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The moderating effect of economic reputation on middle-status conformity: A study on the Italian film industry

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Abstract

The relationship between an actor's status and his/her decision to conform to extant social norms of behavior or to deviate from them is a common theme in the managerial and sociological research. Drawing on previous studies that have highlighted the presence of a U-shaped relationship between status and nonconformity, whereby low-status and high-status actors are more likely to deviate from accepted norms of behavior, this paper aims at investigating how reputation moderates the relationship between status and nonconformity. By relying on a sample of more than 1,500 films introduced from 1990 to 2011 by 730 Italian film producing companies, we hypothesize and find that an organization's economic reputation negatively moderates the curvilinear U-shaped relationship between its status and nonconformity in a way that, for high reputation, the high propensity of a high-status organization to non-conform is mitigated.

Keywords

Status, non-conformity, reputation, film industry

JEL Classification Numbers: L1, L2, Z1.

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Introduction

In introducing any new product or service, organizations have to balance the need to appear innovative and different from the competitors with the need to be reasonable and in-step with the market in their offerings (Abrahamson, 1996; Lieberman & Asaba, 2006; Semadeni & Anderson, 2010). Such balance needs to be achieved in the eyes of different actors (or audiences), such as other competitors, intermediaries, and consumers, who scrutinize organizational action by adopting a set of expectations about what an organization can or should do. These expectations contribute to defining the set of norms, values and beliefs that characterize a given field and prescribe to its members both the appropriate actions and means through which the desired ends should be achieved (Thornton, Ocasio & Lounsbury, 2012). Thus, organizations should respond to such ‘environmental demands’ (Durand & Jourdan, 2012) to gain or maintain legitimacy – i.e. the perception that their actions are ‘desirable, proper, or appropriate’ within the accepted system of norms and values characterizing their field (Suchman, 1995). Indeed, organizations have to address such systems of social norms and expectations, which could have twofold effects on their behaviors providing some advantages when followed, but also triggering sanctions if violated (Deepphouse & Suchman, 2008; Zajac & Kraatz, 1993; Zuckerman, 1999). In so doing, organizations face the fundamental dilemma of either conforming to extant social norms and standards of behavior or deviating from them (Deepphouse, 1999).

Various authors have suggested that the pressures exerted on an organization to conform to extant norms of conduct are influenced by the position it holds in the status hierarchy characterizing the field in which it operates. A significant stream of research has emphasized how both high- and low-status actors might face reduced constraints limiting their choice of actions (Phillips & Zuckerman, 2001). On the one hand, high-status actors can deviate from accepted norms of conduct since their unquestioned legitimacy shields them from penalties

On the other hand, low-status actors can depart from social conventions because they have little to lose by violating these norms. As a result, mid-status actors are subject to the highest pressure to conform since any deviation from acceptable behavior might bring penalties and sanctions, which would move them down in the status hierarchy (Homans, 1961; Phillips & Zuckerman, 2001). Another stream of research shows that pressure to conformity might be higher not to mid-status actors, but to high-status ones as deviations might produce disapproval and severe punishment from external observers (Jensen, 2006; Jensen, Kim & Kim, 2011). Along this line, it has been shown that high-status corporate law-firms face strong disapproval when entering into plaintiff's inquiry law (Phillips, Turco & Zuckerman, 2013), or that high-status restaurants were more penalized by food critics than low-status restaurants when changing elements of their core identity (Durand, Rao & Monin, 2007).

In this paper, we aim at reconciling these two opposing views by investigating the role that organizational reputation plays in the relationship between status and conformity. Whereas organizational status is associated with the idea of a position an organization holds in an accepted social ranking (Sorenson, 2014), reputation arises from past behaviors or performance (Deephouse & Suchman, 2008; Fombrun, 1996; Rindova et al., 2005). In recent years a growing body of research has started to show the different roles that reputation and status have for organizational outcomes (see for instance, Ertug and Castellucci, 2013; Washington and Zajac, 2005) or choices (see for instance, Ertug and Castellucci, 2015; Jensen and Roy, 2008). Yet, it is still not clear how the interplay between reputation and status might constrain organizational actions into conforming to prevalent norms of behavior.

In this paper, we argue that economic reputation moderates the effect of status on non-conforming actions. In particular, whereas mid-status conformity holds for organizations with low economic reputation, we argue that it does not hold for organizations with high economic reputation. As such, we will contribute to extant literature on conformity by showing that the

idea of mid-status conformity depends not only on the scope conditions underlined by Phillips and colleagues (2001), but also on the expectations that an organization's reputation poses on its behavior.

