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Organizational dynamics in social networks : contracts and reputations in the film industry

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Chapter 4:

The institutional environment of the Dutch film industry: Matching reputations and selection systems

Summary:

This chapter builds on theories of reputation and selection systems by distinguishing between different types of reputations and different types of selectors. We looked at the impact of the reputations of producers and directors on the investment decisions of the three main investors in the Dutch film industry: distributors, television broadcasters and the Film Fund. Reputations of a particular type have the greatest impact if selectors are of a matching type. The size of the project generally increases the effect. At the same time, a reputation of a non-matching type can have a negative impact on the willingness to invest.

Introduction

The concept of organizational legitimacy has been proposed in the organizational ecology literature (Hannan & Freeman, 1977; Carroll, Bigelow, Seidel & Tsai, 1996; Carroll & Hannan, 2000) to explain performance differentials. Investors, consumers and other stakeholders are more likely to do business with firms that have greater legitimacy. Legitimacy can therefore be a major determinant of successful performance (DiMaggio & Powell, 1983; Baum & Oliver, 1991; Aldrich & Fiol, 1994). Legitimacy can come in different forms (Suchman, 1995) and can derive from different sources, one of which is reputation based on past performance, and many studies show that reputations of both individuals and organizations serve to impress stakeholders and acquire resources (Certo, 2003; Higgins & Gulati, 2006), such as start up capital (Stuart, Hoang & Hybels, 1999).

This study builds on earlier work, such as of Rindova, Williamson, Petkova & Sever (2005) in which different types of reputational signals are distinguished. Reputation can be understood as a composite construct (Fombrun & Shanley, 1991; Rindova, Petkova & Kotha, 2007) of many possible reputational signals. Among these possible signals are financial results, certification by third parties (Rao, 1994), winning awards (Anand & Watson, 2004) and media attention (Pollock & Rindova, 2003). Reputations may lead to legitimacy in the perception of different groups of actors. Reputations come in many forms and the value of certain types of reputation depends on the particular quality evaluation standards of gatekeepers or end users. The core contribution of this paper is to systematically study how different types of reputational signals have different impacts on the behavior of different groups of actors or audiences (Hsu & Hannan, 2005).

Different types of reputations give to access to – financial – resources from key investors that operate according to different types of selection systems. Selection system theory (Wijnberg & Gemser 2000; Wijnberg 2004; Priem, 2007; Gemser, Leenders & Wijnberg, 2008) classifies competitive processes by identifying the type of the dominant selector within a particular competitive environment. Only signals, such as reputational signals, that fit with a particular selection system, and are convincing to

a particular type of selector, will have consequences for the outcome of the competitive process (Gemser et al, 2008). This makes selection system theory of particular use in distinguishing between different types of reputational signals in the analysis of the relation between reputation, legitimacy and competitive success in any arena, including the object of this study, competition for financial resources in new business ventures.

In this study we will test the impact of three types of reputation – market, peer and expert – on successfully obtaining project finance in investment environments that can be recognized as one of three types of selection systems – market, peer and expert. In addition, we address a gap in the literature by applying legitimacy and reputation to investment decisions in project-based industries, in which individuals form temporary project-based organizations that dissolve once the project is finished (Jones, 1996; DeFillippi & Arthur, 1998). Our empirical setting is the Dutch film industry, where we focus on producers and directors. In the theory section we review the literature on legitimacy, reputation and selection system theory, on the basis of which a number of hypotheses will be proposed. This will be followed by a description of the research setting – the Dutch film industry - and the data. Discussion and conclusion will round off the paper.

Theoretical framework

Legitimacy and reputation

We define legitimacy following Suchman (1995) as the 'generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995: p. 574). Without suggesting that institutional environments are constant or institutional entrepreneurship (Dacin, Goodstein & Scott, 2002) irrelevant, we focus on strategies aimed at organizational survival within a given institutional context. Organizations react opportunistically to expectations of particular actors or adopt

performance standards set by their relevant audience. As a result organizations incorporate external assessment practices as opposed to adhering to internally developed standards. Organizations will try to fit in 'administrative categories' that make them eligible for receiving public or private grants and contracts, and therefore increases their chances of survival (DiMaggio & Powell, 1983). In this paper we specifically focus on how different types of reputation can explain the extent to which actors gain access to financial resources.

Rindova, Williamson, Petkova and Sever (2005) distinguish and then synthesize two perspectives on reputation: the economic one focusing on past performance and product quality, and the institutional one focusing on the prominence of organizations in an organizational field. First, from an economic perspective, reputation is an aid in dealing with uncertainty when the expected quality of an investment or product is difficult to discern at the time of purchase and serves as a signal (Spence, 1973), or a proxy for quality based on the past quality of products from that particular contracted party (Shapiro, 1983; Podolny, 1993). Second, Rindova et al. (2005) derive the 'prominence' dimension of reputation from the institutional theory construct of legitimacy and collective recognition in organizational fields (Rao, 1994; Zuckerman, 1999; Anand & Watson, 2004; Anand & Jones, 2008). Other studies have been devoted to legitimacy and reputation (Deephouse & Carter, 2005), and status and reputation (Jensen & Roy, 2008) as presenting a two-stage process in which the legitimacy or status of the organization first determines whether it is included in the considerations of decision makers, while reputation based on past performance or quality, in turn, serves to choose among the organizations that have attained a particular level of legitimacy or status (see also Zuckerman, 1999; Philips & Zuckerman, 2001).

