8] The issue of multiple role commitments is less problematic in a market setting because market participants are typically fully committed to competing in the market in question. In formulating its strategy, a firm may choose among a number of different market segments, but as a creation of the market and its characteristic role relationships, it tends not to have any ancillary commitments. Relatedly, while in certain cases it may be doubtful whether an actor seeks higher status, this assumption is unproblematic when applied to sellers, in that high-status sellers generally earn greater profits (Podolny 1993).

We have also made assumptions about the social-psychological dispositions characteristic of low- and high-status actors, which parallel assumptions about their structural positions. In particular, we have presumed that (a) the status structure in question is sufficiently stable such that it confers security on high-status players and frees them to deviate and that (b) the lowest status actors are relatively permanent outsiders, such that they cease to identify with the interface. The first condition is

[8] Certain actors may not be candidates for any interface in that they are insensitive to others' evaluations of them (Wrong 1961). Such actors feel no pressure to conform.

a feature of many social settings, though it needs verification in any empirical application.[9] The second is more likely to be met in a setting that contains interfaces that neighbor on the focal one. Unless alternative audiences are available, low-status outsiders have little choice but to redouble their efforts to signal membership through greater conformity. Furthermore, while a failure to gain recognition in the eyes of an audience should cause a candidate to withdraw and seek other audiences (Stinchcombe 1964; Frank 1985), this deviance will not be visible unless the other interface is sufficiently proximate to the focal one. Indeed, unless the lowest ranked candidates are *observable outsiders*—that is, ignored by the audience but visible to scholars because of their participation in a neighboring interface—a simple negative relationship between status and conformity should be observed.[10] Finding neighboring interfaces may often be quite difficult but is perhaps easiest in markets that comprise a set of tiered market segments, especially when such tiers are ordered by status. As we illustrate below in the case of the legal services and investment banking industries, the members of the lower status tier are generally observable outsiders to the upper tier.

Thus, the scope conditions on the social-psychological orientations of the actors—that there be lower identification with the interface among low-status candidates and that high-status players feel secure—depend on certain features of the status structure—that it be relatively stable and contain neighboring segments. We believe that such conditions are more likely to be met in economic markets. An additional structural condition also merits attention. In particular, while the status structure must be highly stable for the IUS relationship to emerge, it cannot be so stable that there is no mobility, especially in a downward direction. If downward mobility were not an expected consequence of nonconformity, there would be little reason for middle-status candidates to conform.

Finally, perhaps the most challenging issue in empirically validating the IUS conjecture concerns the nature of the action in question. As

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[9] A sense of security may depend on factors other than structural stability. For example, an actor may not feel secure enough to defy convention if the achievement of high status is recent (Berkowitz and Macaulay 1961).

[10] It is interesting to consider in this light an apparent empirical anomaly for the IUS conjecture (Cancian 1967, 1979), Dittes and Kelley's (1956, p. 106) finding that, while the very lowest ranked actors evince little private conformity and participate little in the group, they display the most conformity when they do participate. This public conformity represents an outgrowth of the artificial nature of such experiments whereby rejected members are prevented from seeking a more favorable social reception elsewhere. Forced to stay in the group, these actors essentially dissemble (Festinger 1953). Indeed, such coercion forms the basis for Kuran's (1995) theory that rapid social change occurs when actors suffering from domination suddenly obtain a receptive audience for their true preferences.

discussed above, pressure for conformity pertains to an action that the audience *generally uses to ascertain who is a player.* That is, a scope condition pertaining to the action in question is that there must be a significant threat that the benefits of undertaking it will be outweighed by its capacity to signal that the actor is illegitimate.[11] At the same time, it must not be the case that the action is so discrediting that it will tarnish even a secure, high-status player. But how might one know a priori that an action meets these criteria? Furthermore, how are we to regard actions that have multiple, possibly conflicting, meanings in the eyes of relevant audience members? These issues clearly restrict the range of contexts to which the IUS conjecture may be applied. It is incumbent on the researcher to demonstrate that the action in question threatens middle-status candidates with illegitimacy and that this reaction is widely shared by relevant audience members. That is, any analysis of the IUS conjecture requires something approaching an insider's knowledge of the empirical context.

OVERVIEW OF EMPIRICAL STUDIES

The foregoing theoretical clarifications and scope conditions guide our attempt empirically to validate the IUS conjecture in two distinct settings: the Silicon Valley legal market and the market for investment advice. Three features of these settings make them appealing. First, they allow for the separation, either by design or through statistical controls, of the effects of status from those produced by other stratifying variables. Second, we find in both markets highly stable—though not fixed—status hierarchies that give security to the highest ranking actors and render the lowest status actors observable outsiders. Third, the action that we analyze in each context poses a considerable threat of delegitimation. Finally, it is also notable that we perform two separate studies. We believe that, given the difficulty in translating the IUS conjecture into a given empirical context, multiple demonstrations of the pattern serve to assuage any doubts that might pertain to a single analysis.

In the following, we report on our analysis of each setting in parallel discussions. First, we provide background on each context. Next, we describe the action under study and justify the IUS hypothesis. Third, we discuss the data collection and the variables we use and follow this discussion with the models and our results. After presenting the methods

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[11] Implicitly, the action must also promise a benefit. We do not make this an explicit scope condition because, under the assumption of purposive behavior, the only relevant actions would be those that have some advantages.

and findings for each set of models, we summarize the implications and limitations of our article.

BACKGROUND FOR EMPIRICAL SETTINGS

Setting 1: Silicon Valley Law Firms

The two hemispheres of the legal profession.—As a number of scholars have noted, the legal profession has evolved into two "hemispheres" or tiered market segments (Heinz and Laumann 1982). The first consists of law that pertains to corporate clients and is most associated with firms that are large and prestigious: corporate, taxation, trusts and estates, commercial real estate, and securities law are frequent examples (Heinz and Laumann 1982; Abel 1989). The second, neighboring hemisphere focuses on individuals as clients, or "personal plight" law (Smigel 1969; Heinz and Laumann 1982; Abel 1989). This market segment typically includes criminal law, torts, house sales, personal injury, malpractice, and professional liability (Heinz and Laumann 1982; Abel 1989).

Corporate-oriented law firms earn higher revenues, pay higher wages, are more specialized, and are more prestigious. Indeed, the corporate law firm even enjoys the greatest standing in private practice (Smigel 1969; Heinz and Laumann 1982; Abbott 1988; Abel 1989). By contrast, law firms that focus on individual clients usually serve more clients with higher turnover. These firms spend more time conferring with clients and less time conducting research than their corporate-oriented counterparts. As Heinz and Laumann (1982) note, there is little overlap between the two hemispheres. Only 8% of the 699 lawyers in their 1975 study of Chicago lawyers devoted more than 25% of their time to each hemisphere. Furthermore, members of each hemisphere develop markedly different social networks, as evidenced by their participation in different bar associations (Carlin 1962; Heinz and Laumann 1982). In short, it is difficult for a law firm to straddle both segments of the legal private practice world.

"Image-making" and the law firm's interfaces.—A law firm orients itself to two primary audiences: clients (for legal services) and law schools (for labor). Clients may be further subdivided into corporations and individuals, as highlighted above. A firm's profile of practice areas is understood to reflect its fields of expertise. As such, clients select law firms in part based on the set of practice areas they offer. Similarly, a firm's identity also has important ramifications for its ability to recruit new law school graduates. As is the case for clientele, law firms are concerned with being placed in the consideration set of top law school students. Smigel (1969) elaborates on law firms as "image-making machinery" with respect to law student recruiting, "To change, maintain, or create attractive images, and

to assure or reassure the recruit, the firms send notices to the placement offices of the law schools in which they plead innocent to certain detrimental charges and claim desirable attributes. This is part of their 'image-making machinery' . . . designed to bolster a desire or defeat a fear" (p. 51). The challenge for law firms is to align their announcement of identity through their affiliation with various areas of practice with an audience's placement (compare Stone 1962). In general, this process suggests that law firms will enter those areas of practice that reflect the identity that they wish to cultivate.

The Silicon Valley legal market.—The geographic region now known as Silicon Valley—Santa Clara County and southern San Mateo County—began its transformation from an agricultural to a technological economy at the end of World War II. The introduction of Department of Defense funding eventually led to the creation of many organizations, such as Hewlett Packard and SRI (Stanford Research Institute). Over time, through the growth in the founding of technological firms and their spin-offs, a critical mass of technology-based firms arose, facilitating the emergence of a semiconductor industry. The steady growth in the success and prominence of these firms eventually lead to the term Silicon Valley, coined by an electronics trade publication journalist in 1971.

It is within this setting that a niche for lawyers and their firms opened and expanded. However, not every Silicon Valley law firm seeks and serves high-tech corporations. In addition to such clients, the valley's population growth has meant an increasing supply of individual clients as well, many of whom are well educated, with relatively high incomes (Saxenian 1981). Furthermore, as the region evolved, commercial and residential real estate became increasingly scarce and valuable, opening other niches for legal services.

Since Silicon Valley constitutes a new legal market, it is a particularly compelling context in which to conduct the present study. We expect that, in the emerging legal market of Silicon Valley, a law firm's identity on either side of the corporate-"personal plight" divide may be as yet unclear and thereby sensitive to how its actions affect its placement by relevant audiences. That is, relative to more established legal markets, Silicon Valley law firms are more likely to meet the condition that the prospect of mobility be salient to middle-status actors. Indeed, since previous research on the practice areas of law firms has treated firms' participation in these areas as static, we provide novel insight into the process by which the observed distribution of practices emerges. Thus, our analysis adds to the sociology of law and legal markets, as well as the more general issue of the IUS conjecture.

