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The Social Facticity of Partner Status:
The Case of Local Governments and Investment Banks

A dissertation submitted in partial satisfaction of the
requirements for the degree Doctor of Philosophy
in Management

by

Thomas G. Altura

2015

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ABSTRACT OF THE DISSERTATION

The Social Facticity of Partner Status:
The Case of Local Governments and Investment Banks

by

Thomas G. Altura

Doctor of Philosophy in Management

University of California, Los Angeles, 2015

Professor Sanford M. Jacoby, Chair

When and why do organizations prefer high-status exchange partners? When and why do organizations prefer low-status exchange partners? A theory of organizational status preferences should be able to answer both of these questions simultaneously. I argue that an organization's status preferences with respect to partner selection should be viewed as a social process, rather than just a strategy to reduce exchange uncertainty, enhance market prestige or satisfy market institutions. Organizations are sites of social construction and negotiation. The partner selection process must cohere with the production of a legitimate, organization-specific social order. In heterogeneous organizations, legitimacy is established through the externalization of action; the selection of a high-status partner thus demonstrates coherence with the social order. In homogeneous organizations, legitimacy is tradition-based; the selection of a high-status partner

will be viewed as disruptive to the social order. Thus status does not determine a firm's market legitimacy. The characteristics of the evaluator determine the legitimacy of status. This is illustrated by an examination of the municipal bond issuance process, where local governments in the United States select investment banks in order to issue debt obligations. Specifically, I find that racially/ethnically, functionally and politically heterogeneous organizations have a preference for higher-status partners, while homogeneous organizations prefer lower-status partners. Thus, organizations interact with external actors through an internally negotiated lens. Partner status is a symbol relevant to the construction of an organization-specific social reality.

The dissertation of Thomas G. Altura is approved.

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RESEARCH INTERESTS

Status, legitimacy, social networks, economic sociology, business and government

CHAPTER 1:

INTRODUCTION

Status is a key attribute by which organizations select exchange partners (e.g., Chung, Singh, & Lee, 2000; Jensen & Roy, 2008; Podolny, 1994). Podolny (1993, 1994, 2001) argued that status acts as a proxy for product quality. Specifically, by selecting high-status partners an organization may both reduce transactional uncertainty as well as increase its own prestige in an opaque market. Indeed, much of the research on the role of status in organizations and markets has focused on issues of product and performance quality (Piazza & Castellucci, 2014). A growing number of studies has further argued that status is not only relevant in terms of the estimation of quality, but is also important in situations where there are high accountability pressures (Jensen, 2006; Jensen & Roy, 2008; Uzzi & Lancaster, 2004) and greater challenges with respect to coordinating others' perceptions of quality (Correll, Ridgeway, Zuckerman, Jordan-Bloch, & Jank, 2013). I build on this recent turn in the literature, but argue that both the “uncertainty” and “accountability” perspectives (Jensen, 2006) overlook the importance of legitimacy and cultural process in the construction of status preferences.

I approach status preferences as emergent from a process of social construction (Berger & Luckmann, 1966; Garfinkel, 1967; Zucker, 1977). Rather than just being the result of market or accountability factors, status preferences emerge from the legitimate order of the focal organization (Weber, 1978). Indeed, recent work has begun to reexamine the coupling of status and objective (Azoulay, Stuart, & Wang, 2013; Bothner, Kim, & Smith, 2012) or perceived quality (Kovács & Sharkey, 2014); as well as the common assumption that a high-status partner

is always preferred (Bothner et al., 2012; Castellucci & Ertug, 2010; Jensen, 2008) or always viewed as more legitimate (Phillips, Turco, & Zuckerman, 2013). Further, a small but growing number of studies has looked to the social context of decision making, specifically considering accountability pressures and coordination issues with respect to status evaluations (Correll et al., 2013; Jensen & Roy, 2008; Phillips et al., 2013; Uzzi & Lancaster, 2004). Nevertheless, prior research has not gone far enough in pursuing what Bitektine (2011:151) calls the “evaluator’s perspective.”

Current research is limited in explaining why one organization may prefer low-status partners and another may prefer high-status partners. To be sure, there has been an important turn in the literature where research is beginning to identify potential benefits for high-status actors contracting with lower-status actors (Castellucci & Ertug, 2010; Cowen, 2012; Jensen & Roy, 2008). But the findings in these studies have to do with competitive dynamics within a market hierarchy. I argue that an explanation for a preference for high status and an explanation for a preference for low status should come from the same, underlying mechanism. Advancing work that emphasizes the evaluator’s perceptions of status (Bitektine, 2011; Kovács & Sharkey, 2014), I look to the characteristics of the evaluating organization, or “ego.” I argue that whether high or low status is preferred has to do with what the introduction of the status symbol means in its adopted, local context. Specifically, in contexts of high racial/ethnic, functional and political heterogeneity, partner status demonstrates objectivity and exteriority – and thus contributes to the coherence of a legitimate order (Weber, 1978). However, in contexts where the focal organization’s legitimate order is constituted through taken-for-granted assumptions and tradition-based authority (Weber, 1978; Zucker, 1986), the adoption of a powerful status symbol will be viewed as disruptive to the social order of things, and actively eschewed. Thus, I argue

that it is not status that determines legitimacy (Phillips & Zuckerman, 2001), but the characteristics of the evaluator that determine whether status itself is legitimate.

Status is a relative position in a social structure that commands a corresponding level of esteem and deference from others (Gould, 2002; Washington & Zajac, 2005; Weber, 1978). There is a stickiness to status, with significant temporal and intersubjective consistency (Washington & Zajac, 2005). Further, Bothner et al. (2012:418) stated that high-status actors view their position as a “social fact” (Berger & Luckmann, 1966; Durkheim, 2014) and thus secure. I build on this insight, explicating that a status hierarchy is a cultural system that derives social facticity through its “objectivity” – i.e., repeatability – and its inter-subjectivity, as it is a “part of external reality” (Zucker, 1977:726). However, I argue that this social facticity will be order producing in some contexts and disorder producing in other contexts.

The social facticity of status will be important in organizations with higher levels of heterogeneity. As Simon (1976) and March (1962) argued early on, organizations are sites of negotiation, where processes and procedures are used to coordinate and govern individuals with differing perspectives, interests and beliefs. Further, recent work in institutional theory has shown that organizations may embody multiple and even conflicting logics of action (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Pache & Santos, 2010; Thornton & Ocasio, 1999). Yet, as Gulati, Lavie, and Madhavan (2011) and Rogan (2014) have pointed out, inter-organizational research has tended to portray organizations as one-dimensional actors, simply nodes. I argue that as heterogeneity among the focal organization’s participants increases, so will the importance of selecting a high-status alter, as this conforms to the type of rationalized bureaucracy that is found in such contexts (Ouchi & Maguire, 1975; Tolbert & Zucker, 1983; Zucker, 1986).

However, the introduction of a high-status actor into a social system will not always be order producing. Where social reality is constructed through implicit background assumptions and shared ideology, a low-status actor will be preferred because such an actor will not disrupt the *modus operandi* of the organization. Legitimacy is not produced here through the use of externally defined social facts, but through traditional authority and historical enculturation processes (Weber, 1978; Zucker, 1986). The same external “social facts” that produce order in a heterogeneous context will produce disorder in a homogeneous context. Indeed, high-status actors have powerful effects on the behaviors of others (Castellucci & Ertug, 2010; Whyte, 2012). The deference a high-status partner commands will facilitate the pursuit of organization-level goals in heterogeneous organizations while challenging the agreed upon social reality in homogeneous organizations. In other words, status preferences are socially reconstructed and specific to the context of the focal organization, or in network terminology, ego.

To examine the relationship between organizational heterogeneity and status-preferences, I focus on the municipal debt issuance process. Local governments in the United States frequently retain investment banking firms to structure, market and sell municipal bond products in order to raise money for capital improvement projects (e.g., schools, roads, etc.). The municipal market is notable for its complexity and information asymmetries, as there are tens of thousands of government issuers, great variability in bond structures and no formal venue of exchange (Green, Hollifield, & Schürhoff, 2007). Despite the size of the municipal market – valued at \$3.65 trillion dollars at the end of 2014 (SIFMA, 2015b) – and recent defaults following the financial crisis, it remains an understudied context.

This study uses both qualitative and quantitative methods. Interviews with industry participants, including government officials, investment bankers, and financial advisors, reveal

that the selection of a bank is a social process enmeshed within the order of the focal organization. The interview data show that the “political arena” and inter-departmental power struggles are critical to understanding an organization’s status preferences. I then develop specific hypothesis to test quantitatively.

Informed from the literature on politics in the context of local governing (e.g., Alesina, Baqir, & Easterly, 1999; Kaufmann, 2004), I first predict that governments of more racially/ethnically heterogeneous communities will prefer higher-status investment banks. Prior research has shown that racial/ethnic heterogeneity is associated with lower levels of social cohesion (Alesina et al., 1999; Putnam, 2007), increased emotional conflict (Pelled, Eisenhardt, & Xin, 1999), and an increased attentiveness to externally defined facts in decision making (Sommers, 2006). Thus, in racially/ethnically heterogeneous contexts, status will be employed as a legitimating symbol in the selection process: a social fact independent of any decision maker. Second, functionally heterogeneous organizations – those with employees spread across different departmental areas – are predicted to prefer higher-status firms, so as to bridge divergent functional lenses and interests, as well as to promote intra-organizational deference towards organization-level goals. Third, I consider political heterogeneity – here, the extent of competition between the Democratic and Republican parties – predicting that a plurality of political logics will also be associated with a preference for high-status. Lastly, I expect the effects of racial/ethnic, political and functional heterogeneity on status preferences to be positively moderated by the size of the focal transaction.

This study both extends and is at variance with prior research on status in markets and organizations, including both the “accountability” and “uncertainty” perspectives. Podolny’s (1993) seminal study on status argued that high-status firms – and investment banks, specifically

– do not overtake an entire market due to these banks limiting their interactions to other high-status actors. The results in the present study do indeed show that high-status firms may choose to limit activity to, for instance, larger issuers with higher credit quality. However, I also find that the characteristics of the evaluator affect the preference for low-status versus high-status partners. Specifically, a preference for a particular status-bracket is a qualitative choice emerging from local political and social contexts. Thus, the legitimacy of a status-bracket is not monolithic, but context-dependent.

The focal organization, rather than being a one-dimensional actor that seeks to maximize quality, is a system that views the market and interacts with its environment through an organization-specific, socially constructed lens. This study contributes to the literature, first, by grounding the process of partner selection in the context of the focal organization. I view partner selection as a cultural process, rather than a single boundedly-rational decision, and show that a preference for a high-status partner is not just related to exchange uncertainty or accountability pressures, but is also a symbolic process that is part of the organization's continual attempt to produce social order (Drori & Honig, 2013; Johnson, Dowd, & Ridgeway, 2006; Weber, 1978). By taking a symbolic approach with a focus on the evaluator's context (Bitektine, 2011; Kovács & Sharkey, 2014), this study advances a more cultural interpretation of status in markets (Preda, 2005).

Second, I present a theory for status preferences. This addresses a weakness in the literature in explaining why high-status actors and low-status actors may be preferred. While there has recently been important work finding benefits to high-status actors contracting with low-status actors in competitive situations (Bothner et al., 2012; Castellucci & Ertug, 2010; Cowen, 2012; Jensen, 2008), as well as negative effects of status on consumers' evaluation of

cultural products (Kovács & Sharkey, 2014), this work is limited to contexts of market competition in the former, and cultural markets in the latter. Answering Kovács and Sharkey's (2014:28) call for research examining "heterogeneity in the effects of status across different audience groups," I present a cohesive explanation of status preferences that simultaneously addresses why both high-status and low-status actors may be preferred and not preferred by different evaluating organizations.

Third, the study shows that transactions have a social significance far beyond their ostensible functionality; they are venues through which intra-organizational social processes are played out. The construction of legitimacy within organizations extends outwards towards the marketplace. This contrasts with the common approach in institutional research looking at the market's legitimacy pressures on the organization. And lastly, the study expands the empirical breadth of network and organization research to include government-firm relations. Given the ubiquity of government-firm ties, this is a ripe and surprisingly understudied context to generate and apply theories of status and organizations.

CHAPTER 2:

THEORY

Status

Research on status in organizations and markets has generally focused on status as a type of indicator for product quality (Lynn, Podolny, & Tao, 2009; Podolny, 1993; Simcoe & Waguespack, 2011). This emerged from Merton's (1968a) well-known "Matthew Effect." Specifically, as an actor gains status, that actor will also gain attention and resources from others, thereby further increasing the actor's underlying quality, ultimately leading to a self-fulfilling prophecy over time (Merton, 1968a; Merton, 1968b). Indeed, Podolny's (1993) seminal work on status in markets defined status as a firm's relative "perceived quality" (p. 830), arguing that if high-status actors are on average of higher quality, then status will be used as a heuristic when decision makers estimate quality. Podolny (1993) further argued that an actor's status is determined through social ties. To the extent that an actor is more central in terms of ties to other high-status actors, then third-parties will view such an actor as being of higher status and thus higher quality. As Podolny (2001) later expounded, network structures are not only "pipes" enabling the flow of resources between organizations, but also "prisms" signaling important information to an audience of third-party organizations.

Indeed, an important concept of much of the status research is that of the "audience," with the audience most often referring to a market of third-parties (Baum & Oliver, 1991; Podolny, 2001; Pollock & Gulati, 2007; Stuart, Hoang, & Hybels, 1999; Zuckerman, 1999). Specifically, by associating with high-status alters, ego may enhance its own prestige to potential partner-firms, investors and customers. For instance, Stuart et al. (1999) found that the formation

of ties with prominent exchange partners enabled start-up firms to access the capital markets through an IPO at a faster rate and at a higher valuation than companies that did not have such affiliations. Pollock and Gulati (2007) also showed the value of signaling status to an external audience, finding that affiliations with prominent underwriters led to a higher likelihood of forming other valuable alliances in the future. To be sure, much of the work in organizational sociology is focused on how particular roles and signals are interpreted or evaluated by a broad market audience (Cattani, Ferriani, Negro, & Perretti, 2008; Hsu, 2006; Phillips & Zuckerman, 2001; Zuckerman, 1999).

Davis and Robbins (2005), Jensen (2006) and Jensen and Roy (2008) also focused on the role of the market audience in partner-selections. However, these studies focused attention on accountability pressures, rather than just product uncertainty. For instance, Davis and Robbins (2005) found that firms with institutional investors and those that are subject to greater shareholder activism are more likely to select high-status directors. Jensen (2006) and Jensen and Roy (2008) showed that firms accountable to “powerful market institutions” (Jensen & Roy, 2008: 495) – public pension funds, stock analysts and the New York Stock Exchange – were quicker to defect from Arthur Anderson following the Enron scandal (Jensen, 2006), and were in turn more likely to choose a big-four auditor (Jensen & Roy, 2008). In these studies, accountability pressures are due to institutions that provide governance and informational transparency to the capital markets.

A small number of studies have also begun to examine the role of partner-status in a more localized context. For instance, Uzzi and Lancaster (2004) find through interviews in the corporate law industry that there are emotional reasons (Veblen, 2007) for retaining a high-status

law firm.¹ Specifically, by going with a high-status law firm, decision makers are able to convince those who are monitoring them, such as the board of directors, that the choice was indeed proper and that the company is getting the best firm possible. Correll et al. (2013) argued that a high-status product may be preferred not because an individual believes it is of higher quality, but because the individual believes others believe it is of higher quality. Thus, they argued that status is used as a “focal point” (Schelling, 1980) in order to “coordinate” with others’ perceptions of quality (i.e., what most believe is of high quality). Indeed, in the context of small groups, status has been found to be important to coordinating group decision making (Eckel, Fatas, & Wilson, 2010; Eckel & Wilson, 2007; Simpson, Willer, & Ridgeway, 2012). And in a study of the corporate law industry, Phillips et al. (2013) found that one reason high-status law firms are unable to pursue personal injury law is that it would be seen as a betrayal to their corporate clients. They argue that, “...the key question for a client in evaluating an unusual form of diversification is not whether it actually lowers a firm’s capabilities or commitments but whether key constituencies for the decision are likely to perceive it in this manner” (Phillips et al., 2013:1047). Thus, research is expanding beyond just a focus on status as an individual’s quality judgment, also examining status-judgments in terms of others’ perceptions of such actions.

As some have pointed out (Bothner et al., 2012; Castellucci & Ertug, 2010; Jensen, 2008), most of the literature takes an assumption that organizations always seek to maximize their own status by affiliating with organizations of equal or of higher status (Jensen, 2008). Indeed, whether departing from the uncertainty perspective (Podolny, 1993) or the accountability (Jensen & Roy, 2008) or related coordination perspectives (Correll et al., 2013; Zuckerman,

¹ Baker (1998:171) also mentions the need to have a “plausible story” in hiring decisions.

2012), there is a strong assumption that status is about either conforming to what an individual believes is of high quality, or to what that individual believes others see as the highest quality option [or to what others see what others see as the highest quality option, etc. (Correll et al., 2013; Phillips et al., 2013)]. There have indeed been recent studies that show that high-status firms may prefer low-status partners. However, these studies are focused on competitive dynamics, such as take-over processes (Cowen, 2012; Shen, Tang, & Chen, 2014), efforts to exclude powerful, new market entrants (Jensen, 2008), or a desire on the part of high status actors to extract greater effort from low status actors (Castellucci & Ertug, 2010). Note that these studies are examining status preferences among occupants *within* a particular market status hierarchy. Specifically, Jensen (2008) showed that high-status investment banks sought to exclude high-status commercial banks from entering the corporate securities market. Castellucci and Ertug (2010) found that high-status actors may be able to induce a greater effort from low-status exchange partners. And in looking at investment banking takeovers and mergers, Cowen (2012) showed that there is a benefit to having one firm clearly occupying a higher-status position pre-merger so as to better integrate and coordinate the firms, particularly in international mergers. These studies show that at least in competitive situations, high-status actors don't necessarily want to interact with other high-status actors, contrary to theory focusing on status attainment and maintenances through high quality network ties (Podolny, 1994).

However, current research remains limited in explaining status preferences. Specifically, if a particular firm in a lower-tier bracket was viewed as being of high quality (to all decision makers), and a firm in an upper tier bracket was viewed as being of the same quality (to all decision makers) – and assuming all those observing the decision know each other's preferences (Correll et al., 2013) – there is still no reason for the lower-tier bracket to ever be preferred, other

than in situations where the evaluator is essentially in competition with the evaluatee. But an important recent study by Kovács and Sharkey (2014) shows that in the context of cultural markets – specifically, book publishing – positive status-shocks resulting from a prestigious prize actually result in a more negative evaluation of the quality of that book in the market. This is explained as the result of (1) the prize attracting a large number of readers due to increased attention, rather than taste for the particular book and (2) that popularity is not always viewed as a positive, but can be “off-putting” (p. 1). As they explain, such an effect “flies in the face of much research on the effects of social status” (Kovács & Sharkey, 2014: 2). The results found in Kovács and Sharkey (2014) are significant, and suggest that we should not just look for exceptions to the status-seeking assumption, but rather revisit it completely.

When is high status preferred? When is low status preferred? The purpose of this study is not to answer just one of these questions, but rather to reevaluate the common explanations for status preferences, and present theory that addresses both of these questions simultaneously. The further we decouple the definition of status from quality – which has been the trend (Piazza & Castellucci, 2014) – the more we should move towards cultural, rather than economic, explanations. I address the questions posited above by asking another question: ‘which *types* of organizations prefer status and why?’ To answer this, I argue that partner-status must be viewed not as a proxy for quality, and not as an ordinal ranking of firms in a market network; but rather a cultural symbol (Preda, 2005) that may contribute either to the construction or deconstruction of the focal organization’s social order.