If reputation is linked to legitimacy and legitimacy to acquiring vital resources, reputation itself can be considered a valuable resource because it is specific to an individual or firm and hard to imitate (Barney, 1991; Peteraf, 1993; Amit & Schoemaker, 1993). This also suggests that reputations can form competitive barriers to firm mobility (Fombrun & Shanley, 1990). Social networks of past exchange constrain entry of new competitors that lack a strong reputation (Podolny, 1993). New entrants suffer from a liability of newness (Freeman, Carroll & Hannan, 1983) as they do not have an exchange history and therefore reputation. These effects of reputation on acquiring

resources are seen most clearly in the case of start-up firms or entrepreneurs in search of financial resources. New entrants are restricted in access to financial resources due to a lack of legitimacy or reputation (Certo, 2003). Incumbents find their abilities to obtain financial resources to be dependent on their reputation (Milgrom & Roberts, 1986; Fombrun & Shanley, 1990; Stuart, Hoang & Hybels, 1999; Higgins & Gulati, 2006; Kang, 2008). However, not all possible sources of financial resources will attach the same value to particular reputational signals.

Audience and selection system theory

Hsu and Hannan (2005) use the term audiences for 'collections of agents with an interest in a domain and control over material and symbolic resources that affect the success and failure of the claimants in the domain' (Hsu & Hannan, 2005: p.476). In the same paper they give a possibly narrower description of the audience as the group of persons who have some social or material control over the relevant outcome or issues. Building on organizational field and audience theory, selection system theory distinguishes between different categories of audiences and their respective evaluation criteria or standards that shape competition. Selection system theory analyzes competitive processes by identifying the actors whose evaluations count most heavily with regard to the perception of quality of products and producers. These actors' evaluations determine the willingness to pay for, or investors to invest in, products of producers and, eventually, the outcome of the competitive process (Wijnberg & Gemser 2000; Wijnberg 2004; Priem, 2007; Gemser et al., 2008).

Three ideal types of selection systems are distinguished. Market selection, in which the consumers themselves are the selectors; peer selection in which other producers are the selectors; and expert selection, in which the evaluations of third parties, who are neither producers nor consumers, are the decisive factor in determining which producers are successful in a particular competitive arena. Everyday consumer goods, such as detergents, usually are market selected; academics compete in a peer selection environment; bidders at an art auction base their consumer behaviour largely on the opinions of experts, for instance on whether the painting is by

Rembrandt or just “from his school”. There are three possible complications in this basic model of selection systems: multiple stages or phases in the selection system, mixed selection systems, and decision makers who may look like selectors of one type but actually are *representing* selectors of another type.

First, it is possible that the selection system consists of multiple stages or phases. For instance, new entrepreneurs first have to find and compete for financial resources from investors in the capital market before they can actually compete in consumer markets. The decision-makers in the financing phase may well be of a different type and have different preferences than the decision-makers in the second phase, in which the products enter the market. In Hsu and Hannan’s (2005) terminology, the audiences can be significantly different in the two phases. In each phase entrepreneurs need to be legitimated in a specific way and have a specific type of reputation to favourably impress the selectors. Banks, for example, may value creditworthiness based on past behaviour determined by expert rating agencies more than the market potential of the new product for which capital is needed.

Second, the actual selection system can consist of a mix of different types of selection systems. This can either be a single set of heterogeneous selectors, or a number of different sets of homogenous selectors. The former indicates a selection system in which the set of selectors includes more than one type of selector in a single decision making process. The latter indicates a selection system in which there are more than one set of selectors, with more than one independent or parallel decision making processes, the simultaneous approval of which is needed. For example, one committee of academic peers and one committee of business experts, the approval of which academics need both at the same time in order to be eligible for receiving government research grants. Even though selection systems may be mixed, one can often determine which type is dominant and, consequently, to the preferences of which type of selector producers should adapt the most to achieve success in that selection system (Gemser et al, 2008).

Third, the apparent selector can be representing the real selectors. These apparent selectors evaluate not on the basis of their own preferences, but as ‘representants’ of the preferences of others. Representation is not meant in a formal sense or even in a way that the represented party is conscious of. It is sufficient that the

success of the selector as a competitor derives from his or her ability to correctly guess or predict the preferences of the party it represents. This situation often occurs between subsequent stages in a value system. If market selection dominates the competitive process in the final stage, one expects distributors and retailers, in as far as they lack the market power or means to effectively shape or influence consumer taste (Mol, Wijnberg & Carroll, 2005), to select products from the producers that match the preferences of their consumers, not their own. For example, a furniture shop buys furniture that it expects its customers will like, and if the buyers of the shop guess wrong the shop will be outcompeted by its rivals.

As will be discussed further below, the empirical study of this paper focuses on one phase of the selection system, the competition for financial resources for investments, in which all three selection systems are present at the same time and in parallel. Three separate sets of selectors are involved, one of which is mixed. Also, one of the sets contains decision makers that represent another type of selectors.