Setting 2: Securities Analysts

Securities analysts, who have long been studied by financial economists and accountants, have recently come to the attention of economic sociologists (e.g., Burk 1988; Eccles and Crane 1987; Useem 1993, 1996; Zuckerman 1997, 1999, 2000; Rao and Sivakumar 1999; Hayward and Boeker 1998; Mavrinac 1999). This research describes the analyst's job in significant detail (see also Morley 1988). For present purposes, we stress two features of the analyst's position. First, in parallel with the overall brokerage function of the investment banks that employ them, analysts must negotiate a two-sided role set: they link the buyers and sellers of securities. Thus, like law firms, analysts orient themselves to two primary audiences. Second, analysts' roles differ depending on the status of their bank. As shown below, the lowest status banks are effectively outside the field of consideration of the largest issuers and investors.

Consider first the analyst at a high-status investment bank. Such an analyst's primary clientele consists of portfolio managers and "buy-side" analysts at such large institutions as pension funds and insurance companies. The analyst specializes in one or two industries, rarely covering more than two dozen stocks at one point in time. Coverage largely amounts to the provision of two main products—earnings forecasts and investment recommendations—as well as periodic industry reports and more informal guidance. Since investors typically receive analyst research gratis, the analyst does not directly contribute to the bank's profits. Rather, it is hoped that investors who seek out the analyst's guidance will then use the bank to execute his trades. The senior analyst, her staff of junior analysts, and the larger research department of the bank work with the sales and trading departments to market the bank's services to investors.

Analysts interact with their second clientele—the executives of the firms they cover—on two levels. First, just as a journalist is dependent on her sources for leads, the analyst relies on her relationships with corporate executives for information and analysis that is not widely disseminated (Francis and Philbrick 1993). Such relationships, which may be conducted in visits to corporate headquarters, telephone calls with senior executives, or in group settings, are crucial to the analyst in establishing her claim to expertise. Thus, when asked to explain the advantage enjoyed by the analyst over institutional investors, one analyst explained, "it is relationship-driven. Big . . . pieces of information get distributed to the people with the best relationship with the (executives)."[12]

In recent years, analysts have come to interact with executives on a

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[12] Interview by John Wood with prominent Internet analyst, November 1998. Quotes from interviews in this section are drawn from material that served as the basis for Siglienti et al. (1999). Interview transcripts are available from the authors upon request.

second level as well. In particular, analysts are increasingly important to their banks' corporate finance business, which includes advice on mergers and acquisitions as well as underwriting stock and bond offerings. Analysts, who are typically compensated for their part in such deals (Siconolfi 1992, 1995), may play a variety of roles from originating business to exploiting their prominence in the market in support of a deal. For example, in agreeing to give a bank the right to underwrite its offering, there is generally a tacit understanding that the firm will receive "after market support"—that is, positive coverage from the bank's analyst following the deal (Siglienti et al. 1999).[13]

The two hemispheres of corporate securities analysts.—Thus, the analyst who works for a high-status investment bank is a candidate for two different audiences: the executives of large corporations and the managers of large institutional funds. The role of the analyst at a lower status bank is quite comparable except that such analysts generally compete in less desirable interfaces. Indeed, as is the case among law firms, investment banks may be divided into two main "hemispheres" in that the high-status firms that cater primarily to large corporations and institutional investors are marked off from the low-status firms that service individual or "retail" investors and various niche clientele (Eccles and Crane 1987, pp. 100–107).[14] This division on the investor side is paralleled in the bank's relations with firms. High-status banks lead or comanage the vast majority of securities offerings and serve as advisors on virtually all mergers and acquisitions for large corporations (see Eccles and Crane 1987, p. 105).

ACTIONS TO BE EXPLAINED AND IUS CURVE HYPOTHESES

Setting 1: Silicon Valley Law Firms

In illustrating the IUS curve in the case of Silicon Valley law firms, we investigate the rate at which firms adopt a family law practice. Family law is a compelling choice for our study because, while it has traditionally been considered part of the "personal plight" hemisphere, it necessarily involves individual clients in the privileged strata of society who require help with cases of divorce, adoption, and child custody (Heinz and Laumann 1982; Abel 1989). Thus, while it generally signals that the law firm

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[13] As one executive commented, "almost all the negotiation [about which investment bank to lead its initial public offering] these days is based upon whose [analyst] coverage they can guarantee and what kind of aftermarket support can they give to the stock." Interview by Tracy Tefertiller with executive at Internet division of Fortune 500 company, October 1998.

[14] Several high-status firms, such as Merrill Lynch, have strong retail as well as institutional sales arms.

is not a player for corporate clients and elite law school graduates, alternative interpretations are available depending upon the firm's status. Specifically, whether family law affects status mobility is a function of whether the firm is identified as a high-status, low-status, or middle-status law firm.

When a high-status law firm begins practicing family law, the audience for legal services tends to interpret this action as a response to the demand of corporate executives who require services under the domain of family law. Alternatively, high-status firms will announce a family law practice but clarify that it is relevant only to the extent that it affects the business interests of their corporate clients (such as the relationship between bankruptcy and divorce).[15] That is, they justify their involvement in family law through the use of disclaimers (Hewitt and Stokes 1975). As Smigel (1969) notes in his study of Wall Street lawyers, "The large [New York] law firms . . . discourage, either overtly or through their public image, the work of the individual (unless he is wealthy or connected with a corporate client)" (p. 150). Announcing a family law practice thus allows a high-status law firm to indicate that it will handle the needs of the executive in addition to the needs of the company that the executive represents. The addition of a family practice may be attractive to a subset of high-status law firms, which view it as a way of differentiating themselves from their competitors.

By contrast, the audiences for the corporate hemisphere do not place personal plight law firms in their consideration sets. Such firms are often thought of as being at the "margin of their profession" (Smigel 1969). When a low-status law firm announces a specialty in family law, the audience is more likely to interpret this action as a means of increasing revenue by offering more services to its (stereotypically lower class) clientele. While such an announcement harms such a firm's ability to move into the corporate hemisphere, such a penalty is redundant: as outsiders, such firms are structurally prevented from upward mobility regardless of their actions.

It is the set of firms that straddle the high- and low-status hemispheres for which claiming an expertise in family law creates a dilemma. Financially, returns from practicing family law are a function of demand and the income (or assets) of individuals seeking such services. In Silicon Valley, the increase in both the region's population and average income

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[15] For example, a high-status firm may claim to focus on the aspects of family law that affect family-owned businesses.

suggests an increasing demand for family law.[16] Furthermore, adding an additional area of legal practice is likely to increase a law firm's economies of scope to the extent that the new practice area complements the firm's present set of practice areas. Nevertheless, the quandary for a middle-status law firm is that it risks losing legitimacy when making an announcement of family law practice.

As we have argued, a high-status candidate is more likely to engage in differentiation to the extent that she feels secure in her role incumbency. At the same time, the actions that low-status actors pursue do not affect their position in the status hierarchy; they are resigned to the neighboring interface of the personal plight hemisphere. However, for the middle-status law firm that seeks recognition in the corporate hemisphere, its profile of practice areas is critical. The audiences of corporate clients and elite law schools will be more likely to doubt a middle-status firm's membership in their consideration set if its profile of practice areas includes family law. That is, middle-status firms appeal to corporate clients and elite law schools to the extent that they appear as pure corporate law firms. The announcement of a family law practice involves the significant risk that corporate clients and elite law schools will screen the middle-status firm out of consideration. Moreover, if delegitimation occurs, it is likely to be costly and final. According to Abel (1989), firms that reside in one hemisphere of the legal profession have virtually no means of crossing over to the other. In sum,

HYPOTHESIS 1.—*Ceteris paribus, there exists a* U-*shaped relationship between law firm status and the announcement of family law practice.*

Setting 2: Securities Analysts

In demonstrating the IUS curve in our study of securities analysts, we analyze their differential tendency to issue "sell" recommendations. As discussed above, corporate finance deals typically involve a pledge of after-market support for the issuing firm by the bank's analyst. Conversely, analysts often suffer retribution when they express negative views on a stock. Recent surveys of executives and the analysts who cover their firms indicate that, in reaction to a sell recommendation, 42% of the firms would eliminate the analyst's bank from its corporate finance deals and 34% would reduce his access to information. That such threats are heeded is

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[16] Our examination of U.S. Census data reveals that since 1946, the population of Santa Clara County increased by an average of approximately 28,000 each year. In 1993, the population was 1,591,900. During 1997, the Santa Clara County unemployment rate was 3.1%, the lowest in the United States (where the average was 4.9%). Furthermore, the 1996 per capita income for the San Francisco Bay Area was $32,933 compared to $25,820 nationally (Hoffman 1997; U.S. Department of Commerce data).

indicated by the fact that 73% and 89% of the analysts anticipated each of these reprisals respectively (Reuters 1999*b*, pp. 66–67; Reuters 1999*a*, pp. 26–27). The CFO of a major Internet company described his reaction to sell recommendations in the following manner: "we'll say, we're not going to provide you information for a little while, and at some point you can come talk to us and we'll see if we're . . . on the same wavelength."[17] Such pressure to refrain from expressing negative sentiment is often reinforced by corporate finance departments, which are loath to anger desirable clients (Siconolfi 1992; Browning 1995). Thus, to the extent that the analyst needs to maintain a good relationship with executives, she cannot freely express negative sentiment.