Legitimacy

Suchman (1995) defined legitimate behaviors as those that are collectively recognized as being meaningful and appropriate. Note, however, that as Bitektine (2011) argues, an audience

may seek to understand the relative status of a particular social object or behavior while at the same time evaluating whether or not that object or behavior is legitimate. Indeed, while status and legitimacy are both socially constructed, they are distinct phenomena (Bitektine, 2011; Piazza & Castellucci, 2014; Washington & Zajac, 2005). Thus, as Washington and Zajac (2005) state, status and legitimacy are not mutually dependent, as a low-status organization may or may not be considered legitimate, and vice versa. I argue that the status of an exchange partner will affect whether the partner-selection is viewed as being legitimate, but this input will be valued differently depending upon context.

This approach differs from much of the previous work examining legitimacy in markets. As Bitektine (2011) explains, the focus has been on whether or not an organization or organizational form is itself legitimate as defined by a fairly broad market audience. Zuckerman (1999) shows in his seminal study that organizations that do not conform to taken-for-granted market categories as viewed by an audience of critics face an “illegitimacy discount” in the marketplace. Cattani et al. (2008) found that the survival of film producers depended upon their establishing legitimacy through dense connections with a stable audience of distributors. And Human and Provan (2000) showed how the creation of a multi-lateral network depended on the legitimation of the coordinating entity among participating organizations. Rather than taking the market as the audience, I view the market from the perspective of organizational participants.

Dacin, Oliver, and Roy (2007:180) proposed that firms will form alliances for legitimacy purposes, in order to “reassure” insiders that a particular business strategy is sound. They further maintained that the selected firm must be legitimate as perceived by those within and around the focal firm. Most research on status would suggest that hiring a high-status firm would accomplish such a purpose. Indeed, Sharkey (2014:1389) states that, “Typically, social status

acts as an evaluative lens that enhances the perceived worth of legitimate or socially acceptable actions.” I argue here that in the context of partner selection, social context first determines the legitimacy of status itself, rather than a firm’s status dictating legitimacy as construed by the market. This is different than past research. Phillips and Zuckerman (2001) argue that a market audience determines legitimacy – or category membership – based on a three-tier status-hierarchy: a high-status firm is viewed by the market as a legitimate member of the field; a low-status firm is viewed by the market as an illegitimate member; and a middle-status firm is viewed as legitimate, but must actively maintain this legitimacy by pursuing conventional activities. However, Phillips, Turco, and Zuckerman (2011) and Phillips et al. (2013) revisit this theory, finding that “even the highest-status actor does not enjoy ‘unquestioned membership’” (Phillips et al., 2013:1028), but must also demonstrate that they are loyal to their client stakeholders. These two recent studies are important as they weaken the assumption of status determining legitimacy. However, I argue for going further in decoupling these two concepts.

Specifically, we can explain why low status is preferred in one context and high status in another if we take the *legitimacy of status* to be contingent on social context. Indeed, Kovács and Sharkey (2014:28) showed in the context of book-publishing that a “boost in status is interpreted differently by different readers.” Similarly, I examine what the same status symbol means to different organizations in the market, rather than assuming all will view a particular social object in the same manner. Following Weber (1978), a focal organization must produce a legitimate social order, where those within the organization all recognize, or recognize that others recognize, a set of norms, beliefs and practices that constitute appropriate action. Organizations differ in the extent to which they rely on bureaucratic-rationalization, versus informal norms, values and beliefs in producing such an order. As March (1962) proposed, organizations are not

uniform, but are sites of negotiation with heterogeneity in terms of participants' backgrounds, perspectives and interests. Indeed, early work in administrative theory focused on how organizations reconcile intra-organizational divergence. Simon (1964) argued that individuals may assume roles that are attached to specific programs of behavior that focus role-occupants on organization-level goals. Organizational control research has also examined heterogeneity, showing that the use of particular control mechanisms depend upon social context. For instance, Ouchi and Maguire (1975) found that increased bureaucratic controls are employed not just to improve efficiency but also as a legitimation strategy for decision making in functionally heterogeneous contexts.

Much of the work in institutional theory has also been focused on bureaucratic rationalization as a means through which organizations create a social world, as behaviors may be judged as being programmatic – and thus legitimate. This has been shown to be the case in contexts of significant ambiguity and cultural heterogeneity (Tolbert & Zucker, 1983; Zucker, 1986). For instance, Tolbert and Zucker (1983) found that early adoption of civil service reform by city governments was “related to internal organizational requirements” (p.22) – an effort by city governments to limit the growing influence of foreign-born immigrants with different cultural backgrounds. Tolbert (1988) looked at the ways in which law firms socialize new employees, finding that firms rely more on formalized socialization practices when there is greater educational heterogeneity. Bureaucratic rationalization thus produces legitimacy among heterogeneous participants.

Market status hierarchies are conceived of in this study as a type of social fact, a symbolic social structure that is collectively understood (Berger & Luckmann, 1966; Bothner et al., 2012:418; Durkheim, 2014; Garfinkel, 1967; Zucker, 1977). According to Zucker (1977),

social facticity results from practices being (1) objective, or being “potentially repeatable by other actors without changing the common understanding of the act” (p. 728); and (2) exterior, meaning inter-subjectively defined and thus “viewed as part of external reality” (p. 726).

Hierarchies of status-groups are inter-subjectively recognized and temporally stable in meaning. However, I do not assume that organizational preferences will follow the given status hierarchy; only that organizational participants will all recognize, and recognize that others recognize, the existence of that hierarchy (Johnson et al., 2006; Weber, 1978).

Note that contrary to the work discussed earlier looking at “third-order inference” (Correll et al., 2013), I do not argue that the preference for high status is due to estimating others’ estimation of quality. I argue that in heterogeneous contexts, organizations will prefer high status because it adheres to a rational-legal order, and is external to any one person (Weber, 1978; Zucker, 1977). In heterogeneous contexts, rationalized action constituted through the use of social facts produces a legitimate social order. Thus, high-status partners will be preferred. Further, status as most define it means that a high-status actor’s position commands deference from others (Piazza & Castellucci, 2014; Podolny & Phillips, 1996; Whyte, 2012). Organizations that more actively manage competing perspectives and interests will pursue organization-level goals by adopting symbols that promote deference. Selecting an actor with low status would be viewed not just as in violation of the bureaucratic order, but also ineffectual in that this would not garner respect from those within the organization that are in negotiation with one another.

We can also look at the other end of this continuum. Rather than defining status preferences just in terms of the preference for high-status actors – which is generally the case in past work – we can ask, ‘When would we expect a preference for low-status actors?’ Without answering this question, there is no reason why everybody would not pursue a high-status

partner. Not all organizations produce social order through bureaucratic rationalization. Organizations with more homogeneous participants will produce a legitimate order based upon “traditional authority” (Weber, 1978), shared ideology, and taken-for-granted cultural assumptions (Zucker, 1986). In these organizations, the selection of a firm from a high status-bracket would result in a disruption to the social order. High-status actors – by any conception of status that includes deference and respect as defining components – have a great ability to affect the environment around them, even as a result of only their presence (Whyte, 2012). High-status firms will thus have a greater capacity to alter and challenge a clients’ patterns of activity. In other words, while in heterogeneous contexts high-status partners cohere with and help construct the legitimate order, in homogeneous contexts high-status partners will disrupt and deconstruct the social order. Status-preferences thus emerge from organization-specific contexts. Thus, I do not assume status is order producing. Status may be both order and disorder producing.

Next, I present the empirical context of this study: the selection of investment banks for the purpose of issuing municipal bonds. I present qualitative data to help illustrate the actual processes in organizations and the concerns of decision makers. I then use these data to help inform the development of hypotheses which I test quantitatively.

CHAPTER 3: QUALITATIVE ANALYSIS AND HYPOTHESIS DEVELOPMENT

Municipal bond issuance

Local governments in the United States frequently access the capital markets to finance public improvement projects. For instance, a city government may issue bonds to raise capital to build a new firehouse or improve its transit system. Apart from “new money” issues, bonds may also be sold to refinance prior debt obligations as a result of a sufficient drop in borrowing rates. Bonds are most commonly issued through a “negotiated sale,” where an investment banking firm is retained as lead-managing underwriter to manage the structuring, marketing and sale of bonds to retail and/or institutional investors (Peng, Kirz, & Neish, 2008).² Note that financings are generally not quick transactions, but usually take months – and sometimes longer – from the time the firm is retained until the bonds are ultimately sold to investors.

Investment banks match seekers and providers of capital. However, given the information asymmetries in the municipal bond market, there exists considerable *a priori*, and even *ex post*, uncertainty regarding the investment bank’s performance (Eccles & Crane, 1988). Indeed, the municipal market in particular is noted for its opaqueness, with highly idiosyncratic bond issues

²Alternatively, a municipal government may choose to conduct a competitive sale, where bonds are directly sold to the market through a sealed bid auction. In this case, banks bid on the bonds, only winning the right to resell them if they offer the highest price. Also, some states mandate this type of sale for general obligation bonds. Lastly, while rare, issuers can bypass a public sale and instead conduct a “private placement,” where bonds are placed with a limited number of sophisticated investors. Since I am interested in an organization’s preference for partner-status, the focus in this study is on the common, negotiated type of bond sale, where an investment bank is selected *a priori* to the public sale of bonds. However, in the statistical analysis I control for the preference of governments to issue debt in such a manner.

trading over-the-counter, rather than in a formal exchange venue (Green et al., 2007). The selection of the lead-managing investment bank is thus an important organizational decision.

In order to better understand the processes through which local governments issue debt and select underwriters, I conducted interviews with 22 industry participants, from 19 organizations, and seven different states. Additionally, many interviewed had experience over their careers working in multiple organizations. I interviewed people from three general roles in the issuance process: government officials, investment bankers and financial advisors. All are currently active in the industry working for a local government, investment bank, or financial advisory firm. The interviews were conducted in the first four months of 2015. Contact information was obtained from the websites of various organizations, as well as from purchasing a subscription to *The Bond Buyer's Municipal Marketplace*, or "Redbook" as it is commonly known (Accuity, 2014). The Redbook lists public finance professionals' contact information as well as the key official or officials responsible for debt issuance in various governmental organizations.

Participants varied in terms of availability. The mean and median interview length was approximately 43 and 41 minutes, respectively, with a range of approximately 26 to 60 minutes, and standard deviation of 9 minutes. Nineteen participants allowed me to voice record the interviews, while three only allowed hand-written notes. All interviews except for one were conducted over the phone. They were semi-structured, guided by broad questions such as "What is the typical process for selecting investment banks?"; "How are candidate banks decided upon?"; "What makes for a successful transaction?" etc. The purpose was thus to obtain data on the issues that the participants felt to be most pertinent, and not to lead participants in any one

particular direction. Interviews evolved depending upon the information provided and points raised by each participant.

Industry roles and demographic details

The mean and median number of years of the participants' experience in the industry were both approximately 24 years, with a standard deviation of 10 years. Nine of those interviewed are working, or have worked for a significant amount of time, in government. Five of these nine have worked exclusively, or almost exclusively, in government and are currently employed by city or county governments. Four participants have spent a considerable amount or most of their careers in government and have since moved to the private side of the industry, working as an investment banker or financial advisor. Seven of the nine with public experience occupy or occupied at least one leadership position in a financial role for a city or county government, with job titles such as Finance Director (i.e. Chief Financial Officer), Treasurer and/or Debt Manager. Note that some of the participants have experience working for multiple governmental or nonprofit organizations, including having worked in bond issuance for other types of issuers, such as a public agency or state government.

I also interviewed 13 individuals who have worked exclusively, or almost exclusively, on the private side of the industry. These include investment bankers and financial advisors. Note that in addition to retaining investment banks, municipalities often will retain a financial advisor to provide additional expertise and assistance with the procurement process and the monitoring of the underwriter's performance in a bond sale. These firms may also conduct various feasibility and financial studies for the government. It was thus important to discuss the procurement process with not just government officials and bankers, but also with financial advisors. Further, financial advisors have a fiduciary obligation to act solely in the interests of their client: the local

government. While the perspective of the role and interests of the investment banker varied among those interviewed, bankers do not legally act as a fiduciary, as they sit between the issuing government and the investor.

Of those currently working in the private sector, eleven work for investment banks and six work for municipal advisory firms (but there is career crossover here as well). Additionally, an investment banking firm may, if they do not underwrite the bonds, act as a fiduciary advisor to a municipality. The frequency of titles (or their approximate equivalents) of those in the private sector are as follows: nine Managing Directors, two Directors, five Senior Vice Presidents, and one Vice President. Thus, those interviewed have almost all occupied significant leadership positions in their current or previous firms, and also include leaders in the field more broadly. The firms ranged from bottom-tier firms to top-tier “Wall Street” firms. Many of those interviewed working in the private sector have spent time in a number of firms over multiple decades. The cumulative experience of those interviewed thus include the completion of a large number of transactions for many different municipal governments. Further, this study uses a strategy of “triangulation” not just in terms of utilizing both qualitative and quantitative methods, but also through gathering interview data on the same process from the perspective of participants occupying different roles (Jick, 1979; Yin, 2013). While government officials were able to provide a great depth of information regarding the practices in their own organizations, bankers and advisors were able to add considerable breadth to the data, given that they have been retained by and worked closely with a large number of municipal governments.

Next, I report the key findings from the interview data before presenting the main hypotheses that I test statistically in the quantitative portion of the study. Note that these interviews were conducted in an exploratory manner. As the quantitative section will show, there

are far too many factors that may affect status preferences than can be “controlled” for with such a small number of participants. Rather, the interview data help to inform and add depth to the theory of the study by enhancing its “empirical grounding” (Eisenhardt, 1989:536) through analysis of how actual decision makers view and ascribe meaning to the market and their own organizations. From these data we can see how the focal organization and the manner in which it produces a legitimate order is relevant to the social construction of status preferences.

In what follows I refer to participants as either a government official, investment banker or financial advisor (or shortened to official, banker or advisor). I do not provide specific information regarding job titles, nor do I identify any cross-over work experience. I first describe the market context in which the selection of the investment bank is made, and thus draw somewhat more heavily from interviews with investment bankers and financial advisors. I then examine the specific ways in which local governments go about this process, specifically focusing more on the political and social context of the selecting organizations as described by government officials.

Performance in the municipal market

If the City of [name] sells a deal today, how do they know that they got a good deal?
Well, if the City of [different name], which is right next to it, not too far from it, about the same size, happened to sell a deal of about the same size on the same day we would say, ‘Hey look, here’s your perfect comparison. How did you do relative to that issue?’
Well, that never happens. You almost never sell a bond deal to the market when you have the perfect competing deal in the market to compare yourself to.

– Investment Banker

I can walk in and say, ‘Hey, we had a great rate.’ But if the market has been up it is only great in relation to what I might have otherwise gotten. And nobody at the Council has any context. ‘Yeah, we got a [interest rate] and that’s [number] basis points better than the most similar transaction which is [another municipality’s name].’ But that gets lost obviously as you are trying to describe that kind of detail.

– Government Official

The municipal market, while valued at approximately \$3.65 trillion dollars (SIFMA, 2015b), is highly illiquid. Bonds trade infrequently or not at all, often being held by investors until maturity. A bond represents a particular maturity oftentimes backed by a revenue stream for a specific project (e.g., bridge, water system, etc.) undertaken by one of thousands of municipal issuers. Due to the unlikelihood of comparable new issues being offered to the marketplace on the same day and the infrequency in which bonds trade in the secondary market, the act of pricing a municipal bond can be viewed, as one government official explained, as a type of “art” involving both skill and luck. A banker contrasted this with the corporate equity market, where all that is needed to determine the value of a security is to “look at the screen.”

The municipal market is also notable for the prevalence of not just the global investment banking firms, such as Goldman Sachs, Morgan Stanley, J.P. Morgan, etc., but also for having an elongated status hierarchy of firms, with a large number of bottom-tier, lower mid-tier and upper mid-tier firms as well.³ This is due to the fact that the market of buyers of municipal bonds consists largely of intuitional investors, enabling lower-tier firms – who generally have small trading desks and balance sheets – to underwrite relatively large deals.

Given the nature of this highly uncertain and clumpy market, evaluation of investment bank performance is complex. First, there is the internal rate of return on the bonds sold, or the “true interest cost” (TIC) to the issuer. However, bankers, advisors and government officials alike discussed the challenges of determining even *ex post* the performance quality of the investment bank with respect to the TIC. While being significantly off the market would likely

³ In the quantitative analysis to follow, I classify investment banks into four status groups: top-tier, upper mid-tier, lower mid-tier, and bottom-tier. Note that the firms in this top-tier bracket refer to what some in the qualitative portion of the study call “Wall Street” or “the big guys,” etc.

raise red-flags, there is a considerable bandwidth in which performance could be described as being of high or at least adequate quality, given the idiosyncrasies of any one issue.

There are other indicators besides the TIC that issuers often use. For instance, some issuers will look to the quantity of orders placed for the bonds. However, an investment banker described how some unsophisticated issuers are misguided when using such an indicator, as oversubscription generally means that the bonds were offered at too cheap a price. Additionally, attention may be paid to the quality of investors. An investment banker explained that “[t]here is a little bit of a taboo to sell to other dealers...Issuers that are in the market like to know that their bonds are being put away or bought by bigger buyers who have a long term relationship with those bonds, that are not necessarily looking to trade it for profit.” Indeed, a financial advisor said that one indication of poor performance on the investment banker’s part is when you see the bonds trade in the secondary market immediately after issuance – in other words, the initial buyer flipped them at a premium. However, a banker said that there can be a “dislocation of results and expectations” if the issuer provides an insufficient lead-time for the underwriting syndicate to market the bonds:

The issuer may think, ‘I want the lowest TIC and I want these great buyers.’ And the underwriting syndicate may say, ‘Well I am going to get you the TIC...but you only gave me about three or four days really to market these bonds, and I’ve done the best I can to get these bonds in the hands of going away orders, but not all of them can be placed there, so some of them are going to be placed with dealers.’

Naturally, the investment banker sits between parties with differing, although not completely competing, interests. A banker explained that a successful transaction is where, “...you get the lowest cost of money for the client – the borrower – at reasonable security for the investor so that they get paid the promise, but ratepayers ...aren’t gouged and don’t have to pay more money than is absolutely necessary.” Similarly, another banker noted that a successful transaction is one

that is "...engineered in a manner that is financially sound. You don't want to have too much debt. You want to have good debt-service coverage ratios. All of that involves everybody not quite getting everything they probably would like."

Given these challenges, many issuers do not formally evaluate the bank's performance. One official that did actively evaluate performance after each deal with the help of a financial advisor, explained that there was still disagreement over the perceived performance of the bank. However, one of the biggest checks on a bank's performance is competition from other bankers. After a deal closes it is not uncommon for investment banking firms to approach issuers,⁴ including the governing body, and try to convince them of how poorly the firm they hired had performed.

Selecting a bank

I think the interesting thing is that among the six or eight or even ten firms that might be on somebody's shortlist, all of the firms are pretty well qualified. So this idea that you are trying to hire somebody who is best qualified among a bunch of firms who are all qualified I think is a little goofy.