Reputation and selection

Reputation can be constructed in many ways and based on many different signals, based on actual or perceived past performance. Although past financial performance is an important signal for reputation, there are plenty of other signals from different sources that construct reputations, such as contests (Rao, 1994), awards (Anand & Watson, 2004; Gemser, Leenders & Wijnberg, 2008), reviews (Basuroy, Chatterjee & Ravid, 2003; Eliashberg & Shugan, 1997), ratings (Podolny, 1993), and even the mere volume of media attention (Pollock and Rindova, 2003; Rindova, Petkova & Kotha, 2007). The relative importance of each type of reputational signal depends on the competitive environment and its concomitant selection system – market, peer or expert – in which firms or individuals operate. In the case of competition for access to financial resources from outside investors, the most valuable kind of reputation will be the one that convinces investors to make such financial resources available.

The first step is to identify which type of selectors the decision-makers – that act on behalf of these investors – can be considered to belong to. In environments where the decision makers are or represent *market* selectors, a reputation in the eyes of consumers will count heavily. Such a market reputation could be derived from a number of possible market-reputational signals, such as opinions on consumer forums, but also from previous sales to consumers. In *expert* selection environments one would expect past performance, as perceived and rated by experts, to constitute the most significant part of one's reputation. In environments in which *peer* selection dominates one would expect peer-reputational signals to play a decisive role. In academia, for example, peer-reputational signals, such as one's citation index score, will inform investments decisions such as hiring new faculty. We would expect that a reputation of a particular type – market, expert and peer – will be more important if the decision makers can be identified to belong to a type of selector that matches the type of reputation.

Hypothesis 1:

The strength of an actor's market reputation has a positive effect on obtaining investment capital, if the decision-makers can be identified as market selectors.

Hypothesis 2:

The strength of an actor's expert reputation has a positive effect on obtaining investment capital, if the decision-makers can be identified as expert selectors.

Hypothesis 3:

The strength of an actor's peer reputation has a positive effect on obtaining investment capital, if the decision-makers can be identified as peer selectors.

The three types of selection and reputation are ideal types. In practice these types of selection systems and reputations may not be as clear cut and may be a combination of these ideal types. This also raises the question of what the effect is of reputation types that do not match the selection systems, on obtaining investment capital. On the one hand, mixed signals could detract from the strength of the focal

signal, analogously to how belonging to different genres – so-called category-spanning – can cause audiences to evaluate products and producers less positively than if they would position themselves in just one category (Hsu et al, 2006; Zuckerman, Kim, Ukanwa & Von Rittman, 2003). On the other hand, positive reputational signals are still considered positive, even viewed from a different perspective than the one matching most closely the type of the signals. We will test the positive effect of other reputations that do not match the type of selector.

Hypothesis 4:

The strength of an actor's reputation of a particular type (market, peer or expert) that does not match the type of selector has a positive effect - though smaller than that of the matching reputation - on obtaining investment capital.

The outcomes of new business ventures are a priori uncertain to investors. A favorable reputation of the actors seeking to obtain investment capital will make new business ventures less risky in the eyes of the investors. At the same time the risk will grow with the size of the required investments. We therefore hypothesize that:

Hypothesis 5

The size of the project has a positive impact on the strength of the effect of an actor's reputation of a particular type (market, peer, expert) on obtaining investment capital from selectors of the matching type (market, peer, expert).

In the next section we present an empirical study in which selectors of different types are confronted with reputational signals of different types. The case focuses on the first step in the sequential selection system of film producers and directors seeking to obtain investment capital for film projects in the Dutch film industry. The directors and producers bring to the negotiating table reputational signals that are based on their past performance in the eyes of the market, peers and experts.

Methods

Research setting and data collection

The empirical setting of our analysis is the Dutch film industry. Our focus will be on two roles whose reputations are important in the search for investment capital: film producers and film directors. The film industry, especially the Dutch, is characterized by project-based organizations (PBO). A PBO is a temporary organization that is disbanded once the task for which it was specifically set up is completed (Jones, 1996). Precisely because the PBO, being a temporary organization, by definition suffers from a liability of newness (Freeman et al., 1983), film investors focus on the reputations derived from the career track records of its – temporary – key members. Reputations of producers and directors play an important role in the capital investment decision as they serve as insurance for investors in the high risk film industry characterized by high sunk costs and high demand uncertainty (Caves, 2000). The eventual expected quality of the focal film is based on the evaluation of the quality of past films of current project members.

The relative importance of different categories of investment capital providers in the film industry depends on the institutional context. In the particular institutional setting of our case of the Dutch film industry there is a lack of economies of scale due to the small language market. This legitimizes cultural policies that aim to stimulate cultural production by means of subsidies in order to protect and build a national identity. In the Netherlands, for most individual films, there are three crucial film investors that each participate as a capital investor. The three types of selection systems of markets, experts, and peers are all represented in this financing phase. We analyze the impact of different types of reputation on receiving investment capital.

First, film distributors are predominantly interested in the future market performance of the films for which they provide capital. They will attempt to guess the taste of the final consumers that buy tickets at the box-office (Eliashberg, Weinberg & Hui, 2008) and because of this they can be considered to represent market selectors.