Furthermore, it is important to recognize that institutional investors, who would presumably prefer that analysts feel unconstrained in their recommendations, do not necessarily want analysts to issue sell ratings. It appears paradoxical that institutional investors typically give high ratings to the very same analysts who are most involved in corporate finance deals, despite their seeming conflict of interest (e.g., Reuters 1999*a*, 1999*b*). This paradox dissolves when we recognize that an analyst's involvement in corporate finance activity—and the positive recommendations that accompany it—are often interpreted as a sign that he has the deep relationships that afford access to critical information (*Institutional Investor* 1999, p. 120). By contrast, the publication of a sell rating sends the opposite signal. To the extent that the possession of strong relationships with executives defines what it is to be an analyst, the sell recommendation constitutes prima facie evidence that one does not merit this designation. Indeed, if an analyst wishes to convey negative sentiment, she may downgrade her "buy" recommendation to a "hold," which though seemingly advising investors to retain their existing shares in the stock, is widely understood as a euphemism for "sell" (e.g., Lin and McNichols 1998).[18] Thus, given the penalty incurred from the issuance of a negative rating and the availability of less provocative alternatives, there seems little reason for an analyst to publish such a rating. Accordingly, the sell recommendation is vanishingly rare (Dugar and Nathan 1995; Hayward and Boeker 1998; Lin and McNichols 1998; see below).

But the sell rating is not avoided completely. In light of the pressure from both of the analyst's audiences, why do we *ever* see a sell recom-

[17] Interview by John Wenstrup, November 1998.

[18] Many observers speculate that the issuance of SEC Regulation FD ("full disclosure") in September 2000 will significantly reduce the extent to which institutional investors value analysts for their access to management. A possible consequence may be increased pressure on analysts to express negative opinion.

mendation?[19] The principal answer is that the benefits of issuing a dissenting, negative opinion are potentially great. Where all analysts speak with one voice, any analyst who offers a different view and is subsequently vindicated is more likely to be recognized for her wisdom. Accordingly, stories circulate on Wall Street regarding analysts who earned their reputations from "courageously" issuing a prescient sell recommendation when their peers all expressed positive opinions (see Tannenbaum and Berton 1987; Laderman 1998). Thus, in common with the law firms' adoption of a family practice, the issuing of a sell recommendation both carries clear risks of delegitimation as well as a countervailing prospect of significant benefit.

Further, the highest and lowest status analysts should be most likely to dissent from the prevailing, positive view. The highest status analysts, who rarely lose significant status from year to year (see below), should be less concerned about being eliminated as players in the competition for both executives and institutional investors. One executive reported that "We . . . spend more time on specific analysts than others . . . based on . . . which ones are movers and shakers within the industry and honestly which ones we just have better relationships with, which often means which ones have strong buys out on us."[20] That is, negative sentiment elicits retribution, but the high-status analyst enjoys a degree of immunity to such pressure. As argued above, an actor's status may override the potentially damaging message implied by her actions. Accordingly, Hayward and Boeker (1998) show that, among the analysts of the banks involved in financings, higher status analysts are more likely to express negative sentiment.[21]

Thus, the security that comes from high status gives an analyst the freedom to dissent. In addition, to the extent that a candidate is barred from mobility into the high-status interface, we assume that she will cease to identify with that role and respond to a different set of expectations. In particular, as seen below, the majority of analysts are effectively excluded from competing for the largest institutional investors. Rather, such analysts tend to be oriented to smaller institutions and individual investors who are less likely to view the sell recommendation as illegitimate. Indeed,

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[19] At least two other factors reinforce the skewed distribution of ratings. First, to the extent that investment banks earn greater commissions on purchases than sales, they have an incentive not to express negative sentiment (Darlin 1983). Second, since many institutional investors take large, illiquid positions in the stocks they own, they often prefer that analysts "talk up" the stocks in their portfolio rather than provoke a sell-off (Siconolfi 1995).

[20] Interview with director of finance of an Internet company, November 1998.

[21] Stickel (1990) also showed a slight tendency for high-ranking analysts to deviate from the mean earnings forecast.

to the extent that the avoidance of a sell recommendation through the use of euphemisms and the cessation of coverage represents an inside game played by a closed circle of large corporations and institutions, investors who are outside that circle may reward the analyst who shows herself to be an outsider as well. Clearly, the low-status analyst is unlikely to win friends among executives by issuing a sell rating. However, he is much less likely to have those relationships in the first place. Thus, just as low-status law firms have little to lose from announcing a family law practice, low-status analysts suffer relatively little from the publication of a sell rating.[22]

While both high- and low-status analysts face a trade-off when confronting the decision to issue a sell rating, this dilemma is more acute for the middle-status analyst. Such an analyst is oriented toward the interlocking interfaces defined by large institutions and corporations but occupies the periphery of this interface and thus cannot be as confident as the high-ranking analyst that he will retain his standing as a player after publishing a sell recommendation. The middle-status analyst must work both to cultivate his ties with corporate executives and to signal to institutional investors that he possesses such relationships. As such, the analyst of middle rank should be particularly loath to issue a sell rating. Accordingly,

HYPOTHESIS 2.—*Ceteris paribus, there exists a* ∪-*shaped relationship between analyst rank and her tendency to issue negative ratings.*

DATA SOURCES AND VARIABLES IN ANALYSIS

Setting 1: Silicon Valley Law Firms

Data sources.—In setting 1, we model the rate at which Silicon Valley law firms adopted family law over the period 1946–96. The data for this analysis were collected from the 1945–96 editions of the *Martindale-Hubbell Law Directories* for law firms in Silicon Valley, California (Martindale-Hubbell 1945–96). We test our hypothesis on all law firms in Silicon Valley, a relatively self-contained market for legal services (Suchman 1993). For the purposes of this study, Silicon Valley comprises the following 10 cities: Redwood City, Menlo Park, Palo Alto, Los Altos,

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[22] A difference between the two contexts is that, to the extent that they are accurate in their sell ratings, a low-status analyst could potentially gain greater credibility and, hence, rise in the status structure. By contrast, even a highly successful family law practice is unlikely to be the basis for upward mobility through the legal status structure. At the same time, this difference is largely theoretical because it is unlikely that an analyst can be consistently correct with her sell recommendations. Analysts who are negative are penalized severely when they are wrong (e.g., Mclean 2000).

Mountain View, Sunnyvale, Santa Clara, Cupertino, Campbell, and San Jose. In 1996, Silicon Valley hosted 209 law offices and partnerships and 2,375 active attorneys.[23] The directories list law firm characteristics, including up to 73 areas of law practice specialization. Family law is one of the 73 areas of practice. When followed across time, the directories provide time-varying data for model estimation, including information on which year a firm first announced that it was practicing family law. This collection generated data on 516 law partnerships across the 50-year observation period.

Dependent variable.—The year in which a firm first indicates that it practices family law is coded as a "1"; the variable is coded as "0" until such an announcement is made. Firms that announce a family practice in a given year are dropped from the analysis in subsequent years. Given our emphasis on the firm's identity and position within a status hierarchy, a public declaration of family law (such as the legal directory listing) naturally conforms to our theoretical framework. Of the 516 firms, 130 (25.2%) indicated a family law practice during the period under study.

Measurement of status.—Firm status is operationalized as the proportion of the firm's attorneys that have degrees from six of the elite law schools (Yale, Harvard, Columbia, New York, Stanford, and Chicago).[24] This measure is consistent with past measures of status used by Smigel (1969) and Heinz and Laumann (1982). In addition, this measure conceptually matches the concept of market status introduced by Podolny (1993), in which high status is derived from affiliations with other high-status actors. In our case, elite law school alumni confer status on law firms by accepting positions within the firms. As noted in Phillips (2001), the law schools were selected by examining the legal affiliations of national and regional institutions (political and economic) across the observation period. The methods used to acquire this information were varied. For example, we recorded the affiliations of individuals in Who's Who entries, *National Law Journal* lists of prominent attorneys, local politicians, judges, and so on. The greater the proportion of attorneys from the six law schools, the greater the firm's status.[25]

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[23] This study includes only law partnerships. That is, only firms with at least two attorneys included in the population. Since 96% of the 2,375 active attorneys in the directory are in partnerships, we feel that any biases from excluding solo practitioners are minimal.

[24] In a preliminary subset analysis of Palo Alto, California, law firms, we also included the University of Virginia, University of Michigan, University of California at Berkeley, and Georgetown. However, we found no differences in the results.

[25] In a preliminary analysis of Palo Alto law firms (the location of the majority of attorneys in Silicon Valley), we coded alternative status measures such as the number of partners that were part-time faculty at law schools; the number of partners that

Figure 2 depicts the hierarchy among the 209 Silicon Valley law firms in 1996. The Lorenz curves depict the extent of inequality in the distribution of size and status of Silicon Valley law firms. The distribution of elite lawyers reveals a sharp inequality in status (Gini = .851), which is not reducible to differences in firm size (Gini = .620). Indeed, the notion of the observable outsider seems quite meaningful here in that more than 75% of the law firms employ no elite law school graduates at all. Moreover, rank in this status hierarchy is quite stable at the top, though with some fluidity in the center. During the 50-year observation period, 43 of the 516 firms dropped from more than zero to no elite law school graduates. However, 28 of these firms never had more than one attorney from an elite law school at any point in its life cycle. Similarly, only one of the firms that dropped to zero elite attorneys had more than five attorneys at any point in its life cycle. Thus, the necessary structural conditions for observing the IUS curve appear to be present.

Control variables.—We control for the following variables in our analysis of the adoption of family practice: the areas of practice in which a firm is currently involved, the overall scope of its practice areas, a firm's age, its size, its rates of partner growth and turnover, whether the firm is a branch office, and whether it is located in the north end of Silicon Valley. We also control for two population-level factors: the number of previous announcements and the size (density) of the law firm population. We also include several period effects. Table 2 presents summary statistics and a correlation matrix for the independent variables.

Areas of practice.—One of the advantages of the law firm context as a site for testing the IUS conjecture is that the relationship between status and conformity is unlikely to be confounded with other stratifying variables such as expertise, access to information, or differential resource endowments. Indeed, the start-up cost of initiating a family law practice is relatively low when compared to other areas of law such as patent or bankruptcy law. Further, the prerequisite knowledge to open a practice in family law, which is a standard second- or third-year course in law school, is quite abundant. Nevertheless, to avoid the difficulties in interpretation that have plagued past tests of the IUS conjecture, we must control for various attributes that might be correlated both with status and the tendency to announce a family law practice.