– Investment Banker

When asked about the ways in which an issuer will select an investment bank, many said something similar to, "It's all over the map." Indeed, the government officials interviewed had vastly different strategies. Some, even large issuers, do not have a formalized process. Other

⁴ Note that due to recent SEC regulations (the Municipal Advisor rule) that went into effect July 1, 2014 as a result of Dodd-Frank legislation, non-retained bankers cannot approach issuers to give advice unless that issuer has already retained a fiduciary financial advisor, or if the issuer has formally sent out a request-for-proposal for underwriting services (SIFMA 2015a). Many bankers expressed frustration with these rules, arguing for instance that there is a decreased incentive to provide high quality ideas due to restrictions on communication and the lower likelihood of being subsequently retained given the emphasis on RFPs (Eccles and Crane (1988) also discuss the separation of banking service and payment). Note that in the current study the focus is on the industry prior to this recent regulatory change.

officials described more elaborate bureaucratic procedures. A banker described the variation in practices among issuers as follows:

So it sort of goes from finance director having authority to select a finance team and moving forward, up to a board who wants to see a public process and bring in scorecards and let the board make the decision. But more often than not you do end up having multiple people involved, and I would say more often than not the board has either approved or specifically delegated authority to put together a banking team.

The process of investment bank selection varies on a few key dimensions. First, issuers vary in terms of whether they send out a request for proposals, or “RFP.” However, even those that do use an RFP process differ in terms of the number and type of firms that receive the RFP. Some send it “to the world” while others will only send it to a small subset of firms. Others might target specific firms, but also post the RFP publicly. The banks’ RFP responses were described as being between 20 and 50 pages on average, and depending on how many were sent (or located by bankers searching for leads), there could be an “overwhelming” number of responses. Further, as noted earlier, many issuers have a financial advisor that helps manage this process. A financial advisor I spoke with described assisting issuers with the procurement process as “probably the least intellectually satisfying part of my job” – “a process that feels almost random sometimes,” where “somehow decisions get made.” The advisor explained that some selection decisions take place in “a more political environment” where the board is directly involved,⁵ and that “...there are places where people who don’t belong in this business get hired.” The advisor stated, “In any given year I have the range of experiences.”

⁵ Given the variety of issuer types, many interview participants used the term “board” as a catch-all term for the governing body when describing the bond issuance process. Many in the industry have worked for or currently work with a variety of issuers including not just cities and counties, but also states, state agencies, school districts, universities, etc. However, interview participants explained that the bond issuance process is the same across these issuer types, although some felt that working with general purpose governments like cities and counties can be more “political.”

Issuers also differ in whether they will select a bank for each transaction, or whether they will send out an RFP to “refresh” a pool of underwriters every certain number of years. Some issuers using the pool-method will simply rotate through the firms, while other issuers may select a firm from the pool transaction-by-transaction, although a financial advisor said that the latter can “lead to a lot of contention.” And while some issuers prefer a larger portfolio of firms, others prefer to limit the number of banks to only a few, or even one. There can also be an informal or formal tier system. One government official explained how they qualify dozens of firms to do business with the municipality, but referred to those firms that are qualified as being either Tier-1 or Tier-2. Tier-1 firms can serve as lead-manager, and Tier-2 firms can serve as co-manager. There is no formal distinction or separate qualification process, with the official explaining, “...but we know. We get all of their financial information. We know what they are capable of doing.” One participant described a government where there is a formal distinction, with two distinct lists. One pool includes five top-tier firms (selected after sending an RFP to “every bank on Wall Street”), which those in the issuing government see as “pretty interchangeable” and rotate through. Then there is another pool of “everybody else” who are qualified to serve as co-managers. One banker described the co-manager position as a “consolation prize.” While co-managers assist at the end of the process in terms of final pricing, those interviewed described this role as being peripheral. A banker from a lower-tier firm I spoke with explained that they will sometimes submit an RFP to a major issuer that prefers a top-tier firm. However, the banker explained, “...We know we are not going to get a senior manager position. We are vying for a co-manager position.”

Issuers differ considerably in terms of the evaluation criteria used when selecting firms. Some forgo any type of formal criteria and others pursue active quantification of the RFP

proposals. In one municipality, after a firm that was not selected went to the council and “...made a public issue out of it,” there was an adoption of a much more formalized process with ultimately the procurement department being brought in as well. Indeed, while in some governments there may be a committee-approach with more than five people involved in the formal evaluation process, in other governments one individual or department may run the process. Further, as a banker quoted above stated, municipalities differ in terms of whether they use “scorecards.” However, there seems to be a considerable degree of decoupling between formal process and actual decision making (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). A financial advisor described working with some clients that take a very qualitative approach to evaluating proposals, and other clients that take a quantitative approach, which the advisor described as “qualitative masquerading with numbers.”

I also found little consistency in terms evaluative criteria across issuers. While some expressed market rankings, the size of a firm’s balance sheet and robustness of the trading desk as key criteria, others deemphasized such factors, instead valuing “fit” and “the person” as more critical. The other criteria brought up was that of the investment banker’s fees. However, even here there was great inconsistency. The fee is the gross spread – the difference between the amount at which the bank buys the bonds from the issuer and sells them to investors. Many described fees as dropping precipitously. While there was some discussion of this being due to increased market efficiencies, the more commonly explanation was that it was due to fierce competition among top-tier investment banks fighting for market share. But in terms of the importance of fees in the evaluation process, there were significant differences of opinion. Some participants felt fees between banks didn’t differ significantly, and that any difference was not very critical. One issuer, as I will discuss below, discussed fees as being important, but with the

caveat that the business would not be awarded to a “loss leader.” A financial advisor felt that fees were a very small part of the overall cost of issuance, with the more important factor ultimately being the interest cost to the issuer, or the performance of the bank. Indeed, a banker explained that even if an issuer goes with the bank with the lowest fee quote, that bank could still underprice the bonds in the end in order to sell them quickly and easily. In other words, there is no guarantee that a lower fee will result in a lower overall cost to the issuer over the life of the bonds – which is often decades.

Thus, there is no consistency in format or criteria across issuers regarding how firms ought to be selected. Nevertheless, as I show next, there is strong evidence that issuers do have specific preferences for particular status-brackets. In order to understand why, it is important to recognize that decisions are made within particular social contexts.

The political environment and inter-departmental power struggles

Many of those interviewed, particularly those working within government, described the “political arena” as one of the most challenging aspects of debt issuance. In fact, contrary to the investment bankers and financial advisors that emphasized the opacity of the market, some government officials highlighted their own organizations as the greatest challenge to the issuance process, and portrayed interactions with the market as “straight forward” and “transparent.” Officials discussed difficulties in terms of council-related conflicts as well as cross-functional interactions, ranging from problems with communication and inter-departmental resource allocation, to conflict between top-managers within the organization. Here are quotes from two government officials highlighting the political context in their organizations.

We [finance department] are not focused on politics...They [council members] are looking at their constituents. It’s a completely different perspective for them. I think they value the information we give them. I think they respect the information that we give

them. But at the end of the day they've got political agendas that pretty much overrule any of that. We have been very successful in providing them with the facts and the information that they need to make an informed decision...[T]here's enough on the council that agree with the information that we provide them, and with the recommendations that we provide them. And so there hasn't been any difficulty for us to proceed forward, but it doesn't mean that we haven't had to brief and provide tons of information...At the end of the day they do the right thing...but it is not without a lot of work on our part to get them there. And some would see that as a good thing.

A lot of it has to do with the political side of it – the administrative and the council side. The financing piece is pretty much transparent...once we know what the project is and how much we can move. But sometimes they change the project scope and we have to add more money [or] less money. They added money in order to get votes. They had to add a project. It is just that part...I can't control that because that's out of my realm. That's what's hard in financings because it can get really political.

In one municipality where the “political arena” was described as challenging, the firm selection process starts with the formation of a committee consisting of finance staff as well as individuals from outside the finance area, including sometimes a liaison to the council. This committee selects a few firms, with the government official explaining that the evaluation process begins with, “First of all, just the rankings.” In other words, while other factors are considered when evaluating firms, such as the experience of the banker, distributions capabilities, etc., being in the top-tier seems to be the most important distinguishing category. A list of the finalists identified by this group is sent to the elected chief-executive of the municipality. The chief-executive selects one firm off this list, and sends this to the council for final approval. Further, separate from the selection decision, there is another committee composed of more than five leaders from different functional areas across the organization who each have voting power, although a number of non-voting members may also be included in meetings. This committee must approve all aspects of the actual financing before anything is sent to the council for approval. The committee also includes a council liaison, who helps to keep the council informed through this process. While this second committee is not involved in firm selection, the committee must at

some point evaluate and approve much of the work product of whichever firm is ultimately selected.

An official from another municipality, one that is rather large, explained that they “don’t have a formulaic approach to deciding who is going to underwrite,” although the official did explain that having a robust trading desk was a critical factor in the selection process and the evaluation of the firm’s performance:

What we care about is your [trading] desk. You can come and you know be dressed nice, and have a nice personality...and impress me, but we don’t care about that. Great, it’s always nice when somebody is nice to you. But we really don’t care about that. We care about the performance of your desk.

In comparing major and mid-tier firms the official stated, “...[W]e don’t use those [mid-tier] firms for lead positions...We use the big guys.” The official did caveat this by saying that they did once retain an upper mid-tier firm,⁶ stating, “It’s not that we don’t consider bringing in other firms, we have...,” but because of the large size of the deals, “...it is really important to have those top-tier big guys.” Indeed, many of those interviewed, including bankers, discussed issuer and deal size as the most critical factor for the type of firm retained. Large issuers are more likely to select top-tier firms as such firms are, as a top banker explained, “...naturally suited to supporting larger issues” given their balance sheets. Two bankers from top-tier firms stated:

If it’s a \$10 million dollar issue there are enough investors...in [state name] to gobble up a \$10 million issue. If it’s a \$100 million issue it is probably more suitable to the national market, and therefore maybe an investment bank that is known nationally that covers all the investors nationally. So there is sort of the rule of thumb in business that sometimes you should deal with vendors who are similar in size to you.

Even though regulatorily they [smaller regional firms] could underwrite large balances, they don’t want to put their entire balance sheet at risk...If you’ve got large projects, you

⁶ This firm is categorized as upper mid-tier based on the quantitative analysis to follow. The official clearly recognized this firm as not being in the top-tier bracket, mentioning the name as an exception to the municipality’s practice of retaining top-tier firms for the lead manager position.

want to be certain that you've got the capability to underwrite unsold balances and so you tend to look for national firms.

The banker continued to say that because smaller firms have lower overhead they may be able to do smaller deals (such as a \$5 or \$10 million transaction) more efficiently, whereas a major firm will not be as interested in smaller deals. However, not all participants described firm capital as being so critical to underwriting large deals. Two bankers stated the following:

These days a single firm with limited capital and limited offices would have no problem selling a billion dollar-plus deal...With the increase in institutions buying municipal bonds, from bond funds to banks to insurance companies, and buying bonds in incredibly large pieces, sometimes \$100 million plus pieces, that you could sell a billion dollars' worth of bonds to twenty or less players out there. So it's not many phone calls you have to make...⁷

What do you care if your investment banking firm is doing derivative deals or credit default swaps, or lending money in Greece, or involved in the oil exploration business?...So, you say [top-tier firm] has more capital than anybody else...They are involved in 30,000 deals in a single day. How much is really available to your deal?

A financial advisor described what Uzzi and Lancaster (2004) would call "emotional" benefits of status, explaining that when an issuer is going through a procurement process, and a top-tier firm makes a big presentation, it "seems comfortable" to the issuer. The advisor likened this to the process of buying a car and being attracted to the Mercedes Benz, as it "seems better." The advisor also stated, however, that "sometimes it may in fact be better." Indeed, a banker who has worked in both top-tier and mid-tier firms, currently at the latter, stated the following:

I think the Wall Street firms do a better job of fostering or at least showing a team relationship because those firms generally have very seasoned veterans down to analysts. So on a particular issue you can show the resources or depth of a firm, and it may not be tied to just one person but tied to three or four different people...The same ought to kind of hold true for the kind of middle market firm...but you've got to show that you've got resources and can deliver.

⁷ This quote echoes Podolny (1993:849) who referenced a banker who stated similarly that a large transaction did not require many phone calls.

Indeed, some issuers clearly expressed a preference for top-tier firms due to the vastness of these firms' financial and human resources, which not surprisingly seems increasingly important as the size of the issuer and deal increase.

However, not all issuers expressed a preference for high-status firms. In contrast to the government official quoted earlier that emphasized the characteristics of the financial institution, such as the trading desk as the key factor in selection, another official I spoke with focused on "the person" and expressed a preference for mid-tier firms:

I know the [firm] names on the business cards, you know [top-tier firm name], versus a [upper mid-tier firm name] or something like that. Because it is so relational, I am really seeing the person more than I am seeing the... As long as someone can do the job... We are not doing transactions that are so big that even the small firms can't do them. Because they can.

This official also stated that fees were an important factor in the decision. But at the same time, if a firm undercut the others and came in as an "outlier" (which some described as a practice among some top-tier firms), the official would not assign the transaction to that firm: "I need people's best efforts... So there is some analysis that is a little more art than science when you are actually looking at the proposals from the firms..." Note that the size of the municipality is smaller than the highly bureaucratic one described above (that with multiple committees), but both have resident populations in the several hundreds of thousands. Here, however, the official described the issuance process as: "At some point in time everybody says, 'Okay, we're ready to go. We've got our ducks in a row, so [participant's name], you go do your thing.'" In terms of decision authority, the official explained, "Approval is me sending them a letter saying you are in," although the official did explain that the organization is contemplating a more formalized process. Technically, the council approves the bank selection but this is after working for many months with the bank, so approval is generally assumed: "They [council members] are so far

removed that their approval doesn't necessarily add any value to it, so it has been kind of a rubber stamp essentially." The official stated, "Again, they are presuming I'm taking care of it." Indeed, the official described – in contrast to the organizations discussed above – little conflict with the governing body. However, there was discussion of general inter-departmental challenges, where the official must try and "keep people connected to the big picture," such as when one department wishes to pursue their priorities with organizational resources:

But when you stack it up against the need for new fire trucks or police cars or whatever else, or maybe it is the fire and police people thinking they trump everything, and forgetting there are other priorities in the organization. It goes both ways obviously.

Overall, however, the official described the organization as one with historically little "red tape," and with little to no internal challenges regarding the issuance process.

A description of the selection process in another municipality illustrated how even a quantified evaluation procedure must start with qualitative decisions (as suggested by the financial advisor quoted earlier). For instance, this official – who used the term "art" in reference to a banker's ability to get favorable pricing in the market – does not weigh fees very heavily in the evaluation of proposals, explaining that "you get what you pay for." Further, the official explained how it is difficult for smaller banks to compete when the criteria for selection is based upon things like firm capital. Overall, this official emphasized intangible factors such as "fit" and "trust." In terms of political context, the official described low levels of conflict with the council – to such a degree that the official is pushing for more council involvement in the process. However, the government does exhibit significant inter-departmental "siloing," stemming partly from interpersonal conflicts among departmental leaders:

It's a cultural difference that starts at the top. [Top-management official] and [Top-management official] don't get along... So there is some siloing that is involved. And it makes it difficult to coordinate from this office. I'm working on relationships now and just bridging that gap. I'm making some progress but there is still some siloing involved.

The official continued to explain that some departments have their own cultures and languages: “They [Department 1] have their own lingo. [Department 2] has their own lingo and their own business unit, and the way they operate which is different than the way [the municipality] operates.” This, the official explained, becomes increasingly challenging when preparing disclosure documents related to bond issuances. In other words, there must be extra effort spent in the communication and transfer of relevant information across departmental boundaries.

Not all government officials emphasized inter-departmental problems in their organizations. I asked an official in one government whether there are any interdepartmental challenges with respect to the debt issuance process: “We [the finance department] kind of control a lot of power, and when we ask a department for information, they provide it, and they provide it in a very timely manner.” The ease of working with other departments, the official said, is due to them being “scared” of the finance department. This, the official said, reflects the organization’s culture where there is a strong commitment bondholders – a culture that was in place prior to the official’s tenure in the organization.

Hypothesis development

The qualitative data presented above show that municipalities have organization-specific cultures, processes and power dynamics. The ways in which municipalities interact with the market will differ depending on such factors. Indeed, some boundary spanners – here, government officials – described managing their own organization as more challenging than managing the organization’s interactions with the market. In fact, a number discussed bond issuance as the most interesting, as well as easiest part of their job. However, the extent to which

their attention was focused internally on their organization versus externally on the market varied.

I also do not find that high-status is categorically seen as more legitimate or preferred among every issuer (c.f. Phillips & Zuckerman, 2001; Podolny, 1993). Podolny's (1993) seminal work on status in markets argued that high-status investment banks have a cost advantage in underwriting debt securities, and that the reason high-status banks do not win the business of all corporate issuers is that these banks restrict their activity to other high-status actors. This maintains their status positions and thus cost advantage; to expand would be self-defeating. I do find evidence of this (as the statistical analysis will also show), as many top-tier firms focus on large transactions from issuers with high credit quality. But even this does not hold as a generalization. For instance, the following is a quote from a top banker describing a particular top-tier firm: "They scratched and clawed for every small deal, every school deal...every bond possible in addition to the large transactions." What I find in this market is that some issuers prefer high-status exchange partners, and others do not.

As discussed earlier, the accountability perspective has shown that status is important in contexts of higher scrutiny and where there are interested third-parties (Correll et al., 2013; Davis & Robbins, 2005; Jensen & Roy, 2008; Phillips et al., 2013). The arguments in this study build on this research. However, there is a critical distinction. Increased accountability pressures themselves do not change the common assumption that actors will always prefer high status. While accountability pressures can explain why someone would pay more for higher status in contexts of higher scrutiny (Uzzi & Lancaster, 2004) or in situations where an individual needs to approximate the quality judgment of others (Correll et al., 2013), they cannot explain why an actor would ever actively *prefer* low-status exchange partners (particularly where the cost of

high-status is cheaper, as will be shown later). As discussed earlier, without explaining a preference for low status as well (not a preference for an actor who happens to be low status, but a preference for low status, itself), then there cannot be a theory of status preferences, only status attainment. Since we do not see an absolute preference for high-status, then we must ask what explains the status preferences that we do find in organizations. Indeed, one banker from a top-tier firm, when asked about the differences between top and middle-tier firms, challenged the distinction. To be sure, the participants interviewed including this participant understood the hierarchy of firms referenced. But the fact that a high-status actor did not necessarily agree with the idea of distinguishing between top and middle-tier firms (while recognizing them in a definitional sense), suggests that actors occupying high-status positions as defined by those around them do not necessarily want to be defined as such in all contexts.

I look to the characteristics of the issuing government – the focal group – for factors that would lead to a preference for high status, low status, or somewhere in between. The key themes we see being brought up are “politics” and inter-departmental power struggles, as well as bureaucratic oversight and the formalization of process. Politics was used as a term generally in reference to council related struggles. And as we saw one government official explain, council members “are looking at their constituents,” with the official “providing them with the facts.” If we examine the research on local governing and politics, we find that racial/ethnic heterogeneity are very important to understanding electoral politics and decision making in local governments (Alesina et al., 1999; Kaufmann, 2004), with Hajnal and Trounstine (2014) reporting that, “race...is the dominant factor in the local electoral arena” (p. 63). It is thus likely that issues of race/ethnicity play at least a part in the “political arena” that many participants described. Of course, issues of political ideology are also likely important, and to the extent that there exist

competing political “logics,” there is likely to be greater political activity within the organization. And as many discussed, inter-departmental issues with respect to communication challenges and power-struggles are also key factors in the negotiation of the social order. Thus, a theory of organizational status preferences must take into account power dynamics as well. Next, I present hypotheses regarding how racial/ethnic, political and functional heterogeneity will impact status preferences.⁸

Racial/Ethnic heterogeneity

There is a large body of work in political science and public economics examining the effects of racial/ethnic diversity on local governing (e.g., Alesina et al., 1999; Hopkins, 2009; Kaufmann, 2004; Putnam, 2007). Generally, this research has shown less social cohesion within diverse communities. Alesina et al. (1999) argued that “ethnic conflict is an important determinant of local public finance” (p. 1243), finding that ethnically heterogeneous communities spend less on public goods. Hopkins (2009) found a decrease in the provision of public goods in diversifying communities, which he attributes to conflict among elites in the municipality. In a study of local voter preferences, Hajnal and Trounstein (2014) reported that while other social and economic categories are important, race is the most importance factor in local elections. According to Kaufmann (2004), the prominence of racial/ethnic identity in local politics may be due to the direct and visible effects of policy decisions on the day-to-day life of the community. And looking at municipal borrowing costs, Bergstresser, Cohen, and Shenai

⁸As stated earlier, the qualitative data were used to uncover the *process* through which decisions are made, the concerns of decision makers, and details about this market context. The number of participants is so few compared to the number of factors that influence status preferences that direct relationships cannot be analyzed. Of course, this is the purpose of the quantitative portion of the study. It is important to note that interview participants did not bring up race/ethnicity or political party in the interviews, but rather the “political arena.” However, I infer from prior research that race/ethnicity as well as party politics are relevant to the “political arena” in local government.