Second, television broadcasters invest in films on the basis of the decisions of experts – see below for further details – and investment from this source can be considered to be governed by expert selection. Third, the Dutch Film Fund bases its decisions of which films to invest in, on the advice of a advisory commission in which peers dominate, although it also includes distributors as representatives of market selection and the administrators of the Film Fund – usually experts – also play a role in the process. This selection environment can therefore be described as predominantly peer-selected, though other types of selectors have a significant presence in the mix.

The population used for this study consists of 270 films released in Dutch film theatres between 1992 and 2008. Dutch films are operationalized as films of which the producer and the director are either Dutch nationals or foreigners who have attended the Dutch Film Academy. This left us with 244 films. Films released between 1992 and 1998 were used for constructing independent variables. The remaining 168 films released between 1998 and 2008 were used for analyzing actual investment behavior. Investment data was obtained through the Dutch Film Fund, a government agency that receives subsidies from the Ministry of Education, Culture and Science to stimulate the production of Dutch films. The Film Fund participated in 87% of the films in our population. This resulted in a sample of 146 films to explain Film Fund and television broadcaster investments. Not all of these films in the sample had information about the film distributors' investment. For our distributor investment model we only used those films for which the distributors' investment was available. This resulted in a sample of 117 films to explain distributor participations.

Dependent variables

Distributor minimum guarantee. This is the absolute size of the minimum guarantee (MG) of a film distributor in thousands of Euros. The investment decision of distributors is driven by their evaluation of a film project's future earnings in the market and can therefore be classified as governed by market selection. Distributors invest in film productions by providing so-called minimum guarantees (MG) in exchange for the distribution rights. The MG is an upfront compensation for expected future earnings that producers can directly invest in the production of a film. In the Dutch institutional

context, the distributor participation or MG is in many cases not crucial in financing films because their investment is a relatively small part of the total budget. However, the distributor is an important partner because having a deal memo with a distributor is a necessary condition for new film ventures in order to be eligible for receiving Film Fund subsidies.

Broadcaster participation. This is the absolute size of the broadcaster participation in thousands of Euros. The broadcaster's investment decision environment can be classified as an expert selection system. Public broadcasters are largely financed by the state, and in return have to abide by strict content rules that control the quality and share of national cultural productions. The investment decision is based on the evaluation of the potential merits of a film project by drama experts and executives within the broadcasting organization. Although broadcasters play a crucial role in the film financing process of most Dutch films, in most cases they only invest around 5 – 10 % of the film budget directly. More importantly, they have a gatekeeper role in providing filmmakers access to the CoBO and Stifo funds that invest an additional 20% of the total film budget. In this study this variable broadcaster participation includes the additional capital from the CoBo and Stifo funds. These funds are closely related to the broadcaster investment, as exclusively broadcasters can apply for these funds.

First, the CoBO, Co-productiefonds Binnenlandse Omroep, fund divides revenues received from cable companies in Germany and Belgium that carry Dutch television content among Dutch broadcasting organizations. The CoBO fund does not make an independent value judgment of projects but automatically participates when a Dutch public broadcaster endorses and participates as a co-producer in a film project with an independent film production company (Stichting Co-productiefonds Binnenlandse Omroep, 2009). Second, the Stifo, Stimuleringsfonds Nederlandse Culturele Omroepproducties, is a government agency that distributes part of the advertising income earned on public broadcasting channels. Their objective is to stimulate the production of artistically high quality audiovisual content by providing project subsidies exclusively to Dutch public broadcasters. The Stifo fund has an advisory commission of experts from the cultural sector that aid in selecting projects

that will receive subsidies (Stimuleringsfonds Nederlandse Culturele Omroepproducties, 2009).

Film Fund subsidy. This variable is the absolute size of the Film Fund subsidy in thousands of Euros. The overall mission of the Film Fund is to stimulate Dutch film production, emphasizing both quality and diversity, and creating a favorable climate for Dutch film culture (Nederlands Fonds voor de Film, 2009a). The Film Fund explicitly indicates that one of the main criteria for granting production subsidies is the reputation of the makers, especially that of the producer and director (Nederlands Fonds voor de Film, 2009b). In selecting projects the Film Fund draws on an external advisory commission (see table 4) that is largely composed of professionals from the Dutch film industry.

TABLE 4
Advisory Committee Dutch Film Fund

Type of role	Role ^a	2008	2009
Commercial		8	8
	Distribution and exploitation	3	3
	Production	5	5
Artistic		7	8
	Scriptwriting	2	3
	Directing	2	2
	Editing	1	2
	Acting	2	1
Other		2	2
Total		17	18

^a Some individuals have performed different roles during their careers. This table is therefore indicative.

This commission assists the Film Fund by giving advice on which projects the Film Fund should support, and by giving an indication of the amount of subsidies that the Film Fund should invest in those particular film projects. Next, the Film Fund board decides on the basis of the advice of the advisory commission. Investment decisions, in other words, are predominantly based on peer selection, but with other selection systems visible in the mix.

