New study shows disadvantage for firms possessing celebrity and status

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Businesses that have attracted lots of positive media coverage and are also affiliated with high-status venture capitalists or underwriters may seem like poster children for corporate success. But new research from the University of Notre Dame shows this kind of attention may be too much of a good thing.

The study "Safe Bets or Hot Hands? How Status and Celebrity Influence Strategic Alliance Formations by Newly Public Firms" defines the media attention aspect as "celebrity" and the venture capitalist and underwriter affiliations as "status." Together, they serve as lenses that influence how people process other information about a firm, according to researcher Tim Hubbard, assistant professor of management in Notre Dame's Mendoza College of Business. But possessing both assets—celebrity and status together—is actually more of a disadvantage than possessing one or the other.

"We show that possessing multiple social approval assets might not always be beneficial," says Hubbard. "The relative predictability of high-status firms conflicts with the rebel nature of celebrities. It's like looking through two different—and incompatible—lenses at the same time."

This challenges the assumption that accumulating such assets is always beneficial. The study— co-authored by Timothy Pollock, Michael Pfarrer and Violina Rindova and forthcoming in *The Academy of Management Journal*—shows that managers need to think about these assets in context.

The researchers studied 347 internet tech startups that went public in the late 1990s and early 2000s, looking at whether they had celebrity and/or high status. They examined how many strategic alliances each firm had one year after going public, based on how potential alliances viewed the firm's underpricing (change in stock price on the first day of trading).

While celebrities were plentiful during this period, not all had high status. For example, MapQuest, Peapod, Salon and VerticalNet were all darlings, but were not backed by the highest status actors. Some—such as Pets.com, E-loan and Infoseek—were able to attain both celebrity and high status. All of these firms had varying degrees of success in attracting strategic alliance partners.

"Celebrity played a big part in alliance formation when the firm had high underpricing, where the stock price experienced a 'pop' on the first day of trading," Hubbard says, pointing to software and consulting services company Ariba as an example. The stock price almost tripled on its first day of trading in January 2002. By the end of its first year, it had 23 strategic alliances, compared to the average number of 2.4 alliances for sample firms in the study.

"We also discovered that firms with both celebrity and high status had fewer partners one year after their initial public offering," says Hubbard. High status firms had 1.65 fewer alliances if they had celebrity, compared to if they didn't.

"It changes our perspective on how these two intangible resources influence stakeholders," he says. "Instead of only considering the baseline benefits of status or celebrity, we need to look at how these assets color stakeholders' perceptions of other information."

Hubbard hopes the research can help managers better understand the nuances of intangible assets.

"Viewing a firm through two different lenses can be difficult," he says. "Rather than trying to gather every intangible asset, managers should consider which ones complement their organization. Not every firm needs to be a celebrity, and not every celebrity needs to have high status."

Provided by University of Notre Dame

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