(2013) found that ethnically (as well as religiously) fractionalized municipalities pay more to borrow, which they conclude is likely due to “less efficient monitoring of the bond underwriting process” (p. 3) in fractionalized localities.

Researchers have also examined the effects of racial/ethnic diversity on group and organization processes and performance (Pelled et al., 1999; Richard, 2000; Sommers, 2006). The results are fairly inconsistent in this literature. While some studies report negative effects on interpersonal relations, such as increased emotional conflict (Pelled et al., 1999), research also shows that racial/ethnic diversity may improve performance through increased knowledge variety and more careful analysis in decision-making (McLeod, Lobel, & Cox, 1996; Richard, 2000; Sommers, 2006). In a study of mock jury deliberations, Sommers (2006) showed that racially diverse juries had superior decision making processes. Note that the effect on performance in this study was due to diverse groups focusing more on case facts. In other words, in contexts of racial diversity, individuals were less likely to rely on background assumptions, and more likely to focus on intersubjective criteria in the group decision-making process. This suggests that local governments elected from and embedded within racially/ethnically heterogeneous communities will prefer the social facticity of high-status when contracting with firms. Here, in retaining an investment bank, the status of a prestigious financial institution coheres with the legitimate order. Hypotheses 1a is as follows:

***Hypothesis 1a:** Local governments embedded in racially/ethnically heterogeneous communities will show a preference for higher-status investment banks when selecting a lead-manager.*

Further, the effect of racial/ethnic heterogeneity on status-preferences is predicted to be more pronounced as the salience of the selection increases and thus its potential impact to the

social order. Indeed, the concept of the audience suggests that the more prominent a particular decision, the more impact the audience's perceptions should have on the selection. And in municipal bond underwriting, smaller transactions "are often issued with minimal oversight and attention" (Bergstresser et al., 2013:4). Larger deals, however, will be particularly noteworthy in the organization and community. Indeed, a government official viewed it as a "luxury" to *not* have to disqualify lower-tier firms when the issue size is not too large, implying that as the deal size increases it becomes important to select a high-status firm. I predict that as the transaction size increases, the social facticity of status will increase in importance at a faster rate in racially/ethnically heterogeneous contexts as compared to in homogeneous contexts. Hypothesis 1b is as follows:

***Hypothesis 1b:** The predicted relationship between racial/ethnic heterogeneity and status preferences in H1a will be more pronounced the larger the deal size for which the investment bank is selected.*

Functional heterogeneity

As mentioned earlier, Ouchi and Maguire (1975) showed that organizational control mechanisms are not just used for technical reasons, but also to legitimate managerial and subordinate performance. This is particularly the case when there is significant functional heterogeneity (Ouchi, 1977). Indeed, functional heterogeneity in organizations has been associated with more formal, as opposed to informal, modes of communication (Smith et al., 1994), as well as increased debate (Simons, Pelled, & Smith, 1999). Fligstein (1987) showed how organization-level decisions often involve inter-departmental power struggles. And in the context of small teams, functional heterogeneity has been found to increase coordination costs and task conflict, as well as the quality of performance outcomes (Milliken & Martins, 1996;

Williams & O'Reilly, 1998). Status-based selections are similar to the use of formalized process, in that both are inter-subjectively recognized social objects that rationalize decision-making. Thus, functionally heterogeneous organizations – where employees are more departmentally siloed – will prefer high-status partners. Further, this relationship is predicted to be stronger for larger, and thus more salient, deals. Hypotheses 2a and 2b are as follows:

***Hypothesis 2a:** Local governments that are more functionally heterogeneous will show a preference for higher-status investment banks when selecting a lead-manager.*

***Hypothesis 2b:** The predicted relationship between functional heterogeneity and status preferences (H2a) will be more pronounced the larger the deal size for which the investment bank is selected.*

Political heterogeneity

Local governments also embody heterogeneous political ideologies. Indeed, recent work in institutional theory has shown that organizations are often embedded in complex institutional environments with multiple and even competing logics of action (Greenwood et al., 2011; Pache & Santos, 2010; Thornton & Ocasio, 1999). These institutional logics permeate organizations and affect their internal decision making. Thus, organizations, rather than being ideologically cohesive, may exhibit varying levels of inter-logic rivalry (Reay & Hinings, 2009).

Decision makers embedded in an institutional environment high in political heterogeneity (i.e., here, decreased dominance of a single political party) will have a greater need to demonstrate decision making consistent with a rational-legal order (Weber, 1978). It has been well established in political science that politically competitive communities are more politically active, shown for instance through higher voter turnout (Hofstetter, 1973; Pacheco, 2008; Patterson & Caldeira, 1983). Indeed, Pacheco (2008) showed that being raised in a politically

competitive community predicts more frequent voting later in one's life; and Jones (2013) found that politicians in politically competitive districts face higher accountability pressures. Some political economists have even drawn an analogy between economic and political competition, arguing that both lead to more efficient and higher quality outcomes (Besley, Persson, & Sturm, 2010; Stigler, 1972). Political affiliation has also been studied in the context of small teams. Loyd, Wang, Phillips, and Lount Jr (2013) conducted an experimental study on social-category diversity using political party affiliation as a differentiator. They found that when participants believed that they would be paired for a team-task with someone who affiliates with a different political party, they engaged in more "premeeting elaboration" – defined as "the extent to which individuals consider their own and others' perspectives in the anticipation of an interaction" (p. 757). The research above evidences a preference for high-status partners in political heterogeneous organizations, so as to produce a legitimate social order in such contexts.

Hypothesis 3a is thus as follows:

***Hypothesis 3a:** Local governments embedded in politically heterogeneous communities will show a preference for higher-status investment banks when selecting a lead-manager.*

Hypothesis 3a is also predicted to be more prominent for larger transactions:

***Hypothesis 3b:** The predicted relationship between political heterogeneity and status preferences in H3a will be more pronounced the larger the deal size for which the investment bank is selected.*

Homogeneity and status disruptions

In order to explain why a high-status actor is preferred in one context, we must also explain why a low-status actor is preferred in another. Status is defined through social esteem.

The presence of a high-status actor implies deference from those around that actor (Washington & Zajac, 2005; Weber, 1978). However, in an organization where legitimacy is produced through implicit background assumptions (Zucker, 1986) and not through bureaucratic process (Weber, 1978), the introduction of a powerful actor into the system would cause a disruption to the social order. The social facticity of that actor's status, and the deference that the actor's social-position commands, would be viewed by organizational participants as the evaluator's challenge to, and possible rejection of, the *modus operandi*. In such contexts, a low-status actor is preferred because the actor may be introduced without disruption to the tradition-based authority (Weber, 1978) of the organization.

Thus, it is not just that with increasing heterogeneity we will see increasing preference for the social facticity of status, but also that with increasing homogeneity we will see a preference for low-status. This is not to say a high-status actor is never retained in homogeneous contexts, as such an actor may be seen as necessary for a variety of different reasons, such as in selling a larger issue to the marketplace. However, in a politically, racially/ethnically and functionally homogeneous organization, the decision of an employee, department, or elected official to bring in a top-tier investment bank will not just garner attention from those in the market, but will also garner attention – not necessarily positive attention – from those within the organization. This does not have to do with perceived quality, but rather with what status itself means in different social contexts. If an organization produces legitimacy through shared ideology and tradition-based process, then an external, powerful actor may alter the idiosyncratic processes within that organization and disrupt implicit, day-to-day power dynamics.

CHAPTER 4: QUANTITATIVE ANALYSIS

Data

The focal transactions under study in the quantitative analysis are city and county bond issuances in the United States. Data were obtained from Thomson-Reuter's *SDC Platinum* service. These transactions were then matched with data from the U.S. Census Bureau, including demographic data from the decennial *Census of Population and Housing*, as well as data on the organization, employment and financial characteristics included in the *Census of Governments*. Senatorial, gubernatorial and presidential election data were accessed from the *Data-Planet* platform, originally sourced from *Dave Leip's Atlas of US Presidential Elections*.

The analysis includes all negotiated debt offerings – those in which the municipality selects a lead-managing investment banking firm to underwrite the public issuance of bonds. The remainder of debt was issued either through public auction or private placement, and thus not part of this analysis (except included in a control variable). Excluded from the analysis were those municipalities with a population of under 25,000, as well as particularly small transactions – those with a par value of less than \$1 million (note that I adjusted all financial data to 2013 dollars, the last year included in the analysis⁹). Also, I exclude transaction where the municipality only acts as a conduit for the issuance of debt and is not the party responsible for repayment to bondholders. Lastly, while the study covers the time period of 1995 to 2013, the

⁹ The last month of data available in the subscription was November, 2013.

data begin in 1991 as there is a four-year moving window for certain variables, such as status and political heterogeneity.

Dependent variable

Status-bracket: The purpose of this study is to examine how organizational characteristics affect status preferences with respect to partner selection. I thus use the selected exchange partner's status-bracket as the dependent variable (Jensen and Roy 2008). Status is defined here as a group-based phenomenon (Deephouse & Suchman, 2008; Preda, 2005; Sorenson, 2014; Weber, 1978). As Phillips and Zuckerman (2001) and others (Bitektine, 2011; Jensen & Roy, 2008; Phillips et al., 2011) explain, status distinctions between firms are qualitative, where due to the incommensurability of characteristics across status groups, decision makers limit – either implicitly or formally – the selection to a particular group. Indeed, there is evidence in the interview data that decision makers use status as a preliminary sorting mechanism to keep the number of firms to a cognitively manageable, and comparable set. Of course, low and high-status firms may be formally evaluated together, but even quantified evaluation criteria are subsequent to qualitative decisions regarding the type of firm effectively in the running. Further, issuers often manage a pool of firms. As we saw, firms in this pool may be implicitly or explicitly categorized into tiers. Here I model the selection of the status bracket.

Status brackets were calculated in a two-step procedure. First, I used Bonacich and Lloyd's (2001) measure to calculate each firm's alpha-centrality score. This is particularly suited for networks of asymmetric relations (Bonacich & Lloyd, 2001; Rossman, Esparza, & Bonacich, 2010), and is similar to Bonacich's (1987) beta-centrality, which has often been used to measure status in investment banking and venture capital (Chung et al., 2000; Jensen, 2003; Podolny, 1994). I use a directed, four-year moving window, where asymmetric ties are determined by

appearing as a co-manager (lower rank) with a lead-manager (higher rank). In other words, a co-manager in a particular underwriting adds to the centrality of the lead-manager.¹⁰

Specifically, in adjacency matrix A , a_{ij} indicates whether actor i enhances the centrality of actor j . A standardized measure of centrality contribution is used for the edge-value. These edge-values are based on the standardized number of times firm j outranked firm i , and vice versa. I use a standardization procedure similar to (Podolny, 1994). Here, in adjacency matrix A , a_{ij} is calculated as the number of times firm j has appeared as lead-manager while firm i has appeared as co-manager, divided by the number of times i and j are in the same transaction in different tiers. If they both appeared as co-manager in a particular transaction then there is no “contribution” from one to the other in terms of centrality.¹¹ The vector of centrality scores, x , is obtained from the solution to the following matrix equation, from Bonacich and Lloyd (2001):

$$x = \alpha A^T x + e$$

Where, A^T is the inverse of the adjacency matrix, e is status that is exogenous to the network (here, a vector of 1s), and α reflects “the degree to which status is transferable from one person to another,” (Bonacich & Lloyd, 2001:194) which should be less than the inverse of matrix A 's largest eigenvalue (Bonacich & Lloyd, 2001). I set this to the commonly used value of 0.75 of the largest eigenvalue (e.g., Chung et al., 2000; Podolny, 1993). A firm will have a higher centrality-score the more central are the firms that have, in effect, transferred their centrality. In other words, outranking relatively few central firms will lead to higher scores than outranking a

¹⁰ Deals include a lead manager, and often one or multiple co-managers. As discussed earlier, co-managers primarily assist with selling the issue to investors, and are in a subordinate position compared to that of the lead manager.

¹¹There is an extremely occasional occurrence of more than one lead-manager. I take this into account in the centrality scores. But I assume in the regression model that the first bank listed is the “book-runner.” Also note that Podolny (1994) takes all transactions in which i and j both appear as the denominator. As stated above, I use a denominator of those where i was above j plus those where j was above i . I assume those transactions for which they are both in the same tier have no effect on the relative transfer of centrality in the asymmetric network (as they “tie”).

number of low-centrality firms. See Figure 1 for a network map of ties for the year 2005, where node size represents alpha-centrality scores. The network itself consists of all underwritings in the preceding four-year period, and includes debt issuances for cities and counties, states, state-agencies, special districts, school districts, tribal nations, and non-profit organizations, such as universities (i.e., the entire municipal bond market).¹² Centrality scores were updated yearly and calculated using the *igraph* package in *R* (Csardi & Nepusz, 2006).

----- See Figure 1 -----

Here, I take the perspective that status is group-based (Deephouse & Suchman, 2008; Preda, 2005; Weber, 1978). Following Deephouse and Suchman (2008), an audience will perceive a firm as belonging to a particular status-bracket; thus status should be an ordinal rather than continuous variable. I assign firms to status-brackets for each year in the dataset based on their alpha-centrality scores. I conduct a *k*-means clustering of the scores into four brackets: top-tier, upper mid-tier, lower mid-tier, and bottom-tier. These brackets have very high face validity. The top-tier in 2013, the final year of analysis, consists of Goldman Sachs, Morgan Stanley, JPMorgan, Citigroup, Barclays, BAML (Bank of America Merrill Lynch) and RBC.¹³ The upper

¹² I decided upon a four-year window, rather than a one-year window, because status groups reflect long-term associations. A firm's associations from the previous four years, including firms that no longer exist, still contribute to that firm's current centrality; but of course as time passes, the contributions of previous associations decrease.

¹³ I cleaned the SDC data so that unique entries showing a minor name change and subsidiaries with the same brand were combined, rather than treating them as independent entities. With mergers and acquisitions I treat one firm as continuing in the market, and another as exiting. For instance, when Bank of America acquired Merrill Lynch, and became "Bank of America Merrill Lynch," the cleaned data treats this as Merrill Lynch exiting the market and Bank of America continuing. The raw data would have incorrectly assumed that Bank of America Merrill Lynch is a brand new firm with no history and thus of low status. Given the large number of unique firm names (thousands going back two and a half decades) and large number of transactions in the database, it was not always feasible or possible to definitively verify a bank's history. I relied to a good extent on the parent company listed in the SDC database to conclude that two entries with the same or similar name were in fact the same. The cleaned data much

mid-tier includes firms such as Wells Fargo and Jefferies, and major players in the municipal market such as Piper Jaffray and Siebert Brandford Shank. The lower mid-tier includes firms that are active but not particularly prominent, while the bottom-tier consists of a very large number of low-status firms, including isolates (no ties to other firms).

Independent variables

Racial/Ethnic heterogeneity: Racial/ethnic heterogeneity was measured using Blau's (1977) index:

$$Racial/Ethnic\ Heterogeneity = 1 - \sum_{i=1}^N S_i^2$$

Here, S indicates the share of the particular racial/ethnic category, i , and N represents the total number of racial/ethnic categories in the data. For this index, a value of zero indicates complete homogeneity, with increasing heterogeneity approaching one. Statistically, this measure calculates the probability that two randomly chosen individuals will be from different racial/ethnic categories. Racial/ethnic heterogeneity was calculated based upon data obtained from the decennial census of 2000 and 2010. The categories include Hispanic, White, Black or African-American, Asian, American Indian or Alaska Native, Native Hawaiian or other Pacific Islander, those of two or more races, and other. Note that a Hispanic person may be of any race as designated in the census. Following other studies, I include Hispanic as its own category (Putnam, 2007). The Census Bureau altered the way in which it measured race/ethnicity after the 1990 census. I thus calculate racial/ethnic heterogeneity based on the 2000 and 2010 census data and assume a linear rate of change between these years, but carry-back the measures of 2000 to

better reflect reality than treating name changes, and post-merger entities, etc. as different or completely new entities.

pre-2000 years, and carry-forward the measures of 2010 to post-2010 years. Also note that race/ethnicity was measured within the jurisdiction of the given municipality. This will reflect racial/ethnic heterogeneity among employees of the focal organization as well as the immediately surrounding community from which politicians are elected. However, to validate this measure, I also use the American Community Survey's (ACS) aggregated estimation of all state and local government workers by race/ethnicity whose work-place is in the given geographic boundaries of each government. The correlation between these two measures is over 0.9 (for those governments included in the ACS sample). In other words, the level of racial/ethnic heterogeneity of the community and that of government employees in the same area are very highly correlated.

Functional heterogeneity: To measure the extent of functional heterogeneity I used a measure of “entropy,” that is regularly used to measure the level of diversification of corporations in terms of market segments (Jacquemin & Berry, 1979). I am measuring the level of internal diversification based on the distribution of employees in different functional areas:

$$Functional\ Heterogeneity = \sum_{i=1}^N P_i \ln \frac{1}{P_i}$$

Where P_i is the share of full-time equivalent employee in department i . Higher values indicate increasing heterogeneity, or entropy. The data on employment for each municipality was obtained from the *Census of Governments*.¹⁴ The census is conducted on all local governments every five years (in years ending in “2” and “7”), and on a sample of governments in off-survey

¹⁴Functional areas include airports, correction, elementary and secondary education, higher education, financial administration, fire protection, judicial and legal, other government administration, health, hospitals, streets and highways, housing, libraries, natural resources, parks and recreation, police protection, public welfare, sewerage, solid waste management, sea and inland port facilities, other and unallocable, water supply, electric power, gas supply, and transit.

years. For those government-years with missing data, I used a linear interpolation procedure based on the two closest data points in time. The most recent data available were for 2012. These data were applied to 2013 as well.

Political heterogeneity: To measure heterogeneity of political logics, I use vote-shares for the Democratic Party and Republican Party. This follows measures of “political competition” in political science and economics based on party-difference in election outcomes (Besley et al., 2010; Jones, 2013; Pacheco, 2008). I use a four-year moving window of vote shares from senatorial, gubernatorial and presidential elections. I follow Jones (2013) in giving equal weight to each of the three election types:

$$Political\ Heterogeneity = 1 - \left| \frac{1}{N} \sum_{i=1}^N (V_{di} - V_{ri}) \right|$$

Here, i is the type of election (senatorial, gubernatorial, or presidential) and N is the total number of election categories (here, three). V_{di} and V_{ri} refer to the percentage-shares (of all votes cast) for the Democratic and Republican parties, respectively, for election category i over the previous four years (a senatorial election is held every two years, so this includes both). Note that I also have a control variable for specific party effects, which is simply:

$$Democratic\ Party\ Strength = \frac{1}{N} \sum_{i=1}^N (V_{di} - V_{ri})$$

Larger positive values indicate Democratic strength, while negative values indicate Republican strength. The ordering of parties in the control equation is of course arbitrary. The interpretation would just be reversed.