Independent variables

In order to measure the effect of reputations in the investment phase we operationalized reputation as the average performance of the last three films before the focal film for which investment capital is needed. Our data on individual film characteristics that we collected are all related to the release year. There is on average, however, a two year time lag between the capital investment decision and the eventual release of a film in the theaters. In the meantime a film is produced, marketed and distributed. For example, for a film released in 2004 the investment decision is made in 2002. We therefore took the average performance over the last three films until 2002 as the reputation at the time of the investment decision. In addition, producers and directors do not have a track record yet if they make their debut in a new film project. That means that either they do not have a reputation or they have a good or bad reputation that we are not capable of measuring. Some, for example, may have a – successful – career in neighboring industries such as television and then make the switch to film. Others may have just started their careers after graduating from the Film Academy. We therefore coded all these new entrants in the film industry as having an average reputation.

Market reputation: Box office success is an often used construct for measuring market performance of films (Sorenson & Waguespack 2005; Delmestri, Montanari & Usai 2005). We used the cumulative box office revenues over all consecutive years a film ran in the theatres. The market reputation of the producer and the director is based on box office ticket sales in film theaters, and measured as the average cumulative box-office performance of the last 3 films prior to the investment decision in thousands of Euros. Box office data of films released in the period 1992-2008 was obtained through the Nederlandse Vereniging van Filmdistributeurs (NVF). This is the Dutch association of film distributors.

Expert reputation. The expert reputation of producers and directors is based on the average film critics' reviews of the last 3 films prior to the investment decision of the focal film. Critics' reviews as a construct have been used in earlier studies of the film industry to measure artistic merit of individual films (Eliashberg & Shugan, 1997; Basuroy, Chatterjee & Ravid, 2003). Critics' reviews are measured in the number of stars

on a scale from 0 to 5. The more stars, the more positive the critic's review. We used the average over all the star ratings of film reviews in the four largest national newspapers *Algemeen Dagblad*, *Volkskrant*, *NRC Handelsblad* and *Telegraaf* to rate the expert performance of individual films, and in turn, expert reputations. The star review data in these newspapers are collected by and published in the *Filmkrant*, a magazine dedicated to film.

Peer reputation. Peer reputation is a dummy variable for having won a film award at the Dutch Film Festival, the most important festival for Dutch films, over the last 3 films prior to the current film for which investment is sought. Winning, or being nominated for, awards is considered an important signal contributing to legitimacy, status and reputation (Anand & Watson, 2004), the effects of which on performance in the film industry have been studied before (Deuchert, Adjama & Pauly, 2005; Gemser, Leenders & Wijnberg, 2008). Producer peer reputation is derived from the award category 'Best Film', and director peer reputation from the category 'Best Director'. This data from 2001-2008 was obtained from the Dutch Film Festival. The rest of the data for the years 1992-2001 on awards won were found in the database of the national newspapers *Volkskrant* and *NRC Handelsblad*.

Control variables. First, the budget of a film is expected to be an important predictor of the size of the investment of respectively the Film Fund, the broadcaster and the film distributor. The higher the budget, the more investment capital is needed to produce the film. Budget data was provided by the Film Fund. Second, the experience of film professionals, in our case producers and directors, could be an important predictor of the size of the investment. Experience is measured as the number of years in the industry since an individual's debut in the role that they perform in the film for which capital is being searched. Film professionals that have been active for many years are more entrenched in industry networks, which can increase their legitimacy (Cattani, Ferriani, Negro & Perreti, 2008), while inexperienced professionals suffer from a liability of newness (Freeman, Carroll & Hannan, 1983). For Film Academy graduates, experience is measured as the number of years since graduation. This data was provided by the Dutch Film Academy. Second, for those individuals that did not graduate from the Film Academy we took the year of their first non-television credit on IMDb as their debut year.

Results

We conducted a multiple regression analysis for testing our hypotheses of which table 5 provides the descriptive statistics and correlations. With respect to the dependent variables, the average Film Fund subsidy is € 389.670. The amount of a broadcaster's participation is on average € 556.270. Finally, the average distributor minimum guarantee, system is € 138.100. This shows that the broadcasters are the most important investors in absolute investment share, to be followed by the Film Fund and film distributors. There are also significant correlations ($p < 0.01$) among all three types of providers of investment capital. The correlation between Film Fund and film distributor is investment .51, between Film Fund and broadcaster .47, and between broadcaster and film distributor the weakest with .29. This could be related to the fact that, in turn, all three are also positively correlated with the size of the film budget.

Table 6 shows the results of the regression analysis. First, we estimated three control models for all three types of investors and their selection environments. These models include the variables film budget, industry experience producer, and industry experience director. Models 1, 4, and 7 show that these variables explain a significant share of the variance in the size of the capital investment of film distributors, broadcasters, and the Film Fund (Model 1 $R^2 = .45$, Model 4 $R^2 = .23$, Model 7 $R^2 = .24$, all with $p < 0.001$). At the individual coefficient level, as expected, budget has a significant and positive relationship with all three types of investment, ($\beta = .68$, $.44$, and $.44$ respectively, all with $p < 0.001$). In Model 1 and Model 4 we see that there is no significant relationship between the industry experience of a director or producer, in number years, and the size of the investment by broadcasters or film distributors. Only in Model 7 we see that the experience of the producer, not of the director, is positively and significantly related with the size of Film Fund subsidies ($.18$, $p < 0.05$).

