

WHEN OBSERVATION YIELDS ADVANTAGE: STRONG TIES TO DISCONNECTED COMPETITORS IN UNCERTAIN SITUATIONS



PUBLIC TALK BY

DAVID STARK

*Arthur Lehman Professor of Sociology, Columbia University
Professor of Social Science, University of Warwick*

THURSDAY, JAN 18, 3:30 P.M. | NÁDOR U. 15., 101 (QUANTUM)

ABSTRACT | Current sociological literature studies how location in networks built around patterns of direct communication might offer a vantage point to cope with uncertainty. But at the core of any market structure, there are not only patterns of direct communication but also patterns of mutual observation among competitors. This paper identifies a distinctive position in such observation networks that yield advantage in highly uncertain situations. Leveraging the two-mode (actor-market) structure of networks of competition, we propose a topology that overcomes the duality between tie strength and network openness, arguing that actors can more effectively interpret uncertain situations when they have strong ties to disconnected competitors. We test our theory on the network of competition created by securities analysts and the stocks they cover. We find that the recommendations issued by an analyst with strong ties (high stock coverage overlap) with disconnected competitors (competitors with low stock coverage overlap in the stocks that the focal actor does not cover) yield abnormally high returns especially when confronted by more challenging, high risk, high reward, volatile stocks.

BIO | David Stark is Arthur Lehman Professor of Sociology at Columbia University where he directs the Center on Organizational Innovation. He is also Professor of Social Science at the University of Warwick. Stark uses a variety of methods to study problems of valuation, innovation, and observation. In his recent book, *The Sense of Dissonance: Accounts of Worth in Economic Life* (Princeton University Press, 2009), Stark carried out ethnographic research in three distinct settings to study how organizations and their members search for what is valuable. Dissonance – disagreement about the principles of worth – can lead to discovery. Supported by a major grant from the National Sciences Foundation, with Co-PI Matteo Prato, Stark is also working at the intersection of observation theory and network analysis to study how valuation is shaped by networks of attention. A recent paper, “Observing Finance as a Network of Observations” appears in *Sociologica* (September 2013).