Data were obtained for all presidential, senatorial and gubernatorial elections since 1991 from *Data Planet*, originally sourced from *Dave Leip’s Atlas of US Presidential Elections*.

Because different locations vote in different years for senatorial and gubernatorial elections, and so as not to weigh too heavily any one election, I use a four-year moving window to capture all votes in the entire four-year election cycle. Note also that federal and gubernatorial elections in the U.S. are managed by counties, not cities (land area in the U.S. is covered by counties). It is thus not possible to obtain reliable voting data specifically for cities. Nevertheless, Hajnal and Trounstein (2014) found that the political context of cities and counties across the country are very highly correlated. Thus, following Hajnal and Trounstein (2014), the political heterogeneity measure for each county was also assigned to those city governments that are recorded by the Census Bureau as being located within that county's borders.

Deal size: Hypotheses 1b, 2b and 3b predict that the effects of each dimension of heterogeneity on status-preferences will be more pronounced for larger, and thus more salient transactions. *Deal size* is the logged inflation-adjusted par value of the bond issue, and was interacted with each dimension of heterogeneity to test these hypotheses.

Control variables

There are a number of other factors that may influence the likelihood of a local government hiring a bank from a particular status bracket. These include both transactional and organizational characteristics.

Organization Characteristics

Government size will likely be important for investment bank selection. Larger governments are better well known, and generally have higher status themselves. Status-homophily is an important factor in partner-selection (Podolny, 1994). I thus include the logged number of full-time equivalent employees in the government. Also included is the variable *deal flow*, which is the logged number of times the municipality as done a negotiated underwriting in

the past four years, as well as a standardized measure of *debt burden*, which is the amount of outstanding long-term debt divided by yearly expenditures. *Percent debt negotiated* is the percentage of all debt issued over the past four years through a negotiated sale. *Network density* indicates the degree to which a municipality has a tighter network of investment banking firms, and was calculated using the Herfindahl index, where one is complete concentration in one firm over a four-year window. Those municipalities that had not issued within the prior four years were assigned a value of zero.

Form of Government is an indicator variable with four levels indicating whether the governing body of the organization has an elected chief executive, appointed chief executive, no chief-executive, or other form of government. *Full-time council* controls for whether those on the council occupy full-time or part-time positions. To control for wealth of the community, I include *median household income*. I also control for *income inequality* measured as mean household income divided by the median household income, following Alesina et al. (1999). Also, as mentioned above, *Democratic Party strength* is the difference in percentage terms of the two parties' vote shares (values over 0 indicate Democratic majority), which controls for party-specific effects. I also control for *voter turnout* which is calculated for each county and also applied to cities within each county's borders. Further, local governments differ in whether they are a *home-rule* municipality, indicating a higher level of decentralization from the state government. An eight-level indicator variable, *metro*, controls for the size of the larger metropolitan statistical area, as a small city or county may be located in a much larger metropolitan area. *Airport-hub distance* is the logged number of miles to the nearest airport considered by the Federal Aviation Administration to be a large or medium-sized hub. This variable captures geographic accessibility, including proximity to the economic centers of the

country. I also control for whether the issuing government is a city or a county government, as well as include dummy variables for the state in which the government is located.

Transaction Characteristics

There is also considerable variation in the types of municipal bonds issued by local governments. As mentioned above, I include logged par dollar amount, or *deal size*. This serves as a control variable in all the models, and is used to create interaction terms for those models testing hypotheses H1b, H2b and H3b. Further, I include a ten-level indicator variable for *purpose* of funds (e.g., education, healthcare, transportation, etc.), and also a control for whether the issue is a *pension obligation* bond, as well as for whether the bonds have a *lease structure*. Also important to a transaction is whether the interest income is taxable, tax exempt, or subject to the alternative minimum tax for the buyer. Thus, a three-level indicator variable, *tax*, is included. *Security type* is a three-level control variable indicating whether the bonds are general obligations of the municipality (GO), a revenue bond backed by a specific revenue stream, or whether the bonds are backed by both a revenue stream and a general obligation (i.e., “double barreled”). GO-bonds were described as being much more straightforward to underwrite than those with specific revenue streams. There is thus a lower level of uncertainty regarding underwriter performance for GO deals. I also include a three-level indicator, *refunding*, which controls for whether the issue is “new money” (used for a new project), a refunding, or a mixture. In addition, *credit* controls for credit quality of the issue. I use a six-level categorical measure based on credit-assignments by one or more credit-rating agencies, including S&P, Moody’s, and Fitch. The credit rating of AAA is the base category, then AA (including AA+ and AA-), and A (including A+ and A-), so on, down to BB, and finally debt that is not rated.¹⁵ A

¹⁵ These are the rating symbols used by S&P and Fitch. Moody’s system is virtually identical.

rounded average is used for issues that have ratings assigned by more than one agency. *Years to maturity* is the number of years from issuance until the last payment is due.

I also controlled for whether the transaction has a *financial advisor* with a dichotomous indicator, and included an additional variable *FA influence*, which is the average status bracket of the banks the financial advisor has worked with over the past four years. This variable is on a scale of 0 to 3, where 3 indicates only having worked with top firms, and 0 indicates only having worked with bottom-tier firms. When there is no financial advisor this variable takes a value of 0. One banker I spoke with thought financial advisors were more likely to push for the issuer to use high-status banks because a financial advisor would view this as the “safer recommendation.” I thus control for this possibility of external influence using these two variables. Also controlled for is whether the bond is considered *bank qualified*. Bank qualified bonds are those issued by infrequent borrowers.¹⁶ These bonds are exempt from income tax for bank holders of the debt. Following the Tax Reform Act of 1986, banks must otherwise pay tax on all municipal interest, whether or not the interest income is exempt for individual investors. Lastly, before the Glass-Steagall Act was fully repealed by the Gramm-Leach-Bliley Act, some municipal bonds, such as revenue bonds, could not be underwritten by commercial banks (note that the municipal market was less affected than the corporate market). *Bank eligible* thus indicates whether the bond is eligible to be underwritten by a commercial bank. Note, however, that all bonds are bank eligible after the year 2000. Lastly, the model includes dummies for the year of the transaction. Table 1 includes a description of all the variables in the analysis, and Table 2 includes a correlation matrix for all variables, other than state and year dummies.

¹⁶ This indicates that the issuer has the intention of issuing less than \$10 million in a particular year; although this was boosted by the U.S. Congress to \$30 million for the years 2009 and 2010, following the financial crisis.

----- See Table 1 -----

----- See Table 2 -----

Analysis and results

The analysis includes 15,410 transactions nested within 1,962 local governments across the U.S., from the time period of 1995 to 2013. This includes all transactions that did not have missing variables and for which I was able to match with government data. There were a very small number of transactions that were not matchable due to incorrect or ambiguous government names in the SDC database, such as when a state had multiple issuers with the same name, and SDC did not specify. In these cases I attempted to find the original official document of the bond offering, matching relevant transaction characteristics, as well as checking data on a Bloomberg terminal. Note also that I removed a very small number of observations with impossible data values.

The dependent variable is an ordinal variable with four categories: bottom-tier, lower mid-tier, upper mid-tier, and top-tier. I thus used an ordered logistic regression model, as this is most appropriate for this type of data and fits the theory presented earlier. Note that the data include multiple bond issues originating from the same local government. This violates the assumption of observational independence. Because government-specific transactions will covary due to both observed and unobserved factors, I use a mixed-effects, or multilevel, model (Rabe-Hesketh & Skrondal, 2008). Specifically, I include a random intercept at the level of the local government to account for this clustering. Specifically, I use the “meologit” command in

Stata 14 to run these models (StataCorp, 2015). A likelihood-ratio test comparing the mixed model to a fixed-effects model indicated that inclusion of the random intercept significantly improved model-fit. Also, I checked for multicollinearity by examining the variance-inflation factors (VIF) for each variable. The average VIF was 1.99, with all variables below 5.0, except for one level of the eight-level categorical variable, *metro size*, which had a VIF of 6.08 along with *government size* (VIF of 5.89), which is highly correlated with *deal flow* (VIF of 5.22). However, I chose to leave both *government size* and *deal flow* in the models as those interviewed referenced these factors as both important. Given the multi-level model specification and low VIF values, particularly with respect to the variables of interest, multi-collinearity is not a concern.¹⁷

----- See Table 3 -----

Table 3 presents the regression results for each model run with coefficients as odds ratios. Model 1 includes all control variables, while Model 2 introduces hypotheses H1a, H2a and H3a. As can be seen in Model 2, all three hypotheses are strongly supported. The coefficients are in the hypothesized directions, with the significance for H1a (racial/ethnic heterogeneity) at the $p < .01$ level; and the significance for H2a and H3a (functional and political heterogeneity, respectively) at the $p < .001$ level. Specifically, racial/ethnic, functional and political heterogeneity each predict a higher likelihood of selecting a bank from a higher status bracket; or conversely, increasing homogeneity predicts selecting a bank from a lower status bracket.

¹⁷ The VIFs are also low in the interaction models when the variables used in the interactions are first centered. However, I choose to present the results as is, without any centering procedure.

Next, hypotheses H1b, H2b and H3b each predict that the effects of racial/ethnic, functional and political heterogeneity will be more pronounced as the size of the deal increases. I test each hypothesis separately in models three through five. All three sub-hypotheses are supported: the three dimensions of heterogeneity have stronger effects as the size of the transaction increases. For racial/ethnic (H1b) and functional (H2b) heterogeneity, the interaction terms are significant at the $p < 0.001$ level;¹⁸ while for political heterogeneity (H3b), the interaction is significant at the $p < 0.05$ level. Model 6 tests the interaction effects simultaneously, with similar results as the previous models.¹⁹

----- See Figure 2a -----

----- See Figure 2b -----

----- See Figure 2c -----

In order to better interpret these results and gauge their “social significance,” I plot the average marginal effects for each dimension of heterogeneity on status at high and low deal size in Figures 2a, Figure 2b and Figure 2c. Deal size was calculated as one standardization above and below the mean logged-deal size. In pre-logged terms, this corresponds to a prediction for a \$58 million (high) and \$4 million (low) deal, respectively. As is clear from the graphs, each dimension of heterogeneity has a stronger effect on status preferences as the deal size increases.

¹⁸ In these models the significance of political heterogeneity drops very slightly to the $p < .01$ level.

¹⁹ The coefficients for racial/ethnic, functional and political heterogeneity in the interaction models (models three through six) show the predicted effect on status preferences when the interaction terms equal zero (i.e., when deal size is zero). Similarly, the coefficient for deal size in the interaction models show the predicted effects on status when the interaction terms calculated with deal size are zero (i.e., when there is theoretically, complete racial/ethnic, functional, and/or political homogeneity). Interpretation of interaction effects must take into account the direct and interaction effects simultaneously (as is plotted in Figures 2a, 2b and 2c).

Of course at any given level of racial/ethnic, functional, or political heterogeneity, the probabilities of selecting from each of the four tiers must sum to one (since one must always be chosen). Note that \$58 million is in practical terms still a moderately sized transaction. These results thus appear not only statistically significant, but also socially significant.

There are also some noteworthy effects among the control variables. Specifically, we find that increased voter turnout is associated with a preference for high status. Higher turnout indicates more political activity and most likely higher scrutiny of decision making. Indeed, Davis and Robbins (2005) found that higher shareholder activism resulted in a preference for high-status corporate directors. It seems there is a similar process at work here. Further, while we find as predicted that increased political heterogeneity increase the preference for high status, we also see in these models that municipalities that are embedded in areas of higher Democratic Party strength (versus Republican Party strength) prefer lower status banks. Also, as past studies would suggest, the results show considerable status homophily (Podolny, 1994). Specifically, as the credit rating of the bond decreases, the predicted status of the selected lead-manager also tends to decrease. Thus lower credits are associated with lower status banks. Also, we see that one of the variables controlling for the influence of the financial advisor is highly significant, showing that having a third-party who associates with high-status banks, predicts a higher likelihood of the issuer retaining a high status bank. Lastly, in support of the “uncertainty perspective,” the results show a preference for higher status for more opaque transactions that are difficult to evaluate. That is, revenue bonds, which are more idiosyncratic than general obligation bond, and “double barreled” bonds (backed by a revenue source and a general obligation pledge), are more likely to be underwritten by higher status firms.

Robustness checks

There is the potential that the observed relationship between racial/ethnic heterogeneity and status-preferences is due instead to the effect of specific racial/ethnic groups. To check for this, I reran the models but also included indicator variables for the racial/ethnic group that is the most populous in each municipality. I find in these models that in municipalities where African-Americans are the most populous racial/ethnic group, there is a lower likelihood of retaining a high-status bank (at the $p < 0.05$ level). Note, however, that the main results of the study are essentially the same in these models.

Additionally, I examined whether firms in higher status brackets have lower fees, as was found by Podolny (1993). I ran models predicting the gross spread for each transaction. Here, I regressed spreads on all the variables listed in Table 1, using a mixed-effects linear model with a random intercept for each issuer (the random intercept accounts for the fact that fees may differ across issuers due to unobserved heterogeneity).²⁰ Here the four-level categorical variable, *status-bracket*, is a predictor of bank fees. Indeed, I do find that higher status banks have lower fees in this model. Very similarly to Podolny (1993), I find an interaction effect with status by deal size; fees are lower when using higher status banks on small deals, but the difference in fees diminishes as deal size increases. Note Podolny (1993) found that the interaction eventually results in high-status bank charging more for large deals. I calculated the average marginal effects at larger deal-sizes, but found that even at that ninety-ninth percentile (\$545 million deal) there was not a statistical difference in fees (at the $p < 0.05$ level), although the top-tier is closer at

²⁰ Due to missing gross-spread data, the number of transactions decreased by about one-third in this robustness check. Note that I also tried rerunning the main model presented earlier with this reduced dataset. I found very similar results (although hypothesis 3b was significant at the $p < .05$ level in Model 5 but not quite in Model 6, with this reduction in data). Thus the finding of this study appear quite robust.

this point to being statistically more expensive than the other three brackets (note I am using categorical indicators of status, not continuous). Thus, at least in this context, any reluctance on the part of the issuer to retain a high-status firm is not driven by fees. Further, relative fee differences across brackets tends to *decrease* as deal-size increases. Of course, we found earlier that the effects of heterogeneity on status-preferences *increase* with deal size (with little to no difference for small transactions). Thus, the main findings of this study – that heterogeneous organizations prefer higher-status banks while homogenous organizations prefer lower-status banks– is not driven by fee concerns, but rather legitimacy concerns.

CHAPTER 5: DISCUSSION AND CONCLUSION

Discussion

The implicit assumption in past work is that organizations are collectively rational actors, albeit imperfect perceivers of the market; a preference for status is conceived of as an economic optimization strategy rather than as a social process. Indeed, as others have pointed out (Jensen, 2008; Kovács & Sharkey, 2014), there has been a strong assumption in the literature that actors always prefer high status. This is due to the definition of status being rooted in quality perceptions; a preference for status is explained in past work as a strategy to maximize the expected quality of a produced resource (Podolny, 1993), to enhance organizational prestige as perceived by other actors in the market (Stuart et al., 1999), or to signal to others that a high-quality partner was selected (Correll et al., 2013; Jensen, 2006). The limitation is that these theories cannot simultaneously explain why high and low status might be preferred. Indeed, these theories seem to suggest that low status is never itself preferred. It follows then, that status *preferences* would not exist at all, only status seeking. However, if status is defined as a group-based phenomenon that has important symbolic properties to the construction of social reality – not just important to quality perceptions – we can begin to see where and when retaining a high-status partner would be order producing versus disorder producing.

This study began with two questions: ‘When and why do organizations prefer high-status exchange partners?’ and ‘When and why do organizations prefer low-status exchange partners?’ I started by looking towards the focal organization’s evaluation process in order to identify what the introduction of a high-status or low-status partner means to that organization. To answer the first question: A high-status partner is retained in heterogeneous contexts because it coheres with

a social order based upon bureaucratic rationalization (Weber, 1978). To answer the second question: A low-status partner is retained in homogeneous contexts because it coheres with a social order based upon traditional authority and implicit background assumptions (Weber, 1978; Zucker, 1986). The mechanism is the same: to produce legitimacy. I thus present a unified theory of why both low and high status may be preferred by different evaluators, rather than assuming, or identifying exceptions to, a preference for high-status.

This study thus takes the focal organization as a collection of participants inclusive of the practices through which those participants make organization-level decisions (March, 1962) and construct a shared social reality (Berger & Luckmann, 1966; Zucker, 1977). Ego, like any other organization, attempts to produce a “legitimate order” (Weber, 1978) – the extent to which those in the organization agree upon an intersubjective reality (Johnson et al., 2006). This order may be manufactured through implicit background assumptions, shared ideology and tradition; or through the adoption of social facts, and action oriented towards a rational-legal order (Weber, 1978; Zucker, 1977). The former will be found in homogeneous contexts while the latter in heterogeneous contexts (Tolbert, 1988; Zucker, 1986).

In the qualitative analysis I showed how the partner evaluation process is deeply embedded within the social order of the focal organization. In other words, organizations are not “nodes.” Evaluation decisions are constructed in particular social and political contexts. Indeed, participants emphasized politics and interdepartmental process as critical to understanding their jobs, the inner-workings of their organizations, and how they select partner-firms. Thus, this study assumes that the focal organization’s interactions with and perceptions of the market are not only affected by these processes, they emerge from these processes.

I then empirically tested whether status preferences do in fact emerge from the construction of an organization's social order. Indeed, racial/ethnic heterogeneity (homogeneity), functional heterogeneity (homogeneity) and political heterogeneity (homogeneity) all predict a preference for higher (lower) status firms. Further, the difference in status-preferences between heterogeneous and homogeneous organizations becomes more pronounced the larger the deal and thus more salient the selection decision. These results challenge the current focus in the literature on broad, market legitimacy judgments. Specifically, I find that status does not determine an organization's legitimacy, but that the evaluating organization determines the legitimacy of status itself.

Contributions

There are many important contributions offered in this study. First, as just discussed, I present a single theory for why high-status and low-status may be preferred. Theory exploring both sides of the status coin are sorely lacking. Second, the study shows that organizations are more than the nodes implied in inter-organizational research. By considering racial/ethnic, functional and political context, this study shows that organizations view the market through an internally negotiated lens; they interact with their environment while simultaneously attempting to construct a shared social reality. Whereas prior research has focused on how market-level processes affect organizational behavior, and how a market audience determines the legitimacy of an organization – implying that the organization is viewed the same in all contexts – I show here how organization-level processes affect perceptions of the market. This is an uncommon direction of inquiry and warrants increased attention in future research.

Second, this study shows how audiences may decouple status from the ostensible object of status. That is, status is symbolic (Preda, 2005). Actors that do not occupy a market status

hierarchy may use an external status symbol as their own “legitimacy tool” (Preda, 2005:455) when enacting a social order. This builds on and expands upon Kovács and Sharkey (2014), but I show that a preference for high versus low-status is relevant to the active construction of an organization’s social order. The “prism” of status (Podolny, 2001) is *used* differently by organizations seeking to construct their own social realities.