TABLE 5
Means, Standard Deviations, and Correlations^a

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11
1. Film Fund subsidy	389.67	220.55											
2. Broadcaster participation	556.27	427.99	.47**										
3. MG distributor	138.10	199.53	.51**	.29**									
4. Budget	2057.12	1966.69	.46**	.47**	.67**								
5. Experience director	13.49	10.41	.17*	.24**	.24**	.35**							
6. Experience producer	10.76	7.49	.24**	.05	.16*	.18*	.34**						
7. Peer reputation director	0.22	0.42	-.04	.17	.24	-.06	-.01	-.27*					
8. Peer reputation producer	0.13	0.34	.13	.19	-.03	.11	.06	.11	-.20				
9. Expert reputation director	2.36	0.81	.24*	.38**	.11	.15	-.19	-.08	.24*	-.06			
10. Expert reputation producer	2.39	0.80	.13	.34**	-.05	-.08	-.08	-.36**	.02	.16	.43**		
11. Market reputation director	525.66	973.86	.20	.03	.45**	.51**	.11	.07	.02	.12	.07	-.04	
12. Market reputation producer	750.15	1131.03	.31**	.10	.58**	.16	.04	.01	.27*	.21*	-.11	.18	.47**

^a n = 146

* p < 0.05

** p < 0.01

TABLE 6
Results of Multiple Regression Analysis of Impact of Reputations on Investment Decisions^a

Variables	Distributor MG (Market selection)			Broadcaster participation (Expert selection)			Film Fund subsidies (Peer selection)		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Budget	.68***	.66***	.78***	.44***	.47***	.54***	.44***	.43***	.45***
Experience director	-.05	-.05	-.09	.10	.10	.08	-.04	-.02	-.05
Experience producer	.03	.04	.06	-.07	.02	.01	.18*	.20*	.20*
Market reputation director	-.07	-.07	.17	-.15*	-.15*	-.16*	-.11	-.11	-.09
Market reputation producer	.39***	.39***	.31***	.01	.02	.02	.25**	.25**	.22**
Expert reputation director	.02	.02	-.01	.17*	.17*	.18*	.16 ⁺	.16 ⁺	.16*
Expert reputation producer	-.08	-.08	-.08	.24**	.24**	.21**	.09	.09	.08
Peer reputation director	.05	.05	.03	.12	.12	.10	-.06	-.06	-.06
Peer reputation producer	-.17*	-.17*	-.17**	-.10	.10	.09	-.00	-.00	.01
Budget x market rep director			-.40***						
Budget x market rep producer			.03			.03			
Budget x expert rep director			.20**			.20**			.17*
Budget x expert rep producer									.04
Budget x peer rep director									
Budget x peer rep producer									
ΔR^2		.15***	.08***	.23	.16***	.03*	.24	.09*	.03 ⁺
R ²	.45	.59	.68	.83	.89	.92	.94	.95	.95
Adjusted R ²	.44	.56	.65	.81	.84	.87	.92	.93	.93
F	30.71***	17.43***	20.17***	13.90***	9.46***	8.72***	14.66***	7.18***	6.55***
N	117	117	117	146	146	146	146	146	146

^a Standardized regression coefficients are reported.

Two-tailed test: * p < .10, ** p < .05, *** p < .001

In the next step we included market, expert and peer reputations of both producers and directors. These models allow us to test our hypotheses about the positive relationship between reputation and the investor's selection system if they are of a similar type. Including the six reputation variables in Models 2, 5, and 8 significantly increased the explained variance in the size of investments in all three selection systems (Model 2: $\Delta R^2 = .15$, $p < 0.001$, Model 5: $\Delta R^2 = .16$, $p < 0.001$, Model 8: $\Delta R^2 = .09$, $p < 0.05$).

In Model 2 we found partial support for hypothesis 1, stating that there is a positive relationship between the market reputation and the size of the distributor's investment (MG) that can be characterized as representing a market selection. There is a significant and positive relationship between the market reputation of a producer ($\beta = .39$, $p < 0.001$) and the size of the capital investment of the distributor. We found no significant relationship between the market reputation of the director and the investment size of the distributor. Model 5 supports hypothesis 2 stating that there is a positive effect of expert reputation on receiving investment capital in an expert selection environment. The expert reputation of a director is significant and has a positive effect on the expert selection environment of the broadcasters ($\beta = .17$, $p < 0.05$). The expert reputation of the producer also has a positive effect on the broadcaster's financial participation ($\beta = .24$, $p < 0.01$). Finally, the results in Model 8 show that we found no significant relationship between peer reputation of either director or producer with the size of the investment in the peer selection system of the Film Fund. We therefore found no support for hypothesis 3.