In particular, we expect that a firm's existing practice areas condition

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were appointed to judges; the number of partners that were officers in the California state and American Bars; and legal Lexis-Nexis magazine counts of law firm names. Each alternative measure was highly correlated with the law school measure. A considerable advantage of the law school measure of status is that it is the only measure we found to be observable over the 50-year period, where other measures were observable over only 20 years or less.
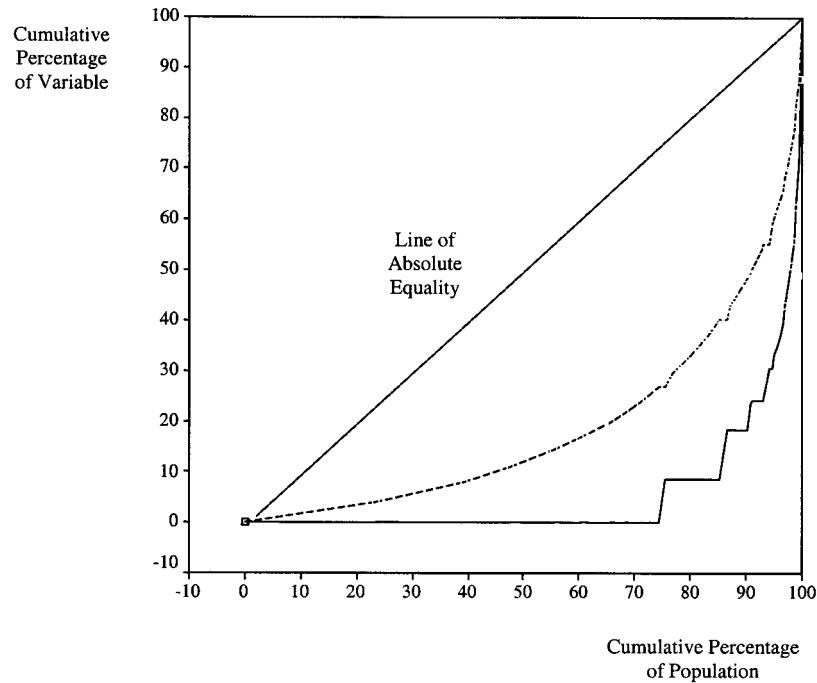
Fig. 2.—Lorenz curve for the number and status of attorneys, by firm in 1996. Variable = all attorneys or all high-status attorneys. Broken line represents the cumulative number of attorneys (Gini = .620); solid line represents cumulative status score (Gini = .861). N = 204 law firms.

its tendency to enter family law. For example, a personal injury law firm is more likely to have access to the relevant clientele, have the internal structure necessary for managing multiple clients and high turnover, and have lawyers that received training in family law. At the same time, family law is often thought to complement bankruptcy law and estate planning but is inconsistent with securities law. Thus, we include 18 dummy variables for major practice areas.[26] However, note that the addition of these dummy variables renders our test of firm status more conservative. Our framework entails that relevant audiences evaluate a firm's status through reference to the types of law it practices. As such, the effects of the practice area dummies could themselves be interpreted as status effects.

[26] In total, firms distinguished themselves across 73 practice areas. We arrived at the 18 major areas by collapsing many areas (including ERISA as a part of labor and employment law) and including only those areas of law that were practiced by more than 5% of the population. Thus, practice areas such as aviation or railroad were not included among the 18 major practice areas for which we controlled.

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Variables	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. ln(density)	4.72	.73	1.79	5.34	...														
2. ln(partners)	1.31	.77	0	4.47	.12														
3. ln(associates)	.95	.99	0	5.33	.17	.48													
4. Firm age	9.54	9.74	0	50	.02	.40	.20												
5. Previous announcements ...	74.15	48.12	0	130	.86	.11	.19	.01											
6. Relative scope	.15	.10	.01	.63	−.65	.21	.16	.02	−.50										
7. Proportion growth	.12	.31	0	4.33	.04	.17	.06	.02	.03	.00									
8. Proportion attrition	.06	.17	0	1.00	.06	−.01	.03	.09	.05	−.01	.33								
9. North end of Silicon Valley	.33	.47	0	1.00	.07	.06	.01	−.09	.06	.02	.04	.00							
10. Firm status	.24	.27	0	1.00	−.40	.08	−.07	.02	−.39	.37	−.01	.00	.35						
11. Pre-1977	.48	.50	0	1.00	−.60	.18	.02	.50	−.69	.26	−.03	.01	−.09	.31					
12. Period: 1977–81 ...	.11	.31	0	1.00	.13	−.01	−.05	−.13	.04	−.11	.03	−.00	.04	−.09	−.34				
13. Period: 1982–87 ...	.19	.39	0	1.00	.27	.00	.10	−.17	.29	−.07	.03	−.01	.04	−.08	−.47	−.17			
14. Period: 1988–96 ...	.22	.41	0	1.00	.37	−.21	−.08	−.35	.52	−.29	−.01	−.00	.04	−.23	−.51	−.18	−.25		
15. San Francisco branch	.13	.34	0	1.00	.19	.18	.33	−.12	.23	.11	.08	.03	.00	−.05	−.29	.15	.16	.14	...
16. Non–San Francisco branch	.14	.35	0	1.00	.09	.24	.23	.08	.08	.00	.05	.05	.03	−.08	.01	−.01	−.02	.05	−.17

NOTE.—Summary statistics for the 18 areas of law are available upon request. $N = 3{,}341$.

Firm scope.—It is likely that generalists are inclined to begin practicing family law since the cost of adding another area of law diminishes as the number of areas the law firm already practices increases. Moreover, there are potential gains to adding an area that complements a firm's present set of practice areas. As a measure of scope, we compute the number of law practice areas that a law firm reports in the directory in a particular year, divided by the total number of practice areas that are reported across all Silicon Valley firms in that year.

Firm age and size.—Each firm's age is recorded as the number of years since the volume in which the firm first appeared in the directory. Firm size is operationalized in two ways: (1) the total number of full-time partners and (2) the total number of full-time associates. Given that the distribution of firm sizes is log normal (skewed to reflect a few relatively large firms), the log of each size variable is coded.[27] To check whether our measure for status is an artifact of firm size (e.g., small and large firms are more likely to announce family law than midsize firms), we also test for a curvilinear effect of firm size. As with the practice area dummy variables, however, the inclusion of the size variables likely renders our test for an IUS relationship more conservative since firm size is often seen as an indicator of status by the legal press.

Growth and partner turnover.—The proportional growth and attrition of the number of partners is coded to capture financial health. These indicators are consistent with Phillips's (2001) finding that partnership growth lowers a law firm's likelihood of mortality, while attrition increases the likelihood of mortality.

Branch office.—Two dummy variables are coded for whether the firm is a branch office. The first variable equals "1" if the firm is a branch office of a San Francisco–based firm. The second variable equals "1" if the firm is a branch office of any other city besides San Francisco (e.g., New York, Los Angeles, etc). This distinction allows us to estimate any differences in the motivation behind establishing a branch office in Silicon Valley. For example, a San Francisco–based firm is more likely to open a branch office in Silicon Valley to take advantage of the primary sources of revenue within Silicon Valley: securities, intellectual property, and corporate law.

North end of Silicon Valley.—Silicon Valley can be roughly distinguished geographically by whether the law firm is located in the north or south end of Silicon Valley. The north end is represented by the cities most associated with Silicon Valley by the popular press: Palo Alto, Menlo Park, and Redwood City. These cities host Stanford University and many

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[27] We have also run models with size unlogged, with no change in the variables of interest but less model fit.

of Silicon Valley's successful venture capitalists. To capture this effect on the rate of family law announcement, we coded a "1" for whether the law firm is located in any one of the three cities. As is the case for a firm's size and its profile of practice areas, the association between the northern end of Silicon Valley and higher status actors makes our test of the effect of status more conservative.

Population density.—Population density is calculated as the log of the total number of law firms in Silicon Valley for a given year. This measure serves as a proxy for diffuse competition over resources (Hannan and Freeman 1989).

Number of previous family law announcements.—This operationalization is the total number of firms that have announced family law practice in the year prior to the observation year.

Period effects.—To ensure that the effects of the independent variables are not influenced by the era in which the event occurred, four dummy variables are coded to capture activity before 1976, between 1977 and 1981, between 1982 and 1986, and between 1987 and 1996. These periods represent the periods in which family law was announced. The first quartile of announcements occurred before 1977, the year before the California Bar organized a Family Law Section. The second quartile of ad announcements options occurred between 1977 and 1981. The third quartile occurred between 1982 and 1986. The final quartile of announcements occurred after 1987.

Setting 2: Securities Analysts

Data sources.—We use two data sources for our second analysis, which examines the likelihood that an analyst had at least one sell rating on the stocks she covered at the end of 1996. Data on forecasts and recommendations come from Research Holdings, formerly known as Standard & Poor's Forecaster. Like other databases, such as IBES (see, e.g., Haunschild 1994) and Zacks (e.g., Zuckerman 1999), Research Holdings provides detailed records on earnings forecasts, including the identity of the analyst and the firm for which the earnings-per-share (EPS) forecast is made and the date it was published. In addition, while accounting conventions allow for a variety of ways for calculating EPS, Research Holdings calculates the actual and forecasted EPS according to the same formula, which allows for the assessment of forecast accuracy. Research Holdings also includes information on analyst recommendations. In line with general practice, recommendations are coded in five categories—which roughly correspond to the prevalent ratings of "strong buy," "buy," "hold," "sell," and "strong sell." McNichols and O'Brien (1997; see also Lin and McNichols 1998) discuss the Research Holdings database in

further detail and describe its utility for the accounting literature, where such data are subject to extensive analysis.