Further, while the empirical context of this study is novel, the theory developed is highly generalizable. Organization scholars have long focused on the importance of legitimacy processes in organizations both with and without a strong profit-motive (Human & Provan, 2000; Kostova & Zaheer, 1999; Zuckerman, 1999). Thus, the level of heterogeneity in private organizations is also likely to be relevant in predicting the role of status in partner selections. Depending upon how the focal organization produces legitimacy, status may or may not be preferred. For instance, we could imagine two firms where one consists of participants sharing similar interests, beliefs, and taken-for-granted assumptions, versus another firm with a greater degree of participant heterogeneity. Hiring a top-tier consulting firm, versus a more boutique firm for instance, would mean different things in these two hypothetical organizations. In a more homogeneous organization bringing in a top firm could be viewed as a rejection of the agreed upon social order, while in a heterogeneous firm this could be seen as being consistent with legitimate decision making. We may find similar effects in the context of human resources; heterogeneous organizations or departments may be more likely to recruit from prestigious firms and universities, all else held equal, than homogeneous organizations or departments. Future work may be able to explore this phenomenon in a variety of social contexts.

Limitations and conclusions

This study assumes an externally defined market status hierarchy. In other words, the status hierarchy is itself a type of wider social fact, and one that is not endogenous to the organization. Such a status ranking pertains for instance to universities, firms and products. Note, however, that this study addresses a specific type of status – market prestige – and is not necessarily applicable to status hierarchies where characteristics such as race/ethnicity or gender are used as status indicators (e.g., Ridgeway & Berger, 1986; Ridgeway, Johnson, & Diekema, 1994).

Second, while I argue that the theory is generalizable and testable in a wide variety of contexts, the empirical results of this study are of course limited to the context of government-bank ties in the United States. Future work is needed to examine the strength of the theory in different industries and social contexts. For instance, it is indeed possible that legitimacy concerns are particularly powerful for nonprofit organizations, and for decisions that more directly impact the public. Thus, while the study does contribute to the literature by generating new theory in an understudied empirical context, we cannot yet say whether the effects will be as pronounced where there exists a stronger profit-motive as an organizational goal. Further, it could be that different dimensions of heterogeneity will be important in different contexts. For instance, Tolbert (1988) identified educational homogeneity as important in predicting the use of formalized socialization processes in law firms. Heterogeneity in terms of industry experience, tenure, gender, race/ethnicity, political affiliation, or national origin, could each play a role.

Lastly, this study does not reach any normative conclusions regarding heterogeneity and status: the results cannot be generalized as being good or bad. For instance, it may be beneficial that heterogeneous organizations are more likely to hire high-status firms, as these firms may for

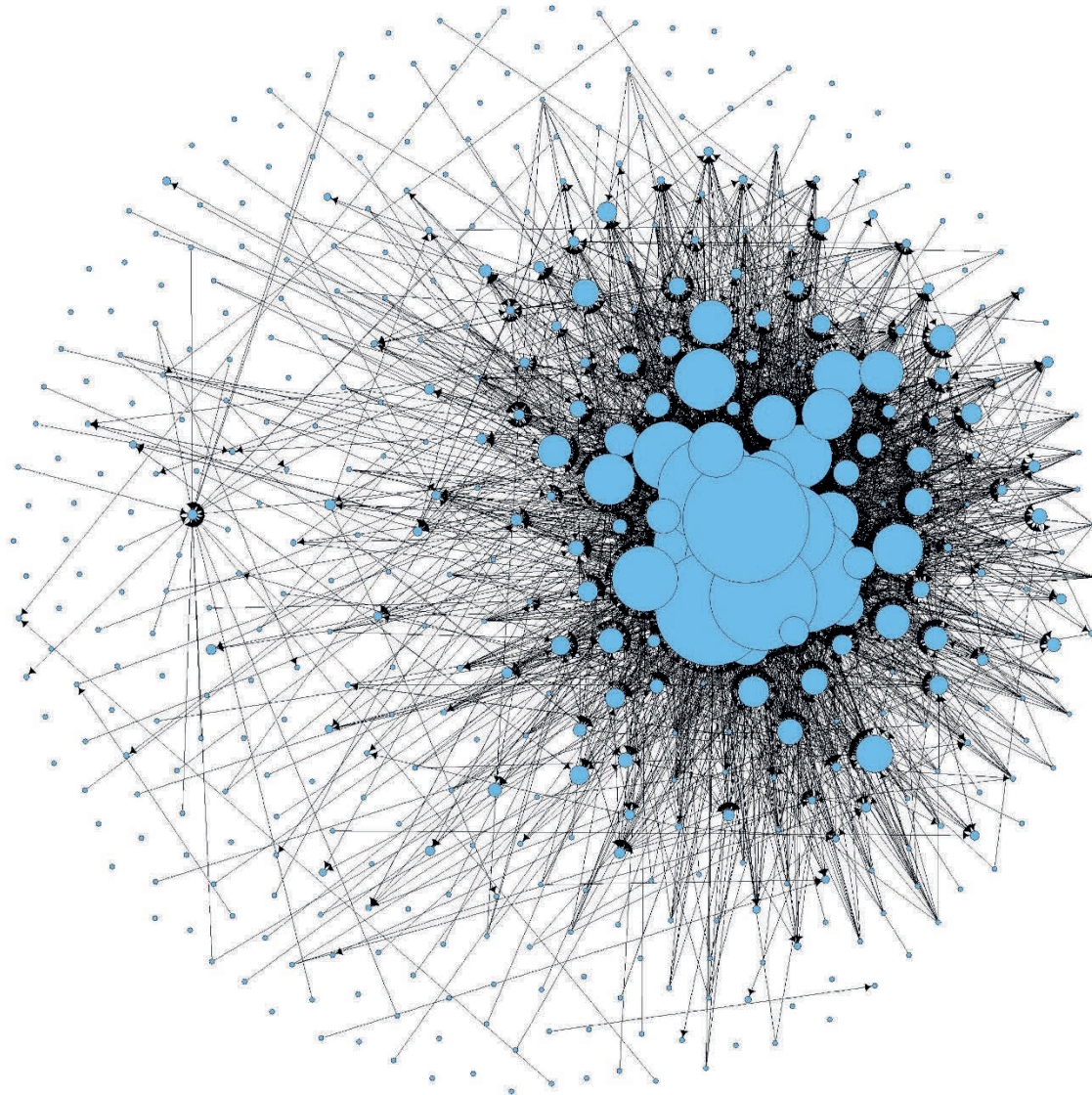
instance result in more buy-in from organizational participants. And an argument could be made that in homogeneous contexts, high-status actors would cause a disruption to implicit work processes important for organizational goals. On the other hand, the introduction of a high-status actor in a homogeneous context could be efficiency producing if it better facilitates organizational change efforts. In other words, whether or not these findings are broadly positive or negative will depend upon context.

Thus, with some limitations, the theory presented here has potential application to a wide variety of contexts. The study illustrates the focal organization as a site of negotiation with heterogeneous participants engaged in a process of social construction. Treating the organization as its own participatory “audience,” it shows that the relevance and meaning of partner-status varies depending on the extent of the focal organization’s racial/ethnic, political and functional heterogeneity. High-status is shown to be in one context order producing, while in another context disorder producing.

TABLES AND FIGURES

Figure 1: Alpha-centrality network map from asymmetric bank-bank ties

(Four-year window of lead-manager/co-manager ties)



Measure calculated and network map produced in *R* using the *igraph* package (Csardi & Nepusz, 2006). Node-size represents alpha-centrality scores (Bonacich & Lloyd, 2001). The network shown above covers the time period of 2001 to 2004, and was thus applied to transactions in the year 2005. To calculate status brackets, alpha-centrality scores were then grouped using *k*-means clustering into four tiers: top-tier, upper mid-tier, lower mid-tier, and bottom-tier.

Table 1. Variable descriptions (page 1 of 2)

Variable	Description	mean	sd	min	max
Status: Lower mid-tier	K-means clustering of Bonacich and	0.28	0.45	0.00	1.00
Status: Upper mid-tier	Lloyd's (2001) alpha-centrality scores (4-	0.34	0.47	0.00	1.00
Status: Top-tier	year window)	0.19	0.39	0.00	1.00
Racial/Ethnic Heterogeneity	Blau's (1977) heterogeneity index	0.44	0.18	0.03	0.78
Functional Heterogeneity	Entropy index (Jacquemin & Berry, 1979)	2.09	0.32	0.16	2.75
Political Heterogeneity	Absolute difference of Democrat and Republican vote shares (Senate, Gubernatorial, Presidential each weighted 1/3): 4-year window	0.81	0.15	0.22	1.00
Deal size	Par dollar amount (log)	2.75	1.31	0.02	7.62
Credit: AA	S&P, Moody's, or Fitch rating equivalent	0.30	0.46	0.00	1.00
Credit: A	(or rounded average if more than one)	0.08	0.27	0.00	1.00
Credit: BBB		0.01	0.11	0.00	1.00
Credit: BB		0.00	0.02	0.00	1.00
Credit: Not rated		0.13	0.34	0.00	1.00
Security type: Revenue	Revenue bond	0.51	0.50	0.00	1.00
Security type: Double	Double barreled: Revenue and general obligation pledge	0.05	0.21	0.00	1.00
Purpose: Development	Proceeds for economic development	0.03	0.18	0.00	1.00
Purpose: Education	Proceeds for education	0.03	0.16	0.00	1.00
Purpose: Environmental	Proceeds for environmental facilities	0.01	0.10	0.00	1.00
Purpose: Electric	Proceeds for electric power	0.02	0.13	0.00	1.00
Purpose: Healthcare	Proceeds for healthcare	0.02	0.13	0.00	1.00
Purpose: Housing	Proceeds for housing	0.04	0.19	0.00	1.00
Purpose: Public facilities	Proceeds for public facilities	0.07	0.25	0.00	1.00
Purpose: Transportation	Proceeds for transportation	0.07	0.26	0.00	1.00
Purpose: Utilities	Proceeds for utilities	0.18	0.38	0.00	1.00
Years to Maturity	Years from issuance until final payment is due	17.85	8.04	1.09	55.04
Tax: AMT	Interest subject to alternative minimum tax	0.04	0.20	0.00	1.00
Tax: Taxable	Interest is taxable	0.11	0.31	0.00	1.00
Pension bond	Pension obligation bond	0.01	0.11	0.00	1.00
Lease	Lease structure	0.07	0.26	0.00	1.00
Refunding: Full	Refunding	0.37	0.48	0.00	1.00
Refunding: Mix	Partial refunding	0.10	0.30	0.00	1.00
Bank qualified	Flag for small-issuer: 1986 tax law permitting tax exemption for bank-holder of bonds	0.22	0.41	0.00	1.00
Bank eligible	Eligible to be underwritten by commercial bank (N/A after Gramm-Leach-Bliley)	0.88	0.33	0.00	1.00
Financial advisor	Financial advisor on transaction	0.52	0.50	0.00	1.00
FA influence	Average status of bank FA works with (4- year window)	0.89	0.99	0.00	3.00
City	City government	0.62	0.49	0.00	1.00
Government size	Number of full-time equivalent employees (log)	7.24	1.59	3.04	12.91
Deal flow	Number of negotiated deals over past 4 years (log)	1.53	1.04	0.00	4.64
Debt burden	Long-term debt/Total expenditures	0.95	0.65	0.00	9.01
Full-time council	Council: Full-time	0.27	0.45	0.00	1.00

Table 1. Variable Descriptions (page 2 of 2)

Variable	Description	mean	sd	min	max
Form of Gov: Appt. Exec	Form of Government: Appointed executive	0.50	0.50	0.00	1.00
Form of Gov: No Exec	Form of Government: No executive	0.15	0.36	0.00	1.00
Form of Gov: Other	Form of Government: Other	0.00	0.04	0.00	1.00
Home-rule	Home-rule government	0.47	0.50	0.00	1.00
Voter turnout	Voter turnout	0.47	0.09	0.17	0.80
Democratic Party strength	Democrat vote-share minus republican vote-share	-0.01	0.24	-0.76	0.78
Income inequality	Mean/median household income	1.31	0.12	1.05	2.18
Network density	Herfindahl index of bank-ties over previous 4-year window	0.51	0.37	0.00	1.00
Percent debt negotiated	Percent of par issued through negotiated bid (4-year window)	0.68	0.38	0.00	1.00
Median household income	Median household income (thous.)	57.30	16.95	18.72	169.49
Airport-hub distance	Miles to Large or Medium Airport-hub (log)	3.96	1.18	0.59	6.62
Metro: 50 to 99	Surrounding metro pop: 50 to 99 (thous.)	0.01	0.10	0.00	1.00
Metro: 100 to 249	Surrounding metro pop: 100 to 249 (thous.)	0.09	0.29	0.00	1.00
Metro: 250 to 499	Surrounding metro pop: 250 to 499 (thous.)	0.10	0.30	0.00	1.00
Metro: 500 to 999	Surrounding metro pop: 500 to 999 (thous.)	0.10	0.30	0.00	1.00
Metro: 1000 to 2499	Surrounding metro pop: 1000 to 2499 (thous.)	0.19	0.40	0.00	1.00
Metro: 2500 to 4999	Surrounding metro pop: 2500 to 4999 (thous.)	0.15	0.35	0.00	1.00
Metro: 5000+	Surrounding metro pop: 5000+ (thous.)	0.22	0.42	0.00	1.00
State	Dummy variables for all states				
Year	Dummy variables (1995 to 2013)				

Total observations (transactions): 15,410. Total groups (governments): 1,962

Table 2. Correlation matrix (p. 1 of 6)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) Status: Lower mid-tier	1.00														
(2) Status: Upper mid-tier	-0.45	1.00													
(3) Status: Top-tier	-0.30	-0.35	1.00												
(4) Racial/Ethnic Heterogeneity	-0.13	0.06	0.25	1.00											
(5) Functional Heterogeneity	-0.10	0.03	0.18	0.23	1.00										
(6) Political Heterogeneity	0.04	-0.03	-0.04	-0.05	0.01	1.00									
(7) Deal size	-0.17	-0.03	0.45	0.40	0.16	-0.08	1.00								
(8) Credit: AA	-0.05	0.09	0.02	0.07	0.01	-0.01	0.06	1.00							
(9) Credit: A	0.00	0.00	-0.02	0.00	-0.02	-0.02	-0.05	-0.19	1.00						
(10) Credit: BBB	-0.01	-0.02	0.04	0.04	0.01	-0.04	0.04	-0.07	-0.03	1.00					
(11) Credit: BB	0.01	-0.01	0.00	0.01	0.00	0.01	0.00	-0.02	-0.01	0.00	1.00				
(12) Credit: Not rated	0.07	-0.10	-0.13	-0.08	-0.04	0.04	-0.26	-0.25	-0.12	-0.04	-0.01	1.00			
(13) Security Type: Revenue	-0.05	0.01	0.10	0.16	0.18	0.09	0.12	-0.13	0.02	0.02	0.00	0.15	1.00		
(14) Security Type: Double	0.00	0.04	-0.01	0.01	0.04	-0.03	-0.05	0.05	-0.03	-0.02	0.02	-0.05	-0.23	1.00	
(15) Purpose: Development	0.02	-0.04	-0.05	-0.03	-0.01	0.01	-0.08	-0.05	0.03	0.01	0.00	0.19	0.12	0.00	1.00
(16) Purpose: Education	0.00	0.00	-0.05	-0.04	-0.21	0.02	0.00	0.00	0.01	0.02	0.01	0.00	-0.04	-0.03	-0.03
(17) Purpose: Environmental	0.00	-0.02	0.03	-0.01	0.03	0.03	0.00	-0.04	0.01	0.03	0.00	0.00	0.07	-0.01	-0.02
(18) Purpose: Electric	-0.04	-0.04	0.12	0.01	0.08	0.01	0.09	0.00	0.02	-0.01	0.00	-0.04	0.12	-0.02	-0.02
(19) Purpose: Healthcare	-0.01	-0.01	-0.03	-0.09	-0.05	0.00	-0.01	-0.03	0.03	0.04	0.04	0.10	0.10	-0.02	-0.02
(20) Purpose: Housing	0.02	0.02	-0.07	0.06	0.02	0.01	-0.07	-0.10	-0.02	-0.01	0.00	0.09	0.19	-0.04	-0.04
(21) Purpose: Public facilities	0.01	-0.02	-0.02	-0.04	-0.02	0.02	-0.04	-0.01	0.02	0.00	-0.01	0.00	0.03	-0.01	-0.05
(22) Purpose: Transportation	-0.05	-0.03	0.15	0.07	0.10	0.02	0.06	-0.04	0.01	0.01	0.01	0.00	0.11	0.03	-0.05
(23) Purpose: Utilities	-0.04	0.05	0.05	0.04	0.15	0.00	0.11	0.02	-0.02	-0.04	-0.01	-0.12	0.33	-0.01	-0.09
(24) Years to maturity	-0.04	-0.01	0.14	0.18	0.09	0.00	0.36	-0.08	-0.06	0.02	0.00	-0.03	0.28	-0.01	0.00
(25) Tax: AMT	-0.03	-0.02	0.05	0.05	0.06	0.01	0.01	-0.09	-0.02	0.01	0.01	0.08	0.17	-0.03	0.11
(26) Tax: Taxable	-0.05	0.03	0.04	0.07	0.02	-0.02	-0.02	0.09	0.03	0.00	-0.01	-0.04	-0.03	-0.01	0.03
(27) Pension bond	-0.03	-0.03	0.09	0.08	0.03	-0.01	0.10	-0.02	0.01	0.00	0.00	-0.04	-0.03	-0.02	-0.02
(28) Lease	-0.01	0.00	0.00	0.04	-0.06	0.06	0.01	-0.03	0.04	0.01	-0.01	-0.03	0.27	-0.05	-0.02
(29) Refunding: Refinancing	-0.01	0.02	0.00	0.00	-0.04	0.01	-0.03	0.05	0.02	-0.01	-0.01	-0.12	-0.10	-0.08	-0.06
(30) Refunding: Mix	-0.02	0.01	0.05	0.05	0.03	-0.01	0.18	0.03	-0.01	0.01	0.00	-0.08	0.01	-0.04	-0.03
(31) Bank qualified	0.10	-0.02	-0.22	-0.31	-0.14	0.00	-0.44	0.00	0.06	-0.02	0.00	0.07	-0.20	0.01	-0.04
(32) Bank eligible	-0.04	0.10	-0.02	0.00	-0.06	-0.09	0.01	0.16	0.02	-0.02	0.01	-0.16	-0.37	0.08	-0.11
(33) Financial advisor	-0.12	0.06	0.27	0.29	0.19	-0.07	0.31	0.11	-0.03	0.01	0.01	-0.19	0.00	0.11	-0.06
(34) FA influence	-0.14	0.05	0.34	0.33	0.22	-0.10	0.36	0.12	-0.03	0.02	-0.01	-0.20	0.02	0.10	-0.07