Next, when looking at the reputation types that do *not* match the type of investor selection system, we found little support for hypothesis 4, suggesting a significant positive – though smaller than the matching reputation – effect of the other two types of reputation, that do not match the specific selection system, on the size of the investment. Model 8 is the only model in which we find a significant and positive relationship of a type of reputation that does match the selection system. Although we found no support for hypothesis 3 or a significant effect between peer reputation and the peer dominated selection system of the Film Fund, we did find a significant and positive effect of the non-matching market reputation of the producer ($\beta = .25$, $p < 0.01$) and, to a lesser extent, the expert reputation of the

director ($\beta = .16, p < 0.1$). Interestingly however, instead of the hypothesized positive effect of other types of reputations, we actually found stronger evidence for the opposite, thus *negative*, effects. In Model 2, we see that there is a negative effect of the peer reputation of a producer and the size of a distributor's investment or market selection ($\beta = -.17, p < 0.05$). In addition, in Model 5 we see that there is a negative relationship between market reputation of the director and the size of the broadcaster investment ($\beta = -.15, p < 0.1$) whose capital investment decision making process is characterized by expert selection.

In order to test hypothesis 5 of the positive moderating effect of the variable *budget* on the relationship between reputations that match their respective investor selection systems, we included interaction effects between budget and reputations that match the selection system. Prior to including the interaction effects we mean centered the independent variables (Cohen, Cohen, West, & Aiken, 2003). The inclusion of the interaction effects significantly improved the explanatory power of the models (Model 3, $\Delta R^2 = .08, p < 0.001$, Model 6, $\Delta R^2 = .03, p < 0.05$, Model 9, $\Delta R^2 = .03, p < 0.1$). We found limited support for hypothesis 5 that predicted that the positive effects of reputations that match their selection system are stronger for high budget films than low budget films.

Although in Model 2 we found no significant main effect of a director's market reputation on the size of the distributor investment, in Model 3 we did find a significant and – unexpectedly – *negative* coefficient for the interaction between budget and the market reputation of directors ($\beta = -.40, p < 0.001$). We found no significant effects for producer reputation in this model. In Model 5 we see a significant and positive coefficient for the interaction effect between budget and the expert reputation of a producer – not director – on the size of the broadcaster's investment ($\beta = .20, p < 0.01$). This outcome supports hypothesis 5. The effect of expert reputation on the size of the participation in the expert selection system of the broadcaster is stronger for high budget films. In Model 9 we see that there is a significant interaction effect between the budget of the film and the peer reputation of a director ($\beta = .17, p < 0.05$), even though we found no main effect of this type of reputation in Model 8. We found no significant result for producer peer reputation.

Discussion

In this study we measured the value of different types of reputations in obtaining financial resources from investors, each of which employing other evaluation criteria in the decision-making process. Reputations can be an aid in dealing with uncertainty when the expected quality is difficult to discern at the time of purchase, and serves as a proxy for quality (Shapiro, 1983; Podolny, 1993) or to construct legitimacy (Suchman, 1995). The core objective of this paper was to differentiate between different types of reputations and to study the extent to which these different types of reputations had an impact on the decision making processes of different types of investors. To distinguish these different types of investors we used the framework of selection system theory (Wijnberg, 2004; Priem, 2007; Gemser et al, 2008). We hypothesized that in competitive environments, especially those characterized by high uncertainty, the value of a certain type of reputation is higher, the more closely it matches the type of selection system and its evaluation criteria.

In our empirical case of the highly uncertain film industry (Caves, 2000) we studied the value of market, expert and peer reputation of directors and producers, in obtaining investment capital for film projects from three main investors. Obtaining investment capital is the first phase in the competitive process. Success in this first phase, will allow filmmakers to enter the next phase of competing for the end-user: the buyers of tickets. The decision makers at each of these investors, the film distributor, television broadcaster, and the Film Fund, can be described as belonging (mainly) to one of the types selection system theory distinguishes: market, expert and peer. We found that the strength of the market reputation of film producers, not directors, was positively related to receiving investment capital from film distributors that can be seen to represent market selectors. In addition, the strength of both the directors' and producers' expert reputations significantly increased the investment capital received from television broadcasters, on the basis of decisions made by experts.

We found no support for our hypothesis that matching peer reputations will increase the size of the subsidies received from the Film Fund, at which decision are predominantly made by peers. A possible explanation for the fact that we found no match between peer reputation and Film Fund investment can be that its advisory committee is more mixed than seemed apparent at first. It is to a large extent made up of directors and producers, peers of the applicants, but there are also distributors present, who count as market selectors. The experts that manage the Fund may also play a greater role in the decision making process than is visible in its formal description. This is reinforced by our finding that reputations that do *not* match the type of selectors only had a positive effect in the same specific selection environment of the Film Fund. Here we found that, instead of the matching peer reputations, there is a positive effect of both director *expert* reputation and producer *market* reputation, on the size of the investment by the Film Fund.

In all other selection systems we did not find evidence of our hypothesized additional positive effects of favorable reputations that do not match the type of selection system. We actually found a negative effect between producer peer reputation and investments of distributors representing market selectors. A possible explanation could be the dominant role of broadcasters as expert selectors in film investment. Their dominant role puts a premium on having a favorable expert reputation, which increases survival rates of film professionals that receive positive reviews by film critics. In turn, this might lead to peer juries being biased towards giving awards to peers with similarly high expert reputations. Having a high peer reputation in that case reflects an expert reputation that may be detrimental to a distributor's market objective. In addition, directors with a strong market reputation receive less from broadcasters or expert selectors. This might be explained by the reverse reasoning of the former.