Data on analyst rankings were provided by *Institutional Investor* magazine. Since 1972, *Institutional Investor* has published the annual "All-American Research Team," which ranks analysts by industry and non-industry categories according to a survey of the largest institutional investors. This poll and several others, as well as an objective evaluation of forecasts and recommendations by the *Wall Street Journal*, shape the competitive landscape for analysts. As noted above, achieving a high rank indicates an analyst's success in guiding institutional investors but also helps an analyst's bank attract investment banking clients (Siglienti et al., 1999). Moreover, success in the *Institutional Investor* survey allows an analyst to command a higher salary (Eccles and Crane 1987, pp. 152–53).

The present study uses data from the 1996 survey. The survey universe comprised the largest institutional investors—for example, banks, insurance companies, pension funds, and mutual funds, a list that includes the members of the *Institutional Investor* 300, as well as additional significant institutions derived from industry sources. Questionnaires were mailed out in April for return in June. Respondent institutions were encouraged to divide responsibility for completing the survey among those individuals who could best represent the institution's views regarding the analysts in a particular industry or category. In 1996, 1,337 individuals responded for 300 firms. 68% of the *Institutional Investor* 300 and more than 90%[28] of the *Institutional Investor* 100 were respondents.

Dependent variable.—We present results on the last recommendations an analyst made from July 1 to the end of calendar year 1996, though virtually the same patterns emerge regardless of the time period chosen. Table 3 shows the distribution of sell ratings in three forms: across all recommendations, by firm, and by analyst. We see that fewer than 5% of all recommendations explicitly advised investors to sell shares. Moreover, over 85% of analysts voiced only positive or neutral opinion, and only 10% of firms were tainted by even one negative rating. As appears evident, the publication of a sell rating departs radically from standard analyst behavior.

Measurement of Status

The question on the *Institutional Investor* survey that elicits an analyst's status is the following: "We are putting together our 'team' of outstanding

[28] *Institutional Investor* does not reveal the exact response rate for categories that exceed 90%, lest the identity of respondents be deducible.

TABLE 3
THE RARITY OF A "SELL" RECOMMENDATION, FINAL RATING OF 1996

Recommendation	Frequency	%
Distribution of recommendations, 20,765 analyst-firm pairs:		
"Strong Buy"	7,261	35.0
"Buy"	5,666	27.3
"Hold"	6,915	33.3
"Sell"	560	2.7
"Strong Sell"	363	1.7
Percentage of "sell" or "strong sell" recommendations, by analyst (2,768 analysts):		
0	2,393	86.45
< 10%	66	2.39
10%–20%	117	4.22
20%–30%	94	3.40
30%–100%	98	3.54
Percentage of "sell" or "strong sell" recommendations, by firm (5,127 firms):		
0	4,574	89.21
< 25%	234	4.57
25%–50%	129	2.51
50%–100%	190	3.71

brokerage analysts for 1996 and would like your help. Please rank in order your selections for the best analysts in each of the following categories during the past twelve months." Respondents are given places for up to four analysts and their relative rank. *Institutional Investor* calculates an analyst's overall score by summing the number of times an analyst is listed, weighted by the rank he is assigned and the asset size of the institution. Ranks 1–4 and asset size classes 1–4 ($10 billion and more, $5 billion–$9.9 billion, $1 billion–$4.9 billion, and less than $1 billion) receive the values 4–1, respectively. For example, a top ranking given by one of the largest respondents is worth a value of "16" while a fourth-place vote placed by one of the smallest institutions registers a value of "1." Finally, *Institutional Investor* re-expresses an analyst's score as a percentage of the summed scores in a given category and then multiplies the score by 100, which is the maximum possible score. Scores are calculated only for those analysts who were mentioned in at least five surveys for a given industry or category.

We computed status measures for both the analyst and the investment bank from these scores, which were provided by *Institutional Investor*. To complete the measurement of an analyst's status, two additional coding operations are necessary. First, for analysts who achieved a ranking in multiple industries, the maximum score was taken across these industries.

Second, where Research Holdings indicated that multiple analysts covered a stock—typically, a senior analyst with junior analysts—the maximum status of these analysts is coded as the status of the analyst team. Finally, we computed an investment bank's status as the mean status taken over all analysts employed by that bank in 1996.

Figure 3, which depicts the hierarchy among the 194 investment banks in the Research Holdings database, illustrates a divide between high- and low-status banks that nicely parallels the case of Silicon Valley law firms. Again, the Lorenz curves and corresponding Gini coefficients in this chart capture inequality both in the number of analysts employed, as well as the status of bank's analysts. As we can see, there is stark inequality in the distribution of status, which cannot be reduced to differences in scale. In particular, 151 of the investment banks, or 78% of the total, employed no analysts who commanded significant status in the eyes of institutional investors. As with the law firms, mobility from year to year is slight. Only 15 of the 151 banks with no ranking analysts in 1996 employed such an analyst in 1997, and only two of these had more than one such analyst. Thus, it seems reasonable to see the highest status investment banks as enjoying considerable security in their membership in the institutional interface, to regard middle-status banks to be on the periphery of that interface, and to consider the majority of low-status banks as observable outsiders.

Control variables.—In our analysis of analyst's tendency to issue sell recommendations, we controlled for three factors: whether the analyst was employed by a pure research firm, the tendency for peers of the focal analyst to issue a negative rating, and the relative accuracy of the analyst's opinions.

Research firm.—While the typical analyst works for an investment bank, certain analysts are employed by firms that are solely devoted to securities research. Given such firms' lack of involvement in corporate finance activities as well as their decoupling of investment advice from trading services, such firms should be less subject to pressures to avoid negative sentiment. Thus, we compute a dummy variable that indicates whether the analyst works for one of the three major research firms that are included in the Research Holdings database: Duff & Phelps, Standard & Poor's, and Value Line.

Other analysts' opinion.—The focus of our analysis is on the tendency to publish a dissenting, sell rating. However, as shown in table 3, a small minority of stocks does attract significant negative sentiment. It stands to reason that the more negative an analyst's peers are the more likely is she to publish a sell rating. Thus, for every stock that an analyst covers, we calculate the mean opinion (where "1" refers to a strong buy and "5" is a strong sell) of the other analysts who cover the stock. We then average
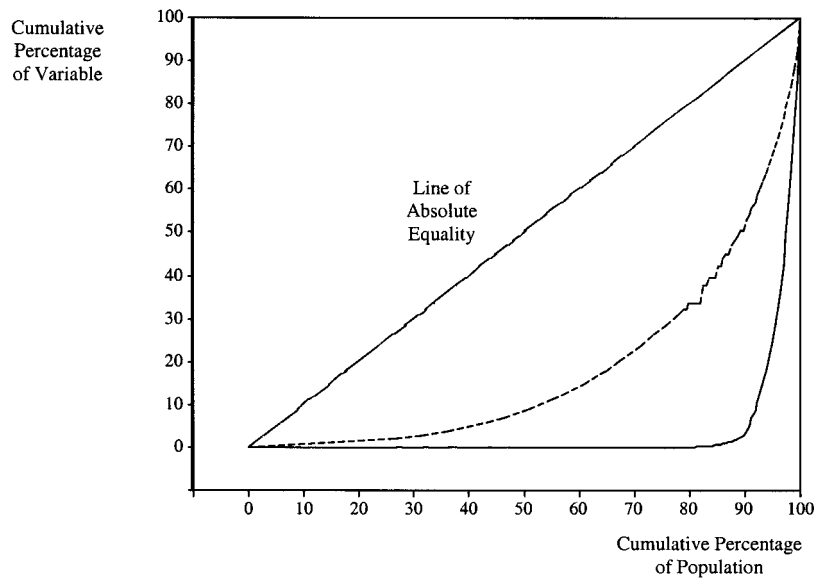
Fig. 3.—Hierarchy in the investment advice market: Lorenz curve for the number and status scores of analysts, by investment bank in 1996. Variable = all analysts or the summed status scores. Broken line represents the cumulative number of analysts (Gini = .634); solid line represents cumulative status score (Gini = .933).

that score across all stocks that an analyst covers to compute an overall measure of whether the analyst is surrounded by negative sentiment.

Forecast inaccuracy.—As discussed earlier, an actor's status is frequently confounded with other stratifying variables—in particular, differential resource endowments, information access, or ability. It must be emphasized that the present context of the market for investment advice is unusual in that, according to orthodox "efficient markets" theory, none of these factors should matter. In particular, it is presumed that, in their search for arbitrage opportunities, stock market participants instantaneously eliminate any advantage that their peers may have (see Sheffrin [1996] for review). For example, as soon as an investor or analyst learns of a piece of news and acts upon it, the rest of the market quickly follows suit. Indeed, this line of thinking has long been associated with the idea that analyst forecasts and advice have no value to investors and that, accordingly, analysts should disappear (Fama 1965). Moreover, many heterodox theorists who are skeptical that the market achieves such a level of efficiency contend that, given the interpretive challenges involved in securities valuation, the typical analyst or investor is unlikely to possess a lasting edge (e.g., Dreman 1977; Zuckerman 1999).