Table 2. Correlation matrix (p. 2 of 6)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(35) City	-0.03	0.06	0.04	0.31	0.30	-0.03	0.06	0.01	-0.01	0.03	0.00	-0.02	0.13	0.01	0.03
(36) Government size	-0.16	-0.02	0.40	0.49	0.18	-0.13	0.61	0.10	0.00	0.05	0.00	-0.13	0.09	-0.06	0.00
(37) Deal flow	-0.07	-0.01	0.24	0.37	0.31	-0.07	0.37	0.05	-0.03	0.02	-0.01	-0.04	0.13	-0.02	0.03
(38) Debt burden	-0.06	0.04	0.15	0.30	0.22	0.01	0.24	0.06	-0.02	0.00	-0.02	-0.06	0.13	0.04	0.01
(39) Full-time council	-0.02	-0.07	0.13	0.02	0.02	-0.08	0.15	0.01	0.02	0.03	0.00	-0.02	-0.06	-0.03	0.01
(40) Form of Gov: Appt. Exec	0.00	0.03	0.01	0.05	0.10	0.14	-0.01	0.02	-0.02	-0.02	0.00	0.02	0.20	0.02	-0.05
(41) Form of Gov: No Exec	0.03	-0.02	-0.09	-0.30	-0.20	-0.05	-0.14	-0.01	0.01	-0.02	0.00	0.01	-0.20	0.04	0.00
(42) Form of Gov: Other	0.04	-0.02	-0.02	-0.01	-0.02	-0.01	-0.04	0.02	0.02	0.00	0.00	-0.01	0.00	0.00	0.00
(43) Home-rule	-0.05	0.05	0.13	0.27	0.32	0.00	0.15	0.01	-0.04	-0.01	0.00	-0.08	0.10	0.06	0.00
(44) Voter turnout	0.04	0.01	-0.13	-0.31	-0.09	0.11	-0.19	0.06	0.01	-0.04	0.01	0.06	0.00	-0.13	0.03
(45) Democratic party strength	-0.06	-0.04	0.16	0.29	0.09	-0.05	0.23	0.04	0.03	0.06	0.00	-0.02	0.03	-0.07	0.03
(46) Income inequality	-0.11	-0.01	0.20	0.32	0.21	-0.09	0.32	0.06	0.02	0.04	0.00	-0.09	0.08	-0.02	0.01
(47) Network density	0.05	0.04	-0.12	-0.16	-0.05	0.04	-0.18	0.02	0.01	-0.03	-0.01	-0.02	-0.09	0.00	-0.05
(48) Percent debt negotiated	0.01	-0.02	0.08	0.11	0.18	0.00	0.13	0.02	-0.02	0.00	-0.01	-0.04	0.05	-0.01	-0.02
(49) Med household income	0.02	0.01	-0.02	-0.07	-0.10	-0.03	-0.04	0.01	-0.07	-0.01	0.00	0.05	0.00	0.01	-0.01
(50) Airport-hub distance	0.05	0.00	-0.18	-0.38	-0.07	0.07	-0.27	-0.05	0.03	-0.02	0.00	0.03	-0.07	0.05	-0.02
(51) Metro: 50 to 99	-0.01	0.01	-0.04	-0.07	0.00	-0.01	-0.07	0.00	0.02	0.00	0.00	0.03	0.01	0.00	0.03
(52) Metro: 100 to 249	0.02	0.00	-0.04	-0.09	0.02	-0.02	-0.07	0.01	0.00	-0.01	-0.01	-0.02	0.00	0.01	0.00
(53) Metro: 250 to 499	0.00	0.00	0.00	-0.07	0.06	0.09	-0.03	-0.03	-0.01	0.00	0.01	-0.01	0.04	0.01	-0.01
(54) Metro: 500 to 999	0.02	0.01	-0.02	-0.02	0.02	0.07	0.00	-0.01	-0.01	-0.01	-0.01	0.02	0.03	-0.02	0.01
(55) Metro: 1000 to 2499	-0.01	0.01	0.06	0.01	-0.02	0.05	0.09	0.08	-0.04	-0.03	0.01	-0.04	0.07	-0.02	0.00
(56) Metro: 2500 to 4999	-0.02	0.02	0.03	0.08	0.14	0.08	0.08	0.04	0.01	-0.02	0.00	-0.03	0.05	-0.01	0.00
(57) Metro: 5000+	-0.03	-0.01	0.09	0.33	-0.03	-0.20	0.13	-0.03	-0.01	0.06	0.01	0.00	-0.07	0.02	-0.01

Table 2. Correlation matrix (p. 3 of 6)

		(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
(16)	Purpose: Education	1.00												
(17)	Purpose: Environmental	-0.02	1.00											
(18)	Purpose: Electric	-0.02	-0.01	1.00										
(19)	Purpose: Healthcare	-0.02	-0.01	-0.02	1.00									
(20)	Purpose: Housing	-0.03	-0.02	-0.03	-0.03	1.00								
(21)	Purpose: Public facilities	-0.04	-0.03	-0.04	-0.04	-0.05	1.00							
(22)	Purpose: Transportation	-0.04	-0.03	-0.04	-0.04	-0.06	-0.07	1.00						
(23)	Purpose: Utilities	-0.07	-0.05	-0.06	-0.06	-0.09	-0.12	-0.13	1.00					
(24)	Years to maturity	-0.01	-0.03	0.03	0.08	0.30	0.01	0.03	0.08	1.00				
(25)	Tax: AMT	-0.03	0.05	-0.02	-0.01	0.38	-0.05	0.20	-0.09	0.17	1.00			
(26)	Tax: Taxable	-0.02	-0.01	0.01	-0.02	0.00	0.00	0.00	-0.06	-0.05	-0.07	1.00		
(27)	Pension bond	-0.01	-0.01	-0.02	-0.02	-0.02	-0.03	-0.03	-0.05	0.03	-0.02	0.29	1.00	
(28)	Lease	0.03	0.00	0.00	-0.01	-0.05	0.19	-0.04	-0.09	0.03	-0.04	-0.02	-0.03	1.00
(29)	Refunding: Refinancing	0.00	0.01	-0.01	-0.03	-0.03	-0.04	-0.03	0.04	-0.31	-0.05	-0.08	0.02	-0.07
(30)	Refunding: Mix	-0.02	0.00	0.03	-0.01	-0.05	-0.03	-0.01	0.07	0.10	-0.04	-0.07	-0.03	0.00
(31)	Bank qualified	-0.01	-0.02	-0.04	-0.02	-0.08	0.05	-0.05	-0.04	-0.22	-0.09	-0.18	-0.05	-0.04
(32)	Bank eligible	0.03	-0.07	-0.01	-0.08	0.08	-0.08	-0.05	-0.11	-0.05	-0.05	0.06	0.02	-0.14
(33)	Financial advisor	-0.09	0.00	0.06	-0.09	-0.16	-0.02	0.10	0.09	0.04	-0.05	0.06	0.04	-0.06
(34)	FA influence	-0.09	0.00	0.06	-0.09	-0.15	-0.03	0.11	0.09	0.08	-0.03	0.05	0.03	-0.07
		(29)	(30)	(31)	(32)	(33)	(34)							
(29)	Refunding: Refinancing	1.00												
(30)	Refunding: Mix	-0.26	1.00											
(31)	Bank qualified	0.07	-0.04	1.00										
(32)	Bank eligible	0.05	0.00	0.01	1.00									
(33)	Financial advisor	0.07	0.05	-0.18	0.07	1.00								
(34)	FA influence	0.06	0.06	-0.20	0.07	0.87	1.00							

Table 2. Correlation matrix (p. 4 of 6)

	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
(35) City	-0.11	-0.04	0.09	-0.09	0.01	-0.10	-0.01	0.17	0.06	0.00	0.01	-0.01	-0.05
(36) Government size	0.02	0.01	0.01	-0.02	0.06	-0.03	0.11	-0.01	0.19	0.11	0.08	0.05	0.00
(37) Deal flow	-0.06	0.00	0.02	0.01	0.13	-0.05	0.09	0.04	0.19	0.13	0.04	-0.02	-0.07
(38) Debt burden	-0.04	-0.02	0.02	-0.07	-0.02	-0.08	0.07	0.13	0.11	0.01	0.00	-0.02	-0.06
(39) Full-time council	-0.04	0.00	-0.05	0.05	0.06	0.04	0.01	-0.09	0.07	0.03	0.03	0.04	0.00
(40) Form of Gov: Appt. Exec	-0.01	0.03	0.03	-0.01	0.04	0.01	0.02	0.05	0.07	0.01	-0.01	0.03	0.15
(41) Form of Gov: No Exec	-0.03	-0.01	-0.05	0.04	-0.06	0.07	0.02	-0.11	-0.09	-0.05	-0.01	-0.03	-0.03
(42) Form of Gov: Other	-0.01	0.00	0.00	0.00	-0.01	0.01	0.01	0.02	-0.02	-0.01	0.00	0.00	0.00
(43) Home-rule	-0.05	-0.01	0.08	-0.07	0.03	-0.05	0.02	0.11	0.08	0.04	0.01	0.02	-0.08
(44) Voter turnout	0.01	0.00	0.00	0.02	0.05	0.02	-0.05	-0.03	-0.08	-0.02	0.05	-0.03	0.05
(45) Democratic party strength	-0.02	0.00	0.00	-0.03	0.04	-0.03	0.01	-0.05	0.09	0.05	0.14	0.08	0.03
(46) Income inequality	0.00	0.01	0.02	-0.03	-0.02	-0.02	0.08	0.04	0.09	0.03	0.05	0.02	-0.03
(47) Network density	-0.01	-0.01	0.00	-0.04	-0.07	0.00	-0.06	0.02	-0.10	-0.08	-0.02	0.00	-0.01
(48) Percent debt negotiated	-0.07	0.01	0.02	-0.02	0.00	-0.02	0.04	0.05	0.11	0.02	0.01	-0.01	-0.05
(49) Med household income	-0.01	-0.01	-0.04	0.00	0.10	0.00	-0.04	-0.06	0.04	0.00	-0.04	0.00	0.05
(50) Airport-hub distance	0.04	0.02	0.02	0.03	-0.11	0.03	-0.04	0.02	-0.13	-0.06	-0.04	-0.04	0.02
(51) Metro: 50 to 99	0.00	0.00	0.01	0.02	-0.02	0.00	0.00	-0.01	-0.03	-0.01	0.00	0.00	0.00
(52) Metro: 100 to 249	0.01	0.00	0.05	0.01	-0.03	0.02	-0.03	0.02	-0.02	-0.02	-0.01	-0.02	0.00
(53) Metro: 250 to 499	0.01	0.00	0.05	-0.02	-0.05	-0.01	0.02	0.04	-0.03	-0.02	0.00	-0.03	-0.02
(54) Metro: 500 to 999	-0.02	0.01	-0.02	0.01	0.02	0.01	0.00	0.03	0.02	0.01	0.00	0.00	-0.01
(55) Metro: 1000 to 2499	0.00	0.01	0.00	0.00	-0.03	-0.01	0.02	0.04	-0.01	0.00	0.00	-0.02	0.00
(56) Metro: 2500 to 4999	-0.03	-0.01	-0.02	0.00	0.06	0.04	0.09	-0.02	0.08	0.02	0.00	0.00	0.01
(57) Metro: 5000+	-0.02	-0.02	-0.03	-0.04	0.07	-0.05	-0.05	-0.05	0.07	0.03	0.04	0.09	0.01

Table 2. Correlation matrix (p. 5 of 6)

	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
(35) City	-0.01	0.04	-0.09	-0.05	0.13	0.12	1.00								
(36) Government size	-0.04	0.03	-0.39	0.03	0.27	0.35	-0.05	1.00							
(37) Deal flow	-0.12	0.02	-0.27	-0.01	0.12	0.20	0.20	0.64	1.00						
(38) Debt burden	0.03	0.05	-0.21	0.00	0.20	0.21	0.43	0.14	0.38	1.00					
(39) Full-time council	-0.04	0.00	-0.04	0.04	0.06	0.09	-0.36	0.31	0.16	-0.13	1.00				
(40) Form of Gov: Appt. Exec	-0.03	0.01	-0.07	-0.08	0.09	0.09	0.03	-0.09	-0.03	0.06	-0.22	1.00			
(41) Form of Gov: No Exec	0.00	-0.02	0.18	0.09	-0.09	-0.10	-0.51	-0.15	-0.20	-0.23	0.35	-0.42	1.00		
(42) Form of Gov: Other	0.02	-0.01	-0.01	0.01	0.03	0.01	0.03	-0.02	-0.02	0.00	-0.02	-0.04	-0.02	1.00	
(43) Home-rule	-0.02	0.04	-0.15	-0.02	0.20	0.22	0.46	0.15	0.26	0.31	-0.16	0.05	-0.35	0.01	1.00
(44) Voter turnout	0.00	-0.02	0.09	0.05	-0.21	-0.23	-0.10	-0.20	-0.09	-0.11	-0.04	-0.02	0.01	0.04	-0.12
(45) Democratic party strength	-0.03	-0.01	-0.13	0.01	0.09	0.13	0.17	0.38	0.24	0.06	0.07	-0.09	-0.19	-0.03	0.12
(46) Income inequality	0.00	0.02	-0.17	0.00	0.16	0.21	0.12	0.45	0.27	0.12	0.11	-0.04	-0.12	0.01	0.10
(47) Network density	0.01	0.02	0.10	0.02	-0.12	-0.13	0.03	-0.29	-0.10	-0.04	-0.12	0.04	0.02	0.02	-0.08
(48) Percent debt negotiated	-0.11	0.04	-0.07	-0.01	-0.02	0.04	0.09	0.16	0.60	0.18	0.07	0.00	-0.06	-0.03	0.09
(49) Med household income	0.00	-0.01	-0.05	-0.03	0.04	0.01	-0.02	-0.14	-0.07	0.09	-0.09	0.16	-0.05	0.01	-0.01
(50) Airport-hub distance	0.02	-0.01	0.20	0.00	-0.16	-0.19	-0.24	-0.35	-0.35	-0.25	-0.03	0.06	0.17	0.02	-0.23
(51) Metro: 50 to 99	0.00	-0.02	0.06	-0.01	-0.03	-0.03	0.01	-0.06	-0.04	-0.03	-0.02	-0.02	0.02	0.00	-0.02
(52) Metro: 100 to 249	0.00	0.00	0.04	0.00	-0.06	-0.06	-0.01	-0.10	-0.10	-0.08	-0.08	0.00	0.05	-0.01	-0.05
(53) Metro: 250 to 499	0.01	0.01	-0.03	-0.03	0.03	0.01	0.01	-0.06	-0.07	0.01	-0.02	0.05	-0.04	0.06	-0.01
(54) Metro: 500 to 999	-0.02	0.01	-0.03	-0.02	-0.06	-0.06	-0.03	0.03	0.06	-0.03	0.07	-0.01	-0.01	-0.01	-0.05
(55) Metro: 1000 to 2499	-0.01	0.00	-0.10	-0.02	0.06	0.08	0.00	0.12	0.12	0.08	-0.07	0.07	-0.04	0.02	0.00
(56) Metro: 2500 to 4999	0.00	0.00	-0.04	-0.01	0.04	0.05	0.04	0.07	0.10	0.09	0.10	-0.01	-0.05	-0.02	0.11
(57) Metro: 5000+	0.01	0.02	-0.11	0.04	0.16	0.15	0.18	0.19	0.10	0.10	0.00	-0.04	-0.13	-0.02	0.15

Table 2. Correlation matrix (p. 6 of 6)

	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)	(52)	(53)	(54)	(55)	(56)	(57)
(44) Voter turnout	1.00													
(45) Democratic party strength	-0.04	1.00												
(46) Income inequality	-0.23	0.26	1.00											
(47) Network density	0.10	-0.13	-0.16	1.00										
(48) Percent debt negotiated	-0.04	0.05	0.09	0.37	1.00									
(49) Med household income	0.18	-0.09	-0.44	0.06	-0.08	1.00								
(50) Airport-hub distance	0.02	-0.30	-0.01	0.13	-0.06	-0.34	1.00							
(51) Metro: 50 to 99	0.05	-0.02	0.02	0.04	0.00	-0.06	0.15	1.00						
(52) Metro: 100 to 249	-0.01	-0.08	0.10	0.07	0.01	-0.19	0.33	-0.03	1.00					
(53) Metro: 250 to 499	-0.02	-0.08	0.04	0.06	0.01	-0.14	0.28	-0.03	-0.11	1.00				
(54) Metro: 500 to 999	-0.06	-0.04	0.03	0.00	0.08	-0.13	0.21	-0.04	-0.11	-0.11	1.00			
(55) Metro: 1000 to 2499	0.18	-0.07	-0.03	-0.03	0.00	0.08	-0.31	-0.05	-0.16	-0.16	-0.16	1.00		
(56) Metro: 2500 to 4999	0.11	0.07	0.00	-0.05	0.06	0.11	-0.26	-0.04	-0.13	-0.14	-0.14	-0.20	1.00	
(57) Metro: 5000+	-0.22	0.31	-0.06	-0.06	-0.03	0.35	-0.39	-0.06	-0.17	-0.18	-0.18	-0.26	-0.22	1.00

Table 3. Mixed-effects ordered logistic regression: Predicted status-bracket (p. 1 of 3)

	1	2	3	4	5	6
Hypotheses:						
Racial/Ethnic Heterogeneity		2.260** (0.630)	0.642 (0.228)	2.291** (0.636)	2.255** (0.629)	0.730 (0.261)
Functional Heterogeneity		1.708*** (0.196)	1.698*** (0.195)	0.792 (0.144)	1.707*** (0.196)	0.890 (0.163)
Political Heterogeneity		1.819*** (0.329)	1.813** (0.328)	1.800** (0.325)	1.011 (0.337)	0.923 (0.309)
Racial/Ethnic H. X Deal size			1.737*** (0.169)			1.649*** (0.163)
Functional H. X Deal size				1.339*** (0.072)		1.279*** (0.070)
Political H. X Deal size					1.246* (0.131)	1.285* (0.136)
Transaction:						
Deal size	1.446*** (0.031)	1.447*** (0.031)	1.114* (0.056)	0.776* (0.090)	1.213* (0.106)	0.553*** (0.081)
Credit						
Credit: AA	0.805*** (0.041)	0.796*** (0.041)	0.793*** (0.040)	0.795*** (0.041)	0.798*** (0.041)	0.795*** (0.041)
Credit: A	0.761*** (0.054)	0.760*** (0.054)	0.751*** (0.053)	0.761*** (0.054)	0.762*** (0.054)	0.755*** (0.054)
Credit: BBB	0.769 (0.128)	0.756 (0.126)	0.743 (0.125)	0.744 (0.125)	0.755 (0.126)	0.734 (0.123)
Credit: BB	1.098 (0.756)	1.015 (0.700)	1.037 (0.720)	0.986 (0.678)	1.017 (0.704)	1.013 (0.702)
Credit: Not Rated	0.521*** (0.034)	0.518*** (0.034)	0.505*** (0.033)	0.517*** (0.034)	0.520*** (0.034)	0.508*** (0.033)
Security Type						
Security type: Revenue	1.135* (0.066)	1.133* (0.066)	1.151* (0.067)	1.129* (0.065)	1.132* (0.066)	1.144* (0.066)
Security type: Double	1.290** (0.111)	1.285** (0.111)	1.280** (0.110)	1.287** (0.111)	1.285** (0.111)	1.283** (0.111)
Purpose						
Purpose: Development	0.570*** (0.062)	0.570*** (0.062)	0.573*** (0.062)	0.569*** (0.062)	0.569*** (0.062)	0.571*** (0.062)
Purpose: Education	0.849 (0.103)	0.880 (0.107)	0.887 (0.108)	0.874 (0.106)	0.878 (0.107)	0.880 (0.107)
Purpose: Environmental	1.396 (0.242)	1.383 (0.239)	1.380 (0.239)	1.376 (0.238)	1.373 (0.238)	1.365 (0.237)
Purpose: Electric	2.641*** (0.411)	2.615*** (0.408)	2.611*** (0.408)	2.543*** (0.398)	2.604*** (0.406)	2.541*** (0.398)
Purpose: Healthcare	1.142 (0.161)	1.178 (0.166)	1.213 (0.171)	1.191 (0.168)	1.176 (0.166)	1.217 (0.171)
Purpose: Housing	0.632*** (0.078)	0.629*** (0.077)	0.648*** (0.080)	0.635*** (0.078)	0.627*** (0.077)	0.648*** (0.080)
Purpose: Public Facil.	1.054 (0.077)	1.055 (0.077)	1.043 (0.076)	1.045 (0.076)	1.055 (0.077)	1.036 (0.076)
Purpose: Transportation	1.754*** (0.135)	1.749*** (0.135)	1.718*** (0.133)	1.748*** (0.135)	1.752*** (0.135)	1.724*** (0.133)
Purpose: Utilities	1.083 (0.062)	1.078 (0.062)	1.057 (0.061)	1.060 (0.061)	1.077 (0.062)	1.043 (0.060)
Years to maturity	1.003 (0.003)	1.003 (0.003)	1.003 (0.003)	1.003 (0.003)	1.003 (0.003)	1.003 (0.003)