In order to test our hypothesis, we conducted a quantitative study on a sample of Italian film producing companies that launched at least one movie between 1990 and 2011. We believe film industry represents an interesting setting to investigate the relationship between conformity, status and reputation for two main reasons. First of all, as highlighted in Becker's seminal work on art worlds (1976, 1982), film industry like all cultural fields is a social context, which presents a set of peculiar aesthetic standards and conventions that affect the behavior of its members. As a result, in pursuing their own artistic ideas, members of an artistic field have basically to choose whether to follow extant art world conventions or to differentiate from them in an attempt to affirm their own signature style intended as 'a uniquely personal 'voice' or 'signature' that is characteristically theirs and which differentiates them from others engaged in similar work' (Humphreys, Brown & Hatch, 2003). When producers of cultural products conform to extant conventions and aesthetics, they are more likely to get their work accepted (Becker, 1982; Bielby & Bielby, 1994). On the contrary, when they create products that deviate from established conventions, they bear the risk of being ignored or rejected by different audiences (e.g., Alvarez, Mazza, Strandgaard Pedersen & Svejnova, 2005; Lena & Pachucki, 2013). Thus, film industry represents a context where organizations experience great pressures to conform to extant norms of conduct and deviance is highly risky and uncertain (Sgourev, 2013). Second, film industry is characterized by a high degree of complexity and uncertainty since consumers have tastes difficult to predict and that change rapidly (Jones, Hesterly & Borgatti, 1997; Lampel, Lant & Shamsie, 2000). Furthermore, since films are experiential goods, consumers could not determine their quality before purchase but only after consumption (De Vany, 2004; Hirsch,

1972). Thus, film industry represents a context where an organization's economic reputation plays an important role as a signal that structures both consumer expectations about its film's characteristics and quality (Kim & Jensen, 2014), and how other field members perceive it affecting its access to different resources (economic resources, scripts, famous actors, etc.) necessary for filmmaking (Delmestri, Montanari & Usai, 2005). Indeed, reputation in film industry is a critical factor for successful careers since "persons with successful performances and good reputations move ahead in their careers, those with only moderate reputations do not, and those with poor reputations experience employment difficulties and fail in the market" (Faulkner & Anderson, 1987: 881).

The article is organized as follows. The first section illustrates the theoretical background and our hypothesis. The second section presents the research methodology, while the third one the findings. The fourth section discusses the results and concludes.

Theoretical background

Our starting point is the middle-status conformity hypothesis posited by Phillips and Zuckerman (2001): firms that deviate from industry norms are those with low and high status. Still, the level of status is not necessarily related to an organization's economic success. In fact, since status is not the same as economic performance, having high status does not mean the firm was able to gain money from its strategy (i.e., high revenue). So the question is: what does it happen to the status-nonconformity relationship if the firm has high economic reputation?

First, it is important to understand whether for a firm it is better to conform or nonconform to 'what the other peers within the industry are doing', referring to the most widespread behavior within the industry. On the one, conformity increases direct competition but also allows firms to maintain competitive parity vis-à-vis rivals (Lieberman & Asaba, 2006) and legitimate their strategic actions at the eyes of stakeholders (Deephouse, 1999). On the other

hand, with nonconformity, i.e. deviation from the most widespread behavior, a firm faces legitimacy challenges but at the same time may reduce direct competition by offering a differentiated product offer targeted at a specific market niche. Therefore, is it better to conform or nonconform to the behavior of industry peers?

The extant literature suggests that nonconformity to industry standards can lead to higher economic performance, because “firms that differentiate their resources and market position from those of competitors [nonconformity] become insulated from the actions of rivals. This reduces the likelihood of imitation and leads to higher profits, if the differentiated position proves sufficiently attractive. Pursuing a differentiation strategy, however, is often difficult and risky. A firm cannot be certain that the new position or niche will be superior. Faced with a choice, firms therefore often choose to pursue homogeneous strategies [conformity], where they match the behavior of rivals in an effort to ease the intensity of competition or reduce risk.” (Lieberman & Asaba, 2006: 374). In other words, although both conformity and nonconformity may lead to higher performance, conformity is perceived by firms as a less risky choice.

We expect that if a firm has high economic reputation (meaning it shows high economic performance), it wants to reduce the risk of making decisions that will penalize its ability to gain the same money in the future, regardless its level of status. In other words, we expect that when “a firm’s ability to gain money” becomes a relevant issue, this attenuates the pressure to deviate triggered by high status. Thus, although firms with high status are more likely to nonconform because their unquestioned legitimacy shields them from penalties, the higher their level of economic reputation the lower their propensity to nonconform (i.e., higher propensity to conform) to reduce the risk of compromising the reputation (i.e., economic performance) they have gained so far.