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Nevertheless, in light of economic models that expect a relationship between ability and "herding" (e.g., Scharfstein and Stein 1990; Zwiebel 1995) or "counter-signaling" (Feltovich et al. 1999), we consider the possibility that variation in ability relates to the tendency to give a sell rating. In particular, we compute the relative inaccuracy of an analyst's earnings forecasts. This measure is calculated by selecting the final set of forecasts for fiscal year 1996 earnings per share (EPS) that were made at least six months prior to the end of that fiscal year. Analysts whose latest forecasts preceded the end of fiscal year 1995 were excluded (compare with Hong et al. 2000). For each analyst i covering firm f, we then compute the absolute value of the difference between the analyst's estimate and the firm's actual EPS (ABSDIF_{if}). The following Z-score then reflects the analyst's degree of inaccuracy on a given stock:

$Z_{if} = (\text{ABSDIF}_{if} - \text{MABSDIF}_{f})/\text{SDABSDIF}_{f}$, where MABSDIF_f and SDABSDIF_f are, respectively, the mean and standard deviation of ABS-DIF across all analysts covering a stock. Finally, to calculate an analyst's overall level of inaccuracy, the Z-score is averaged across all of the stocks that an analyst covers. While we have considered alternative accuracy measures (see e.g., Hong et al. 2000; Cooper, Day, and Lewis 1999), we present the Z-score measure because it is the most straightforward and it correlates at a very high level with the alternative measures.

Furthermore, none of these measures shows a significant relationship with the status measures or with the tendency to give a negative rating. Table 4 gives summary statistics and a correlation matrix for the independent variables used in the analysis below. As can be seen, while the only previous article to examine the relationship between analyst status and forecast accuracy found a slight association (Stickel 1992), we find no such association in our data.[29] The complete absence of a relationship is somewhat surprising. As Podolny (1993) argues, to the extent that audiences regard status as a signal of quality, an actor cannot retain his status while consistently purveying low-quality wares. Indeed, it is likely that, despite their seeming lack of success at forecasting, high-status analysts are valued for other reasons. Nevertheless, we feel justified in concluding that there is at least a loose, socially mediated link (Podolny 1993) between status and quality in this setting, as is typical of many others (see e.g., Posner 1990 on judges; Schwartz 1987; Fine 1996 on politicians; Kapsis 1989; Lang and Lang 1988 on artists).

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[29] Note that we similarly find no association between status and success at forecasting 1995 EPS.

TABLE 4
SUMMARY STATISTICS AND CORRELATION MATRIX FOR THE ANALYST DATA

| | SUMMARY STATISTICS | | | | | CORRELATION MATRIX | | | |
VARIABLES	N	Mean	SD	Min	Max	1	2	3	4
1. Forecast inaccuracy ...	2,477	−.06	.52	−2.01	3.98	...			
2. Research firm	2,768	.05	.22	0	1	−.006			
3. Others' opinion	2,652	2.05	.44	1	5	.055	.050		
4. Analyst status score ...	2,768	2.14	5.17	0	43.47	.019	−.096	.031	...
5. Firm status score	2,768	2.13	2.86	0	10.84	.023	−.173	.054	.551

STATISTICAL MODELS AND RESULTS

Setting 1: Silicon Valley Law Firms

Statistical model.—The likelihood of a firm deciding to practice family law is analyzed using a hazard rate model, which is analogous to the conditional probability of an event at time t given that the event has not yet occurred. The rate can vary as a function of the time that a firm has existed. The use of the instantaneous hazard rate allows for an estimation of the changes of the event occurring while controlling for age dependence (Tuma and Hannan 1984).

We model the hazard rate of family law announcement with piecewise constant exponential models in *Transition Data Analysis* (Rohwer 1993). This approach allows the inclusion of firm age while avoiding the misspecification that accompanies other functional forms. A piecewise constant exponential model splits the time axis into time periods. In our model, the time axis is split according to firm age. It assumes that transition rates are constant in each of these intervals. However, base rates vary freely across time periods. The assumption is that the period-specific baseline rate can vary across time periods, but the covariates have the same (proportional) effects.

Findings.—Table 5 presents the estimation of the hazard of announcing family law as a function of firm status. Models 1 and 2 present the relationship between status and the announcement of a family law practice while excluding the control variables. As we can see, there is a negative relation between status and the hazard rate of family law practice announcement, but this relationship reverses itself for the highest status firms. As demonstrated by the improvement in fit from model 1 to model 2, middle-status firms appear significantly more likely to refrain from entering family law.[30]

[30] The findings in table 5 were replicated using a set of dummy variables that distinguished top firms (where elite law school graduates comprised more than 85% of the firm's attorneys) from low-status outsider firms (no elite attorneys). Consistent with

TABLE 5
MLE of Family Law Announcement for Silicon Valley Law Firms, 1946–96

Covariates	(1)	(2)	(3)	(4)	(5)[a]
Age:					
0–3 years	−3.62	−3.55	−35.50	−35.14	−36.69
	(.15)	(.15)	(4.05)	(4.12)	(4.05)
4–14 years	−5.17	−5.05	−36.12	−35.70	−37.26
	(.16)	(.16)	(4.04)	(4.11)	(4.04)
14+ years	−5.90	−5.76	−35.58	−35.02	−36.59
	(.20)	(.21)	(4.02)	(4.09)	(4.01)
Firm status	−1.44*	−3.44*	. . .	−3.98*	−2.05*
	(.37)	(.94)		(1.14)	(.57)
Firm status^2		2.59*	. . .	3.30*	2.60*
		(1.08)		(1.28)	(1.30)
ln(no. of partners)			−1.67*	−1.61*	−1.62*
			(.39)	(.39)	(.39)
ln(no. of partners)^2			.48*	.51*	.25*
			(.14)	(.14)	(.14)
ln(no. of associates)			−1.09*	−1.10*	−1.12*
			(.32)	(.32)	(.32)
ln(no. of associates)^2			.26*	.25*	.50*
			(.15)	(.14)	(.14)
Relative scope			24.55*	24.63*	25.56*
			(3.21)	(3.25)	(3.26)
San Francisco branch			−2.56*	−2.45*	−2.45*
			(.93)	(.91)	(.92)
Other (non–San Francisco) branch			.04	.15	.12
			(.34)	(.34)	(.34)
North Silicon Valley location			−.49*	−.16	−.17
			(.22)	(.24)	(.24)
Partner growth			−.45	−.54	−.55
			(.58)	(.57)	(.57)
Partner attrition			−1.50	−1.52	−1.54
			(1.03)	(1.02)	(1.02)
Log(population density) ...			7.73*	7.74*	7.87*
			(.95)	(.97)	(.94)
Number of previous announcements			−.07*	−.07*	−.07*
			(.01)	(.01)	(.01)
Commercial law			−.25	−.53*	−.52*
			(.30)	(.30)	(.31)
Corporate law			−1.00*	−.99*	−1.03*
			(.27)	(.27)	(.27)
Business law			−.24	−.17	−.19
			(.22)	(.22)	(.22)
Security law			−2.16*	−1.96*	−2.03*

TABLE 5 (*Continued*)

Covariates	(1)	(2)	(3)	(4)	(5)[a]
			(.53)	(.52)	(.53)
Taxation law			−.88*	−.85*	−.85*
			(.26)	(.26)	(.26)
Intellectual property					
law			−.50	−.39	−.48
			(.43)	(.43)	(.44)
Insurance law			−.65*	−.81*	−.82*
			(.27)	(.28)	(.28)
Labor/employment law ...			−1.21*	−1.25*	−1.28*
			(.32)	(.32)	(.32)
Estate/probate law			.85*	1.06*	1.00*
			(.29)	(.29)	(.29)
Bankruptcy law			.57*	.49*	.47*
			(.28)	(.28)	(.28)
Environmental law			−.87	−.78	−.81
			(.58)	(.58)	(.58)
Health law			−.06	.12	−.09
			(.89)	(.88)	(.88)
Real estate law			−.15	−.21	−.24
			(.22)	(.23)	(.23)
Malpractice law			−1.01*	−1.13*	−1.13*
			(.37)	(.38)	(.38)
Tort law			−.44*	−.52*	−.55*
			(.26)	(.26)	(.26)
Personal injury law			.39*	.31	.28
			(.22)	(.23)	(.22)
Criminal law			−.17	−.02	−.03
			(.24)	(.25)	(.25)
Professional liability					
law			−.10	.16	.14
			(.65)	(.65)	(.66)
Period:					
1946−76			−3.56*	−3.67*	−3.72*
			(.65)	(.69)	(.66)
1977−81			−1.96*	−2.03*	−2.10*
			(.49)	(.52)	(.61)
1982−87			−1.67*	−1.54*	−1.69*
			(.39)	(.40)	(.39)
Log likelihood	−788.56	−785.82	−614.77	−606.71	−608.00
$\chi^2(df)$ vs. previous					
model	. . .	5.48 (1)*	. . .	16.12 (2)*	. . .

NOTE.—$N = 3,341$ for organization years, 516 for firms, and 130 for announcements. *t*-tests are one-sided. SEs are in parentheses.

[a] Model 5 estimates an alternative specification of status.

* $P < .05$.

Model 3 excludes status and status squared but includes the full set of control variables described above. While we do not have the space to review these findings in detail, it is noteworthy that the observed patterns conform to our expectations. Thus, we see that firms that are wide in scope and not branch offices (of San Francisco law firms) are more likely to announce family law. In addition, firms specializing in corporate, commercial, securities, taxation, insurance, labor/employment, environmental, tort, and malpractice law were less likely to announce a specialty in family law than those devoted to estate planning (including probate) and bankruptcy law. Finally, the relationship between size and the announcement of family law is curvilinear in a manner that parallels the status effect. Midsize law firms are less likely to announce family law than smaller and larger firms. However, as indicated in model 4, the hypothesized relationship between status and family law announcement holds even when a wide range of control variables are included. Indeed, the inclusion of the status variables makes a significant improvement to the fit of the previous models.

In model 5, we examine an alternative specification of status: a relative measure of status to insure that our finding is robust over time. We calculate an annual measure by subtracting each firm's annual status from the mean status for that year. It is important that this specification also yield a statistically significant curvilinear effect to verify that our hypothesis is supported when relative status is considered at any given point in time. Results from this model parallel those in model 4, which suggests that there is little meaningful variation over time in the status distribution.[31]

Figure 4 provides a graph of the relationship between firm status and the likelihood of announcing an entry into family law, based on model 4.[32] This graph suggests that low-status firms are the first to announce

the models presented here, we found that both the high-status firms and low-status outsiders were more likely to announce family law.