Table 3. Mixed-effects ordered logistic regression: Predicted status-bracket (p. 2 of 3)

	1	2	3	4	5	6
Tax						
Tax: A.M.T.	1.546*** (0.156)	1.537*** (0.155)	1.511*** (0.153)	1.526*** (0.154)	1.534*** (0.155)	1.501*** (0.152)
Tax: Taxable	1.236*** (0.076)	1.237*** (0.076)	1.221** (0.075)	1.227*** (0.075)	1.237*** (0.076)	1.214** (0.075)
Pension Bonds	2.127*** (0.394)	2.161*** (0.402)	2.072*** (0.387)	2.124*** (0.397)	2.162*** (0.402)	2.054*** (0.385)
Lease Structure	0.898 (0.076)	0.904 (0.076)	0.896 (0.075)	0.915 (0.077)	0.903 (0.076)	0.905 (0.076)
Refunding						
Refunding: Refinancing	1.149*** (0.048)	1.145** (0.048)	1.136** (0.047)	1.141** (0.048)	1.144** (0.048)	1.132** (0.047)
Refunding: Mix	1.054 (0.063)	1.054 (0.063)	1.045 (0.063)	1.052 (0.063)	1.055 (0.063)	1.044 (0.063)
Bank qualified	1.057 (0.055)	1.067 (0.056)	1.033 (0.054)	1.054 (0.055)	1.066 (0.056)	1.025 (0.054)
Bank eligible	0.918 (0.071)	0.916 (0.071)	0.913 (0.070)	0.911 (0.070)	0.916 (0.071)	0.910 (0.070)
Financial advisor	0.996 (0.078)	0.997 (0.078)	1.000 (0.078)	0.998 (0.078)	0.998 (0.078)	1.002 (0.078)
FA Influence	1.285*** (0.051)	1.284*** (0.051)	1.274*** (0.051)	1.282*** (0.051)	1.284*** (0.051)	1.274*** (0.051)
Government:						
City	1.410** (0.154)	1.231 (0.138)	1.221 (0.137)	1.241 (0.139)	1.228 (0.138)	1.227 (0.138)
Government size	1.490*** (0.061)	1.400*** (0.060)	1.389*** (0.060)	1.412*** (0.061)	1.400*** (0.060)	1.399*** (0.060)
Deal flow	0.914 (0.042)	0.897* (0.042)	0.894* (0.041)	0.893* (0.041)	0.897* (0.042)	0.892* (0.041)
Debt burden	1.036 (0.048)	1.043 (0.048)	1.043 (0.048)	1.046 (0.048)	1.043 (0.048)	1.044 (0.048)
Full-time council	1.197 (0.118)	1.179 (0.117)	1.177 (0.117)	1.173 (0.116)	1.177 (0.117)	1.170 (0.116)
Form of Government						
Form of Gov: Appt. Exec	1.035 (0.098)	1.017 (0.097)	1.020 (0.097)	1.019 (0.097)	1.016 (0.097)	1.020 (0.097)
Form of Gov: No Exec	0.914 (0.124)	0.971 (0.133)	0.937 (0.128)	0.959 (0.131)	0.968 (0.132)	0.927 (0.126)
Form of Gov: Other	0.298 (0.263)	0.339 (0.300)	0.338 (0.299)	0.310 (0.273)	0.329 (0.292)	0.304 (0.268)
Home-rule	1.092 (0.098)	1.050 (0.094)	1.048 (0.094)	1.056 (0.095)	1.050 (0.094)	1.054 (0.094)
Voter turnout	2.847* (1.203)	2.505* (1.061)	2.544* (1.078)	2.591* (1.097)	2.488* (1.055)	2.595* (1.100)
Democratic Party strength	0.583*** (0.084)	0.559*** (0.081)	0.556*** (0.081)	0.564*** (0.082)	0.579*** (0.085)	0.582*** (0.085)
Income inequality	0.960 (0.347)	0.954 (0.346)	0.950 (0.344)	0.956 (0.345)	0.952 (0.345)	0.950 (0.344)
Network density	1.093 (0.069)	1.081 (0.069)	1.085 (0.069)	1.082 (0.069)	1.078 (0.069)	1.084 (0.069)
Percent debt negotiated	1.116 (0.101)	1.138 (0.103)	1.140 (0.103)	1.137 (0.103)	1.139 (0.103)	1.139 (0.103)

Table 3. Mixed-effects ordered logistic regression: Predicted status-bracket (p. 3 of 3)

	1	2	3	4	5	6
Median household income	1.007** (0.003)	1.009*** (0.003)	1.009*** (0.003)	1.009*** (0.003)	1.009*** (0.003)	1.009*** (0.003)
Airport-hub distance	0.956 (0.052)	0.960 (0.053)	0.967 (0.053)	0.963 (0.053)	0.961 (0.053)	0.969 (0.053)
Metro Size (thous.)						
Metro: 50 to 99	0.935 (0.323)	0.999 (0.346)	1.012 (0.350)	0.984 (0.340)	0.988 (0.342)	0.987 (0.341)
Metro: 100 to 249	1.005 (0.133)	0.978 (0.130)	1.021 (0.136)	0.997 (0.132)	0.979 (0.130)	1.036 (0.138)
Metro: 250 to 499	0.945 (0.133)	0.924 (0.130)	0.951 (0.134)	0.938 (0.132)	0.924 (0.130)	0.960 (0.135)
Metro: 500 to 999	0.900 (0.140)	0.915 (0.142)	0.945 (0.147)	0.919 (0.143)	0.908 (0.142)	0.938 (0.146)
Metro: 1000 to 2499	0.906 (0.135)	0.900 (0.135)	0.928 (0.139)	0.911 (0.136)	0.897 (0.134)	0.932 (0.139)
Metro: 2500 to 4999	0.966 (0.163)	0.939 (0.159)	0.967 (0.164)	0.933 (0.158)	0.938 (0.159)	0.957 (0.162)
Metro: 5000+	0.746 (0.133)	0.750 (0.135)	0.771 (0.139)	0.750 (0.135)	0.749 (0.135)	0.769 (0.138)
cut1	2.219*** (0.653)	3.782*** (0.699)	3.146*** (0.708)	2.255** (0.751)	3.299*** (0.737)	1.375 (0.789)
cut2	4.265*** (0.653)	5.832*** (0.700)	5.193*** (0.709)	4.303*** (0.752)	5.350*** (0.738)	3.422*** (0.790)
cut3	6.739*** (0.655)	8.311*** (0.703)	7.681*** (0.711)	6.786*** (0.754)	7.829*** (0.740)	5.913*** (0.791)
<i>AIC</i>	33916.6	33879.2	33848.8	33851.7	33876.8	33826.1
Log Likelihood	-16839.3	-16817.6	-16801.4	-16802.9	-16815.4	-16788.0

Standard errors in parentheses.

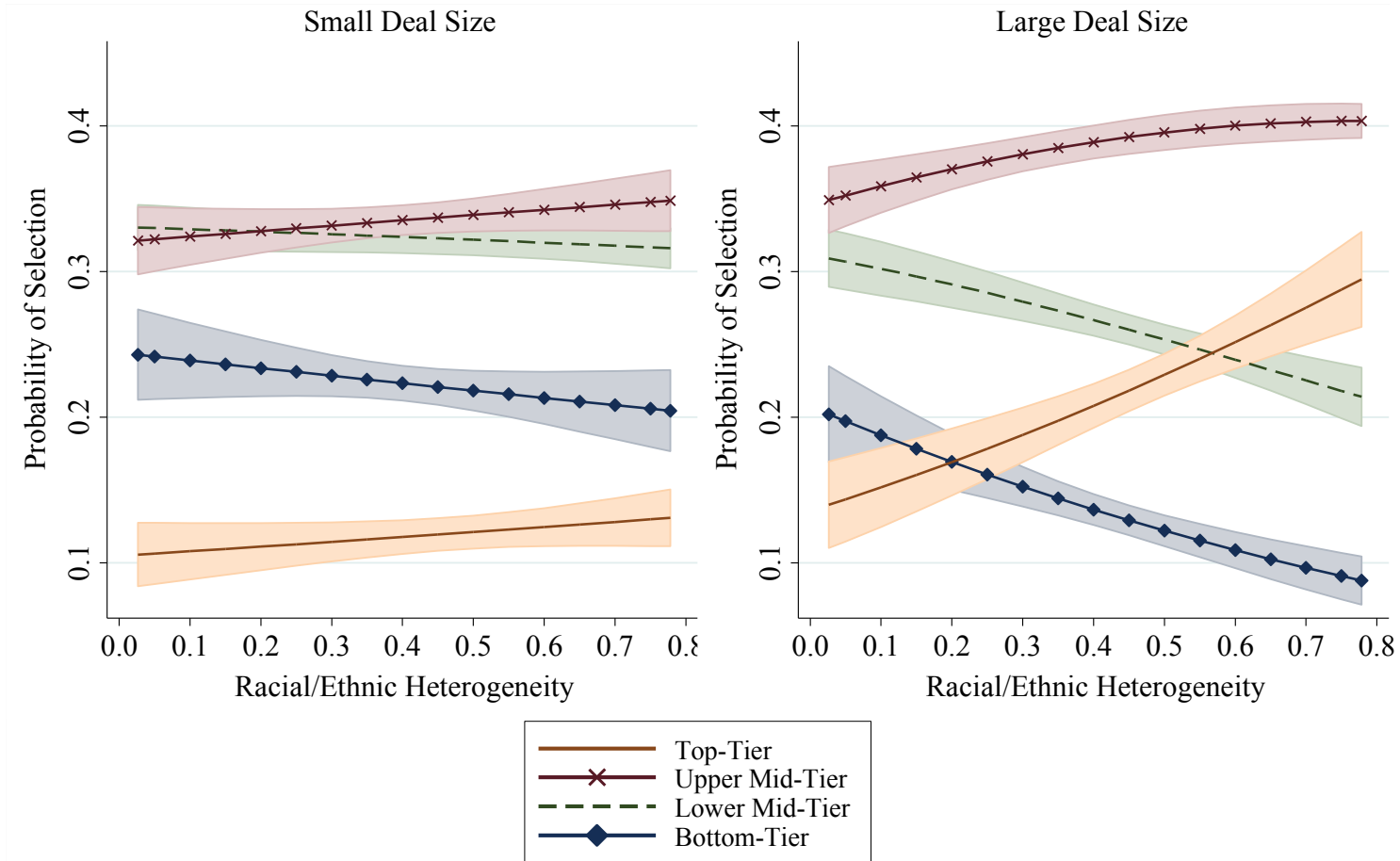
Coefficients reported as odds ratios.

All models include 15,410 transaction nested within 1,962 government. Note that the cut points in ordered logistic regressions are similar to intercept terms. Also included, but not shown, are state and year dummy variables.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Figure 2a: Selection of status-bracket by racial/ethnic heterogeneity

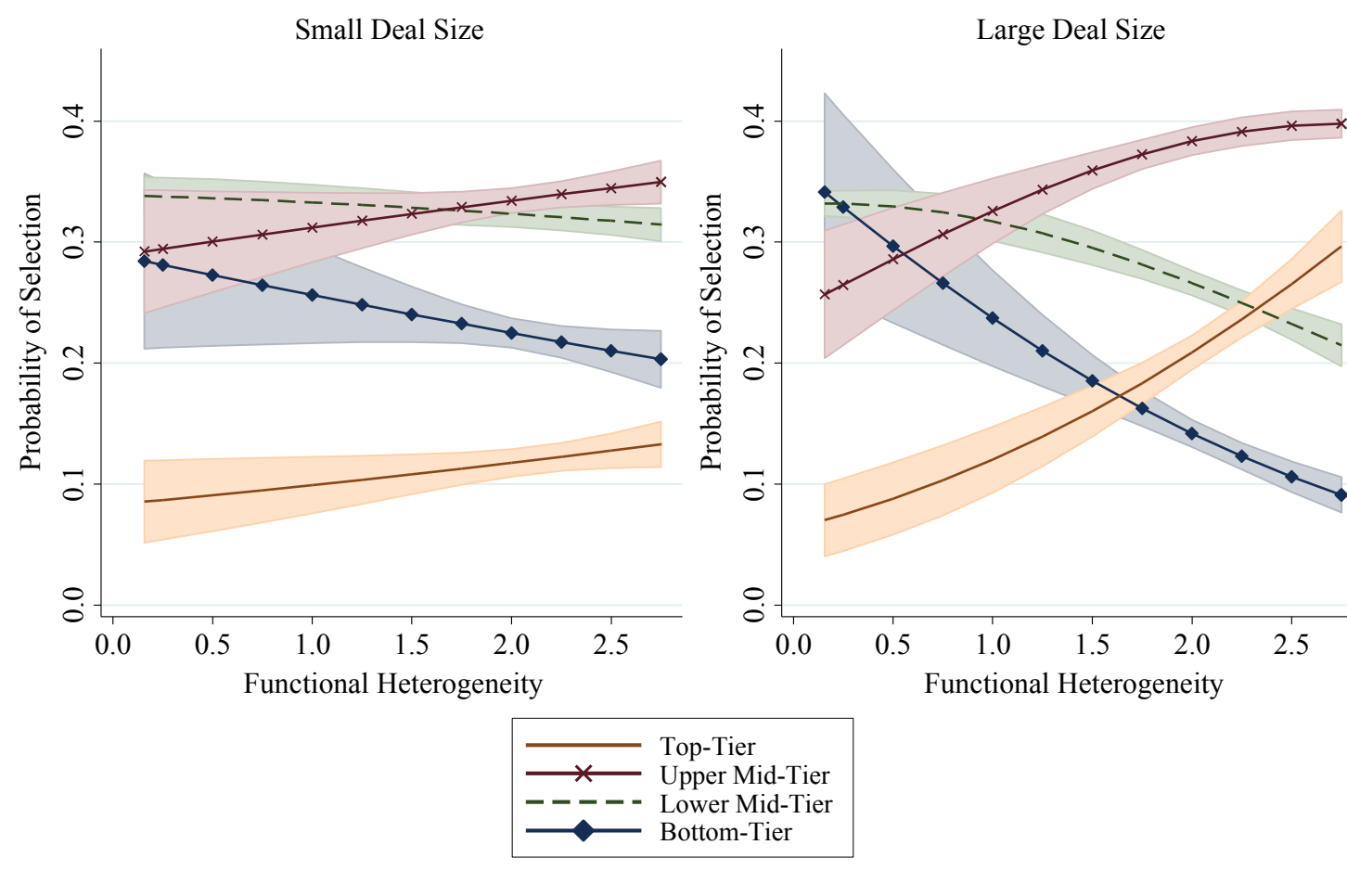
(Average marginal effects with 95% confidence intervals from multi-level ordered logistic regression, Model 6)



Small and large deal sizes are one standard deviation below and above the mean logged par amount of the bonds. In actual dollar terms this refers approximately to a \$4 million and \$58 million dollar deal, respectively.

Figure 2b: Selection of status-bracket by functional heterogeneity

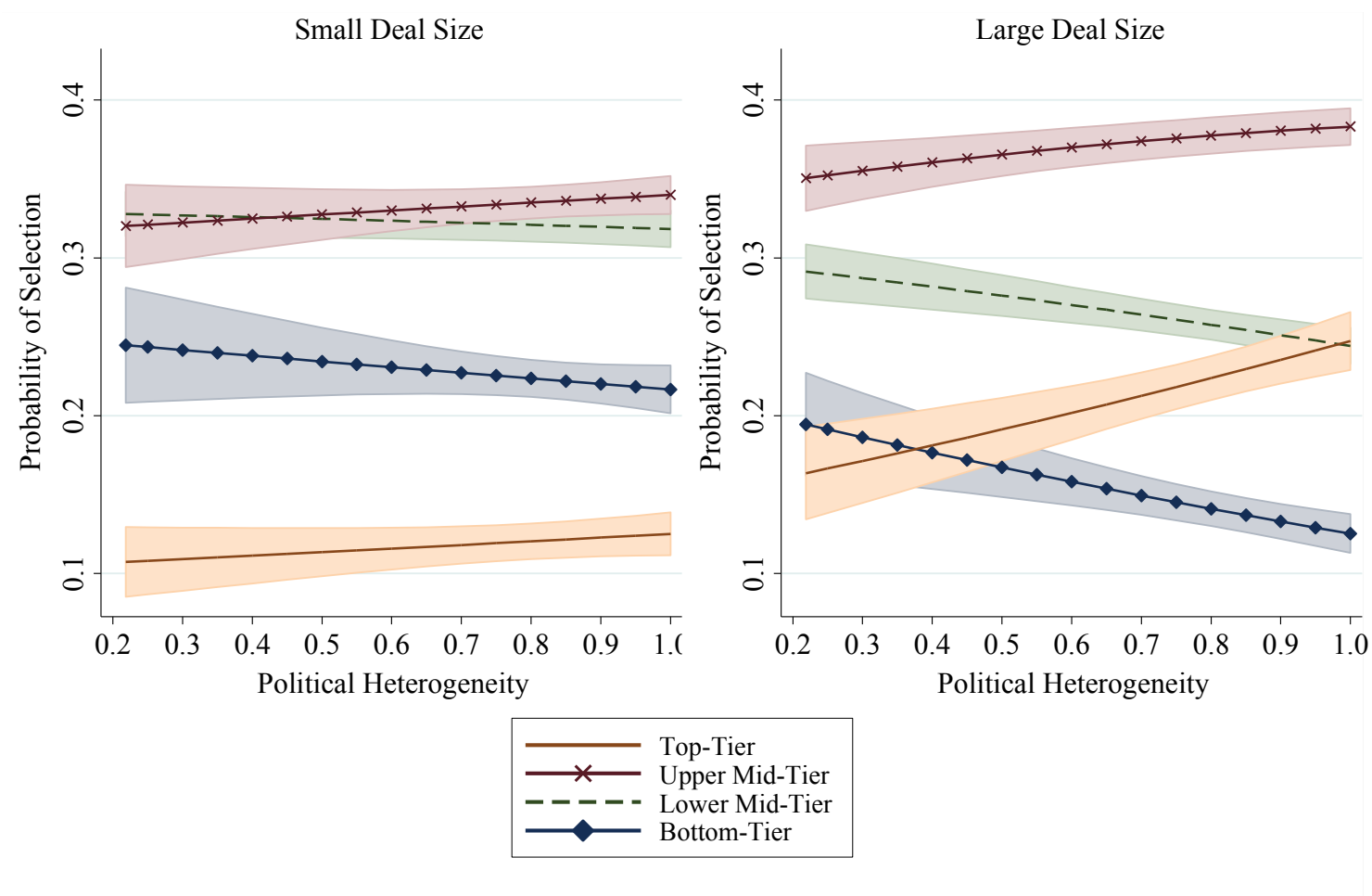
(Average marginal effects with 95% confidence intervals from multi-level ordered logistic regression, Model 6)



Small and large deal sizes are one standard deviation below and above the mean logged par amount of the bonds. In actual dollar terms this refers approximately to a \$4 million and \$58 million dollar deal, respectively.

Figure 2c: Selection of status-bracket by political heterogeneity

(Average marginal effects with 95% confidence intervals from multi-level ordered logistic regression, Model 6)



Small and large deal sizes are one standard deviation below and above the mean logged par amount of the bonds. In actual dollar terms this refers approximately to a \$4 million and \$58 million dollar deal, respectively.

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