



# Primary status, complementary status, and organizational survival in the U.S. venture capital industry <sup>☆</sup>



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## ABSTRACT

We introduce a distinction between two kinds of status and examine their effects on the exit rates of organizations investing in the U.S. venture capital industry. Extending past work on status-based competition, we start with a simple baseline: we describe primary status as a network-related signal of an organization's quality in a leadership role, that is, as a function of the degree to which an organization leads others that are themselves well regarded as lead organizations in the context of investment syndicates. Combining Harary's (1959) image of the elite consultant with Goffman's (1956) concept of "capacity-esteem," we then discuss complementary status as an affiliation-based signal of an organization's quality in a supporting role. We measure complementary status as a function of the extent to which an organization is invited into syndicates by well-regarded lead organizations—that is, by those possessing high levels of primary status. Findings show that, conditioning on primary status, complementary status reduces the rate at which venture capital organizations exit the industry. Consistent with the premise that these kinds of status correspond to different roles and market identities, we also find that complementary status attenuates (and ultimately reverses) the otherwise favorable effect of primary status on an organization's life chances. Theoretically and methodologically oriented scope conditions, as well as implications for future research, are discussed.

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## 1. Introduction

"For each role, there is a certain complementary role ... there can be no leader without followers."

[Turner and Shosid (1976)]

Syndication networks present an opportunity to move beyond prevailing models of status by seeing status in more than just one dimension. Consider investment banks joined through syndicates (Rowley et al., 2005), scientists linked through coauthorship teams (Stuart and Ding, 2006), or Hollywood actors connected through casts (Zuckerman et al., 2003). In

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the syndicates and syndicate-like structures that weave such networks together, organizations or individuals can play more than one valued role: leader or supporter. In banking syndicates, lead banks typically advise clients directly, while co-leads specialize in marketing. On coauthorship teams, first authors often craft new theories, while second authors run experiments and import new methods. In film, lead actors shoulder the narrative, while supporting actors play ancillary, though vital, parts. Using this simple difference in roles as our point of departure, in this article we introduce a distinction between two kinds of status and then examine their effects on organizational survival in a setting where syndication networks (Sorenson and Stuart, 2001) are a defining feature of market structure: the U.S. venture capital (VC) industry.

We refer to the first kind of status, familiar from prior research (e.g., Podolny, 2005; Sauder et al., 2012), as *primary status*, because it is related to the enactment of a leadership role. Consistent with past work, an organization holds a desirable position in a latent primary status order to the degree that it assumes leadership positions—in syndicates or syndicate-like structures, such as alliances, groups, and teams—above other well-regarded lead organizations. Likewise, individuals endowed with this first kind of status, like a company president or CEO, reside near the top of a visible pecking order (Bonacich, 1987).<sup>1</sup>

In contrast, we refer to the second kind of status as *complementary status*, because it is related to occupying a supporting role. An organization occupies a valued position in a latent complementary status order to the extent that it is frequently sought out to fill auxiliary roles in syndicates by well-regarded lead organizations, that is, by those who possess high levels of primary status. Similarly, individuals with this second kind of status, like a CEO's special advisor, certainly play a coveted role, but one that is "outside" the main pecking order. Thus, the two kinds of status on which we focus are analytically separate, but conceptually (and methodologically) nested: while each kind of status is related to a unique role in a system of exchange—leader or supporter—a focal actor's complementary status is shaped by the primary status of those that the focal actor supports.

We can summarize our main motivations for introducing this distinction by considering this question: What would status theorists miss if they were to overlook complementary status? Of course, for some social settings, nothing would be missed. In some domains, corporate or individual actors occupy just one important role—for instance, that of the producer—and the audience members who confer status agree strongly on the (narrow) criteria according to which recognition and esteem should be dispensed (Shils, 1994). Looking ahead to a later sketch of scope conditions on our hypotheses and results, a supporter at times has no chance to gain status-conferring recognition from a leader; the supporter is only lower-ranked or, worse, a sycophant.<sup>2</sup>

Conversely, in other contexts, leader and supporter roles are filled, and, accordingly, there are separate paths to the different kinds of status that concern us. Consider further a main feature of the labor market in the film mentioned earlier: among the actors and actresses comprising a cast, some get top billing and others jockey for auxiliary parts—often hoping for parts alongside bankable stars. Meryl Streep and Will Smith consistently enjoy top billing; Siobhan Fallon and Jason Alexander do not, though they nonetheless have garnered esteem from Hollywood's denizens for their contributions as members of the supporting cast. Early in his career, Samuel L. Jackson played supporting roles with much success, but more recently he has improved his standing as a lead. Robert De Niro has long enjoyed considerable esteem in both kinds of roles.

In our view, to overlook complementary status in contexts like film, and in related settings in which syndicate-like structures abound, is to bypass at least three important questions: First, although leaders cannot (by definition) esteem supporters in the same way that supporters esteem leaders, what might a plausible method look like for aggregating flows of recognition that do accrue *from* leaders *to* supporters in a measure of complementary status? Second, does complementary status affect life chances in a market, conditioning on primary status, and if so, to what extent? Third, does the known, favorable effect of primary status on market outcomes vary with complementary status, and if so, what are the implications for status theory?

We explore these questions in the context of the U.S. venture capital industry by constructing yearly relational matrices that depict VC firms' patterns of syndicated investment as leads or as co-investors. Using the primary and complementary status scores resulting from this analysis, we consider their effects on VC firms' rates of exit, defined as seven or more years of failing to invest in any target company. Before turning to these measures and models, we develop two hypotheses about the main effect of complementary status and its interaction with primary status.

Expectedly, our baseline expectation—and thus the implicit null for our first hypothesis on complementary status—reflects the wisdom of prior work on status-based competition: what we refer to as primary status is the only status dimension that matters for organizational survival. We nonetheless see this as an interesting null against which to argue for two reasons. One reason relates to the large amount of prior work tracing market outcomes to just one status dimension (see esp. Podolny, 2005). The notion that just one status ordering shapes outcomes in markets is almost taken for granted, and so exploring the possibility that two dimensions matter, at least in some markets, strikes us as important for advancing status

<sup>1</sup> This claim prompts an interesting question: Does position in an asymmetric network virtually equate to status? Or, is working from an asymmetric sociomatrix merely a good strategy for approximating a social factor that is much harder to pin down? On the one hand, if one closely follows Podolny and Phillips's (1996) conception of status as a "stock" built up from "flows" of deference, and if the act of one bank publicly "yielding" to another bank captures much of the deference exchanged between them, then Bonacich's measure and status itself are closely aligned. On the other hand, one might argue (as one colleague did) that the opportunity to lead others in syndicates is made possible by status. One's view here depends on (i) how much of the status-relevant deference or recognition is in fact captured in the cells of the relational matrix and, more generally, on (ii) how status is defined.

<sup>2</sup> Separate from Bonacich status, a measure of sycophantic behavior can still be computed from the same sociomatrix. Using the weekly sociomatrices recording likability rankings in Newcomb's fraternity, Bothner et al. (2010, pp. 962–963) present a weighted asymmetry measure, capturing the extent to which a given fraternity member returns deference to those from whom he receives disdain.

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