[31] We would like to thank an anonymous reviewer for prompting us to examine alternative specifications that consider an annual relative status measure. We also tested other operationalizations of status (dividing by the maximum status for each year, using a z-score based upon the mean and standard deviation for each year). Each operationalization produced the same statistically significant effect, albeit with a weaker model fit.

[32] The hazard rate is transformed to the predicted probability of family law announcement using the following formulation,

$$\text{predicted probability of practice area announcement} = 1 - \exp(-\mu_A),$$

where μ_A is the hazard rate of practice-area announcement. Other researchers have used this transformation as well (Hannan and Carroll 1992; Carroll and Harrison 1994; Lee and Harrison 1998; Phillips 2001). Note that the shape of the curve is more
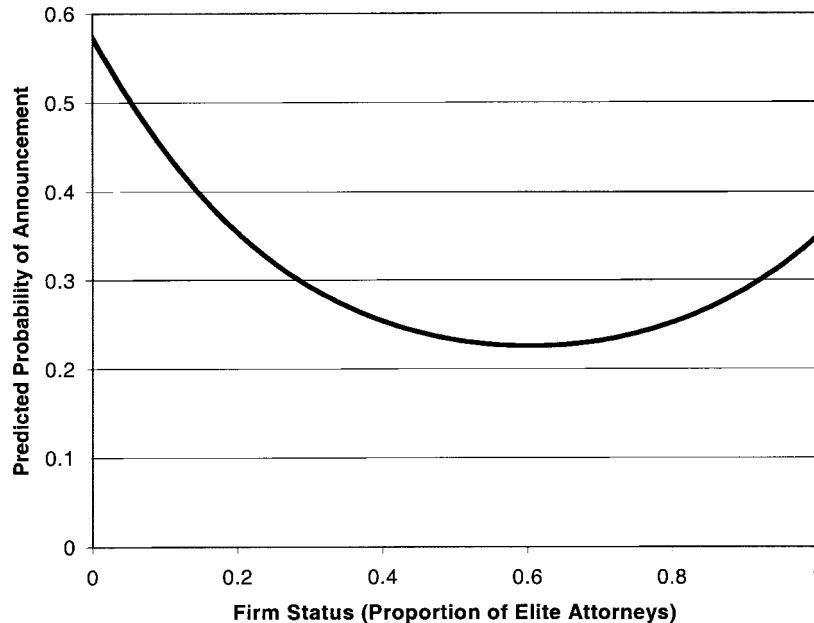
FIG. 4.—Predicted probability of announcement of family law (10-year-old San Francisco branch office with scope = .10, 20 partners, 40 associates, density = 184 in 1986).

entry into family law. This makes sense in that such firms are free of concern that they will (further) taint themselves with association with family law. They are followed by the high-status law firms, who feel relatively immune to such penalties. For both the high- and low-status firms, the announcement will not affect their position in the status hierarchy. It is the middle-status firms, which straddle the two hemispheres of the status hierarchy, that are the least likely to make the announcement. It is the risk in loss of upward mobility or, worse, the prospect of downward mobility that discourages the middle-status law firms from announcing a practice in family law.

Setting 2: Securities Analysts

Statistical model.—In table 6, we use logistic regression to model the likelihood that a securities analyst gives at least one sell rating on the stocks she covers. In choosing the analyst as our unit of analysis, we collapse stock-level heterogeneity in the prevalence of sell ratings. In anal-

important that its location on the y-axis, which is largely determined by the choice of various control variables.

TABLE 6
LOGISTIC REGRESSION ANALYSIS OF THE PUBLICATION OF A "SELL" RECOMMENDATION, END OF 1996

	(1)	(2)	(3)	(4)	(5)	(6)
Forecast inaccuracy:						
Linear	−.041 (.130)					
Squared	.030 (.090)					
Research firm	2.664 (.194)*	2.606 (.194)*	2.572 (.194)*	2.533 (.198)*	2.286 (.198)*	2.285 (.198)*
Others' opinion	1.621 (.151)*	1.512 (.139)*	1.509 (.139)*	1.527 (.139)*	1.579 (.142)*	1.574 (.142)*
Status score:						
Analyst—linear		−.044 (.016)*	−.103 (.032)*			−.052 (.042)
Analyst—squared ...			.003 (.001)*			.001 (.002)
Firm—linear				−.078 (.025)*	−.636 (.078)*	−.599 (.081)*
Firm—squared					.065 (.008)*	.065 (.008)*
Constant	−5.581 (.352)*	−5.284 (.322)*	−5.245 (.322)*	−5.243 (.323)*	−5.105 (.327)*	−5.095 (.327)*
N	2,436	2,652	2,652	2,652	2,652	2,652
χ^2 (df)	317.22 (4)	336.96 (3)	341.69 (4)	338.31 (3)	404.70 (4)	407.27 (6)
Log likelihood	−838.64	−888.50	−886.1363	−887.82	−854.63	−853.35

NOTE.—SEs are in parentheses.
* $P < .05$.

yses not presented, we have also taken the recommendation (analyst-stock) as the unit of analysis and applied a fixed-effects logit. These models include a dummy variable for every stock and thereby look only at within-stock variation. In addition, rather than looking only at whether an analyst issues any sell ratings, we applied both OLS and Tobit regression to analyze the proportion of an analyst's ratings that is negative. Each of these alternatives holds drawbacks, however. The fixed-effects logit is problematic because it necessarily eliminates the vast majority of stocks, which exhibits no variation in the tendency to receive a sell recommendation. Analysis of the proportion of negative ratings also seems inappropriate because, as table 3 indicates, more than 85% of analysts issued no sell ratings at all. Thus, while estimates from the alternative approaches all corroborated the hypothesized relationship between status and conformity, we present results in table 6 from models that assess the log odds of issuing at least one sell rating.

Findings.—The first model in table 6 shows how the control variables affect the tendency to issue a sell recommendation. As expected, analysts who work in research firms are significantly more likely to do so than those whose firms have corporate finance divisions. Further, analysts whose peers have issued negative ratings are more likely to render a negative opinion as well. But the accuracy of the analyst's forecasts has no bearing on her tendency to express negative sentiment. Thus, even if there are substantial differences in ability between analysts, such differences do not appear to be relevant to the phenomenon of interest.

An analyst's status, however, does significantly affect the likelihood of issuing a sell rating. Model 2 includes a linear effect for the analyst's status, and model 3 adds the quadratic term. As indicated both by the significance and direction of the coefficients as well as the improved fit of these models, the IUS conjecture appears to be quite evident in this setting: as predicted, the highest and lowest ranking analysts are most likely to issue a sell recommendation. It is worth stressing that the main effect of status, as presented in model 2, is negative: in general, the higher the rank, the less likely the analyst is to make a negative rating. This finding makes sense and parallels what we found among Silicon Valley law firms. To the extent that a certain course of action defines a role, incumbents in that role are more likely than others to conform to that behavior. However, the highest status actors, who enjoy a significant degree of security in their role incumbency, feel less encumbered by such role prescriptions.[33]

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[33] This effect contrasts with that found by Hayward and Boeker (1998) among the analysts whose banks had recently underwritten a securities offering for the firms they covered. The difference between the two studies may be due to two factors. First,

Interestingly, the status of the investment bank appears to be more important than that of the analyst in producing the IUS curve in this setting. Models 4 and 5 parallel models 2 and 3 with the mean status of the analyst's investment bank replacing her own status as a predictor. As may be seen by comparing the fit of model 3 ($\chi^2 = 341.69$) and model 5 ($\chi^2 = 404.70$), the investment bank's status has considerably greater explanatory power than does the analyst's status.[34] Indeed, model 6, which includes the linear and squared terms for both bank and analyst status shows no independent effect of analyst status net of bank status. Thus, it is the overall status of the bank that defines whether an analyst is a player and the degree of security an analyst enjoys. This implies that a mitigation of the insecurity is felt by the middle-status analyst when she works at a high-status bank and vice versa.[35] To depict the linear and quadratic effects of bank status, we convert the logit (log odds) of publishing a sell order into a probability and graph it against the observed range of bank status in figure 5. This chart closely mirrors the family law announcement patterns in figure 4. The analysts who work for the highest and lowest status banks are most likely to risk publishing a sell order.

CONCLUSION

We have pursued two principal objectives in this article. First, we aimed to give a firmer theoretical foundation to the long-standing conjecture that there is an inverted U-shaped relationship between status and conformity. The heart of our theoretical framework lies in the recognition that there exist only three possible locations with respect to the social boundary that separates role incumbents from outsiders: one can straddle it or reside on either side of it. We argued that the IUS curve is generated through the mapping of two psychological orientations—identification

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since Hayward and Boeker use the published *Institutional Investor* rankings, their status measures are necessarily truncated below the very top of the status hierarchy. Thus, they may be capturing the quadratic, rather than the linear, effect of status. The second issue relates to the first. In particular, since higher status banks are more likely to be underwriters, it may be that their status measure captures differences between high- and middle-status analysts rather than between high and low. It is quite apparent, however, that when the full set of analysts is considered, the main effect of status on the probability of issuing a sell rating is negative.

[34] As with the law firm study, these findings were replicated using dummy variables that distinguished top analysts and firms from low-status outsiders.