Finally, our results to some extent confirmed our expectation that the *size of the budget* would strengthen the effect of reputations that match the type of selection system on obtaining investment capital. The relation between expert reputation and broadcaster investment capital was stronger for high budget films, although the results were only significant for producers, not directors. We also found a positive interaction between budget and the peer reputation of directors,

not producers, in relation to Film Fund investments. We did not, however, find a positive interaction between budget and market reputations in receiving financial resources from film distributors. On the contrary, we found a *negative* effect. A very tentative explanation could be a tendency of directors, after having just made a commercially successful film, to make more artistic films in their next project (Faulkner & Anderson, 1987). Even the suspicion that, after a commercial success, directors may tend to look for opportunities to beef up their artistic credentials – and to do so may behave less responsibly in a commercial sense – could make distributors more wary.

Contributions and implications

By framing reputation in terms of selection system theory we provided a new approach for integrating the economic and institutional perspectives on reputation as identified by Rindova et al. (2005). Identifying selectors, possibly operating in different or mixed sets and in different phases, allows for greater precision in describing who is involved in the application of collective knowledge (Rindova et al, 2005) or the reactions of audiences (Hsu and Hannan, 2005). Reputational signals are appreciated in particular contexts and by particular actors who can be distinguished and identified using selection system typology. In turn, this allows us to find out more about the specific ways in which reputation can be a valuable resource to a competitor (Fombrun and Shanley, 1990). These findings can have broader implications for better understanding when, and how, to invest in building particular types of reputation. Another important contribution of our study is the finding that non-matching positive reputations can actually have a negative impact on competitive success. This has potential implications for classification theory and category spanning (DiMaggio & Powell, 1983; Zuckerman, Kim, Ukanwa & Von Rittman, 2003; Hsu & Hannan, 2005).

Apart from providing a further empirical test of the selection system theory framework, this study extended the theoretical understanding of some of its key constructs. The specific circumstances of the empirical study made it necessary to

take a more systematic look at how different stages can be distinguished within selection systems, and how at each stage different types of selectors can be present in mixed sets or in parallel sets, and how selectors can actually represent selectors of another type.

Our study focused on one stage, the search for providers of investment capital, in which different sets of selectors were active. However, another implication of our study is that if a selection system consists of different stages with different types of selectors active at each stage, different types of reputation can also have different impacts at each stage. This can have important implications for studies of vertical relations in value systems (Porter, 1985) and, again, for better understanding how and when investments in building reputation will generate the greatest pay-off.

Limitations and future research

Our study has a number of limitations. First, our data is not perfect because the sample may be biased. We did not have data of film project proposals that failed to pass the first phase in the competitive process of receiving investment capital at all. We focused exclusively on the relationship between reputation and investment size for films that made it through this first phase of the competitive process. In addition, we only have data of the 87% of the films that are produced with the help of the Film Fund. We do not have investment data of the films that were financed without Film Fund investments.

Second, we restricted ourselves to the most important reputational signals that were also focused on in previous studies, instead of taking all possible reputational signals into account. For instance, we ignored the success of Dutch films abroad, especially in the sense of selection for international film festivals, and being nominated for or winning awards at these festivals.

Third, we focused on the effect of reputational signals and ignored other quality signals that may be known to the providers of financial resources during the investment decision making process. The specific characteristics of the script and

the scriptwriter, for example, may also be possible determinant of receiving investment capital (Eliashberg, Hui, and Zhang, 2007). Another suggested predictor of investment decisions in the film industry is the involvement of star-actors in the project, or the credible suggestion of such star involvement (Elberse, 2007). We did not have data about the involvement of stars at the moment when the investment decision was made.

Fourth, in this paper we did not, however, take into account that in the Dutch broadcasting system, there are different broadcasters representing a specific segment of Dutch society. In their decision to participate in a film project, broadcasters may also take into account whether or not there is a match between the film project's subject matter and their specific viewer audience. At the same time, national newspapers and their film critics writing the reviews, on the other hand, may also cater to particular segments of society. In this paper we do not link expert reputations based on reviews in specific newspapers to broadcasting organizations that represent a similar segment of Dutch society. It might be that the effect of film critics' reviews is stronger if there is a match between the market segments of the broadcasting organization and the newspaper in which the review appeared.

The limitations mentioned above already point the way towards possibilities for further research, but a few more can be mentioned here. First, replicating this study in the same industry but in a different institutional environment, such as the US film industry, would place our findings in perspective and would allow for an interesting contextual comparison. Second, it could be interesting to study the impact of different types of reputations on alliance formation or collaboration between actors. Are alliances more likely and/or more successful between actors with types of reputations that are similar or complementary? In the former, the sum of similar reputations that match the selection system may possibly increase the effect. In the latter, different types of reputation may be complementary, possibly even more when there are different stages in the competitive process that have different dominant selectors. A better understanding of the interplay between different types of reputation in different selection environments in sequential stages

of the competitive process would be of great theoretical interest and great practical value.