**Bordeaux 2016 Abstract Submission**

**Title**

Status rigidity and quality

**I want to submit an abstract for:**

Conference Presentation

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**Keywords**

Classification, status hierarchies, quality, price

**Research Question**

How do rigid versus flexible hierarchical classifications that act as status hierarchies affect producers’ quality choices.

**Methods**


**Results**

Despite being subjected to hierarchical classifications that differentially affect producers’ incentives, the quality on the right and left bank of Bordeaux have developed in lockstep. This puzzle warrants further inquiry.

**Abstract**

Using a matched-sample approach, I study the incentive structures and the competition for quality in two wine-growing areas in Bordeaux in which the status hierarchies differ in their rigidity but share virtually the same institutional context otherwise. Status is a valued producer characteristic in both areas, but is more valuable under the flexible hierarchy, most likely because the chateaux there produce smaller quantities. The relative incentive to invest in quality is indistinguishable between the two areas and the absolute incentive to invest in quality is greater under the flexible status hierarchy. Despite a stronger absolute incentive to invest in quality and the ability to acquire (or lose) valuable status under the flexible hierarchy, the competition for quality and the mobility in the quality and price hierarchies is indistinguishable between the two areas. I conclude that status rigidity is unable to stifle competition or enshrine the quality or price hierarchies in this market with strictly limited supply. The paper explores explanations for this counter-intuitive result.

Within markets or industries, status hierarchies of the organizations operating in them form (Podolny 1993). A growing body of literature has studied the consequences of single status hierarchies (for reviews see Piazza and Castellucci 2014; Sauder, Lynn, and Podolny, 2012). This literature provides valuable insights into whether and why organizations at different strata of the status hierarchy behave differently or obtain different outcomes.
Some studies replicated their results in multiple contexts to show that status phenomena work similarly in them (e.g., Bother, Bishop Smith, and White, 2010; Phillips and Zuckerman, 2001). By contrast, the features that distinguish organizational status hierarchies from one another remain understudied. Work based on simulations or formal modeling has made theoretical inroads into this question (e.g. Bothner, Podolny, and Bishop Smith, 2011; Bothner, Bishop Smith, and Lee, 2010; Lynn, Podolny, and Tao, 2009), but empirical studies are notably absent from the literature. The present study seeks to address this gap.

To make inroads into comparative studies of status hierarchies, this study focuses on status rigidity, that is, the degree to which an actor can or cannot move up (or down) in a social hierarchy. Strict status rigidity should be a defining characteristic of status hierarchies’ consequences because it forecloses all avenues for status acquisition. Thus, if status is valuable (Malter 2014), if demonstrations of quality are a way by which status is normally acquired (Rao 1994), and if status and quality mutually reinforce each others’ benefits (Benjamin and Podolny 1999), then we might expect a rigid status hierarchy to discourage competition for quality. A rigid status hierarchy might thus contribute to overall lower quality or to enshrining the quality and price hierarchies among producers. This study aims to test empirically these theoretically intuitive predictions.

To investigate the effect of status rigidity on organizations, I study the incentive structures and the competition for quality in two wine-growing areas of Bordeaux. The comparison pitches the great growths (grands crus classés) of the Médoc against the revered producers from Saint-Emilion and Pomerol. These areas on the left and right bank of the Garonne and Dordogne rivers and Gironde estuary near Bordeaux, France, are the benchmarks for their types of wine based on Cabernet Sauvignon and Merlot, respectively, but operate under virtually identical institutional conditions otherwise. The empirical strategy exploits that the classification of the Médoc is a fixed hierarchical symbol of class status that sorted 61 producers into five grands crus classés in 1855, whereas Saint-Emilion and Pomerol have a flexible status hierarchy.

Using a matched-sample approach, I study the effects of the differential rigidity of these status hierarchies on the producers’ incentives to invest in quality, the competition for quality, and producer mobility in the quality and price hierarchies under the two regimes. From an original sample of 69 potential matches in Saint-Emilion/Pomerol for the 61 great growths of the Medoc, I identify 59 matches based on chateaux’ rank similarity in the quality and price hierarchies for the years 1990-1999, over which their average quality is comparable. I then study the returns to status, the competition for quality, and producer mobility in the quality and price hierarchies over the years 2000 to 2010.

Overall, I find virtually no evidence that the more rigid status hierarchy negatively affects competition or quality. The returns to status are greater under the flexible hierarchy. The effects of quality and reputation (ten-year lagged quality) on the logged price are indistinguishable between both areas. This means the effect on the real-dollar price is larger where the status hierarchy is flexible, consistent with their greater scarcity. The quality trajectories for both areas are indistinguishable on average and for each grand cru classe of the Medoc and its matched counterpart in Saint-Emilion/Pomerol. Finally, in both parametric and non-parametric tests for heterogeneity, I find no evidence that producer mobility in the quality or price hierarchy is greater under the flexible than under the rigid status hierarchy. In this market in which high quality is difficult to produce and supply strictly limited, quality is so highly rewarded as to induce the quest for quality irrespective of whether producer status is permanent or potentially fleeting.

These non-results defy the common concern that rigid status orders are structural deterrents that might stifle competition, promote the reproduction of other aspects of the social order, or that they would be able to deter entry more strongly than a less rigid hierarchy would. Thus, rigid status hierarchies seem to give limited reasons for competition policy concerns even though they may present a concern for distribution policy (fairness).

These counter-intuitive results seem to defy economic logic. I am currently exploring explanations for these results. Possible explanations include producer irrationality in quality choices or pricing, the unified market mechanism for these wines (which are sold as futures), and the possibility that the producers are rewarded so highly for quality that it induces these producers with strictly limited supply to produce at the frontier of quality.