[35] The nesting of analysts within banks suggests the possibility of an interaction effect between analyst and bank status (Hayward and Boeker 1998). We do not present such results here because (a) tests for interaction effects produced marginal improvements in the fit of the models; and (b) the interpretation of such interaction effects is complicated by the presence of both linear and squared terms for both status variables.
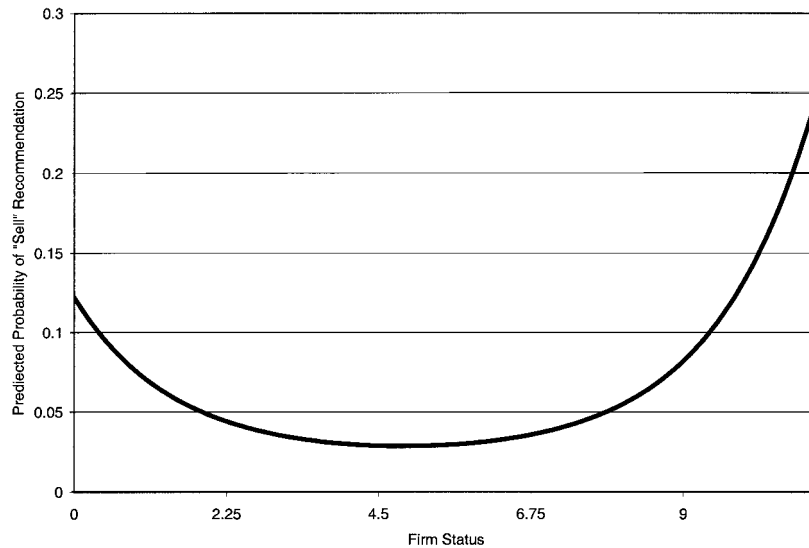
FIG. 5.—Predicted probability of making a "sell" recommendation as a function of firm status (194 firms, 1996; others' opinions = 2, research firm = 0, analyst status = 2.14).

with a role and security in one's role incumbency—into three structural locations. However, this mapping is highly conditioned on key contextual factors. Indeed, the second distinguishing feature of our framework is the delineation of guidelines for validating the IUS curve empirically. We argued that it must be possible to distinguish status from other stratifying variables; that the interface must command strong identification among middle-status actors; and that the status structure must confer security to the top-ranked actors, give some prospect of mobility to the middle ranked, and render the lowest ranked actors observable outsiders. We also suggested that, in undertaking the action in question, the actor must face a significant risk of delegitimation.

These guidelines set the stage for the second objective of this article: the validation of the IUS conjecture in two different settings: the Silicon Valley legal services market and the market for investment advice. We pointed to several key features shared by these contexts, which make them particularly appropriate for a test of the IUS conjecture. Particularly noteworthy was the identification of tiered market segments or hemispheres such that incumbents of the lower tier were effectively observable outsiders to the upper tier. In addition, middle-status actors in both markets faced the troubling dilemma of considering a course of action that, while potentially beneficial, constituted prima facie evidence that they were not players in the high-status interface. Finally, unlike most previous

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research on the IUS curve, each of the contexts examined here allowed for the separation of status from variables that are typically confounded with it. That we found strong evidence for middle-status conformity in both markets helps reassure any doubts about the validity of either application.

It must be noted that in reaffirming the idea of middle-status conformity we intend not to close off lines of inquiry, but to set the stage for further research into these and related matters. Indeed, while we have identified two contexts that fit within our scope conditions, it is clear that many settings do not. It follows that these conditions represent contextual factors that should engender characteristic changes in the relationship between status and conformity across settings. For example, as argued above, where the status structure is such that no observable outsiders exist, status should have a negative, linear relationship with conformity. Similarly, if the status structure is not sufficiently stable to provide security to the highest ranking analysts, then their freedom to deviate should evaporate.

Moreover, one may imagine interaction effects that affect the psychological orientations that underlie the IUS curve. For example, the tenure of an actor's role incumbency may heighten the security that a high-status actor feels (Berkowitz and Macaulay 1961). In addition, the presence of alternative interfaces with which to identify should lessen one's anxiety about being on the periphery of a focal audience's attention. Finally, different kinds of actions should elicit different relationships between status and conformity. In particular, the foregoing theoretical framework predicts that the IUS curve should arise only where an action poses a threat of delegitimation, but not so threatening that even high-status actors are made to feel insecure.[36]

Thus, the ultimate validation of the proposed framework should come only when the proposed scope conditions are transformed into contextual variables and are then tested for their implied interaction with the IUS curve. By making such predictions explicit, we hope to have erected a solid foundation for future research. In addition, we would like to highlight three general theoretical implications of our analysis.

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[36] We have investigated this last issue in the case of Silicon Valley law firms through an examination of the relationship between status and the hazard of adoption of various practice areas, in addition to family law. These results, which we do not display due to space constraints, confirm our expectation that the IUS curve is far from ubiquitous. For example, status has a negative and linear effect on the adoption of personal injury law, a finding that reflects the fact that, relative to family law, personal injury is more deeply discrediting (see, e.g., Heinz and Laumann 1982, p. 69) and therefore avoided even by those who are secure in their high status.

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Role and Status in Markets

First, it is noteworthy that our perspective stands at the intersection of two related themes in recent economic sociology: the market as role structure and the market as status structure. White and colleagues (White 1981*a*; 1981*b*; 1988; Leifer 1985; Leifer and White 1987; White and Eccles 1987) have been most prominent in advocating the first view, which sees the market as comprising a system of interlocking producer roles. This identity order gives coherence and stability to the market, but only if there is conformity: producers must play recognized roles lest they hinder the acts of cross-product comparison that sustain the market (White 1981*a*; Zuckerman 1999). Podolny (1993, 1994) has been influential in advocating the second perspective, whereby the market is composed of a hierarchy of players ordered on the basis of their perceived quality. He argues that status positions tend to become rigidified such that higher status actors earn consistently greater returns than lower status actors independent of their relative quality—but only if they do not sully their status through association with low-status alters. These returns to status extend status hierarchies over time, reinforcing returns to status (Podolny and Phillips 1996). Moreover, status may become a resource that can be deployed outside the setting where it was originally conferred (e.g., Stuart, Hoang, and Hybels 1999; Mavrinac 1999).

While these two conceptions of the market do not conflict with one another, they have so far resisted theoretical integration. But in highlighting the relationship between an actor's status and the degree of his role incumbency, the present analysis suggests a possible basis for such a synthesis. A key feature of any analysis of the market as role order is the tendency for sellers who deviate from recognized roles or categories to be penalized by audiences who cannot make sense of their offerings (Zuckerman 1999). However, as stressed here, whether or not an actor is recognized as violating role expectations depends on his status. For the very highest and lowest status actors, deviation is essentially irrelevant: acceptance of the former and rejection of the latter as role occupants is preordained. As such, it is the middle-status sellers who face the strongest pressure to play expected market roles. Indeed, whereas existing conceptions of the market as role structure imply a static equilibrium of role-playing sellers, the recognition that those at the top and bottom of hierarchies are least likely to conform inserts a basis for disequilibrium. That is, the decoupling of role incumbency from role performance typical of either end of a status hierarchy provides the basis for the emergence of new types of behavior, eventually resulting in different role structures.[37]

[37] The present discussion does not mean to exclude additional bases for nonconformity in such roles as autonomy in a market topology (Burt 1992, chap. 6).

Role Assignment and Nonconformity

This proposed integration of status and role in markets also suggests a solution to a more general problem that has long plagued role theory (see, e.g., Goode 1960). In particular, if we define a role on the basis of the normative prescriptions followed by incumbents, nonconformity poses a problem: Do we regard norm-breakers as occupants of their supposed roles? If we do not, then we must do away with the many roles in which normative behavior is the exception rather than the rule. If we do, then we would seemingly have little basis for distinguishing incumbents from others. One radical solution to this problem, advocated by network theory, has been the delineation of roles solely on the basis of patterns in social relations that have been abstracted from their content (e.g., Burt 1976; White, Boorman, and Breiger 1976; Winship and Mandel 1983; see also Nadel 1957). But while attractive, this structuralist approach falters when confronted with the fact that the same pattern of ties takes on different meaning and generates different effects depending on the types of role relationship involved (e.g., Podolny and Baron 1997).

The present analysis suggests an alternative way of resolving this problem. In particular, we stress that there exist two bases for assigning an actor to a role: his actions and his status. In general, those who conform to audience expectations gain recognition as a role incumbent. However, as there typically exist "entry barriers" to a given role, certain candidates are likely to be denied such recognition regardless of how slavishly they conform. Conversely, when a role incumbent has achieved a high status, his status becomes more salient than his actions in determining his ability to retain such recognition. Thus, while the problem of nonconformity surely renders the identification of role incumbents problematic, such deviation is inherent in the intersection of status and role. Nonconformity does not imply the absence of role prescriptions but simply that a candidate's actions are not the sole basis by which she gains validation as a role incumbent. Accordingly, the oft-noted fact that, to gain membership, outsiders must demonstrate greater conformity than is required of incumbents to retain membership, reflects the fact that both status and behavior figure importantly in an audience's assignments of identity.

Ascription with Achievement

In closing, we note two interlocking paradoxes. First, whereas the notion of conformity would seem to imply a static social order, we have pointed out that there must be some prospect of (at least, downward) mobility for an actor to feel pressure to conform. *If an actor's structural position is fixed, her actions are irrelevant.* As we have stressed here, an actor

conforms when both recognition as a player and denial of such recognition loom large. Thus, the notion of a fashion-conscious *parvenu* class is a feature of societies where new opportunities for mobility have been introduced (e.g., Riesman [1950] 1953; Whyte 1956; Laumann and House 1970). A second paradox immediately follows: while pressure for conformity depends on expectations of mobility, there would be no variance in the degree of conformity if mobility were determined purely on the basis of actors' behavior. Such heterogeneity emerges only where prior identities influence current identity assignments. *If actions are all that matter, an actor's structural position is irrelevant.* In sum, middle-status conformity reflects an enduring feature of modern society and economy: we reach the positions that we do on the basis of our actions and on the pre-existing identities we have been assigned. The IUS curve reflects the characteristic mixture of achievement and ascription that underlies our location in social structure.

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