Therefore, we can hypothesize:

Hypothesis: An organization's economic reputation negatively moderates the curvilinear U-shaped relationship between its status and nonconformity in a way that, for high reputation, the high propensity of a high-status organization to non-conform is mitigated.

Methodology

Setting

The empirical setting of this paper is the Italian film industry, from 1990 to 2011. Italy is the fourth most important European market in terms of box office. Like other European film markets, it is characterized by a dominant position of US movies, which achieved an average market share of about 60% between 1990 and 2011 (MEDIA Salles, 2012). In the same period, Italian movies obtained an average market share of about 25% (MEDIA Salles, 2012), which makes Italy the second most successful local film industry in Europe after France. Given such an American dominance, Italian producing companies have always tried to differentiate themselves from Hollywood-style aesthetics and narrative addressing themes more relevant for the Italian audiences (Delmestri et al., 2005). In doing so, they have focused their effort on nurturing the two genres in which the Italian cinema has been traditionally specialized: comedy and drama. Such genres represent about the 87% of Italian movies produced between 1990 and 2011 (see Table 1), our observation period. The strong prevalence of comedy and drama with respect to the other genres has been consistent over the entire investigated period of time (see Table 2).

Table 1 and 2 about here

Such a specialization of Italian producing companies has been paralleled by a “generally better performance [in terms of admissions] of comedies” over not only other Italian movies

but also over Hollywood comedies (Bagella & Bechetti, 1999: 240). If comedies seem to be the preferred genre among Italian cinema-going public, drama is not. According to a recent survey conducted by ANEC (Association of Italian Theaters Owners), individuals under 35 years old (i.e. those with higher cinema annual per capita frequency) prefer other genres such as thriller, adventure, and fantasy (Corriere della Sera, October 18, 2015).

In order to gain some additional insight on the specialization of Italian film industry, we interviewed in 2015 five industry experts: one professor of history of Italian cinema, the person in charge of film acquisition for an important TV broadcasting network, two journalists working for renowned industry magazines and online portals, and the former President of a prominent Italian independent production company. We did not digitally record and transcribe these interviews. However, interviewees allowed us to take detailed handwritten notes. As emerged from these conversations, Italian directors experience several difficulties in finding producing companies willing to finance movies that are neither comedies nor dramatic movies: “For instance, Matteo Garrone [director winner of the Grand Prix at the Cannes Film Festival in 2008 for the movie *Gomorra*] could make his last movie [the fantasy *Il racconto dei racconti – The tale of tales*] only with foreign producing companies that decided to co-produce his movie” (journalist, interview notes, October 2015). In some cases (e.g., fantasy and sci-fi movies), these difficulties could be related to the fact that Italian producing companies do not want to bear the high risk implied by investing the relevant economic resources needed to shoot this kind of movies. In other cases, there are genres with low legitimacy in the industry, and thus film professional could be that less motivated in working for such projects since they do not improve the odds of their career: “For example, documentaries in Italy have always experienced several troubles in legitimizing as a high status genre. Just think that in the US film industry the Oscar award for documentaries is established since 1940, while in Italy the David di Donatello for best

documentary was introduced only in 2004” (professor of history of Italian cinema, interview notes, October 2015). Thus, in general “in Italy you make either comedies mainly for box office reasons or dramatic movies aimed at receiving critical acclaim, making other kind of movies such as thriller or sci-fi is very hard” (responsible for film acquisition, interview notes, November 2015).

For these reasons, we believe our setting to be particularly well suited for testing our hypothesis. Indeed, it is possible to clearly identify the ‘conforming’ behaviors (i.e. production of comedy or drama) as opposed to ‘non-conforming’ behaviors (i.e. production of non-comedy or non-drama) of Italian producing companies.

Sample

We tested our hypothesis on a sample of Italian companies that produced at least one movie between 1990 and 2011. The overall dataset contains information on all the 730 Italian producing companies that have operated in the Italian film industry in the investigated period of time producing a total of 1,513 films. For each producing company, we collected data about the number of produced movies, their box office rentals, the number of admissions, and the prizes won. All data used in our statistical analyses are from the *Giornale dello Spettacolo*, the most important magazine of the Italian film industry published by the Italian film industry association (AGIS). Data about the prizes awarded to the producing companies are retrieved from the website of the Academy of the Italian Cinema (www.daviddidonatello.it), which every year presents the *David di Donatello* - the most important award in the Italian film industry, a sort of Italian ‘Oscar’.

Measures

Dependent variable

The dependent variable in our study is *nonconformity*. In line with the work of Phillips and Zuckerman (2001), we used as dependent variable an indicator expressing the extent to

which the focal organization takes actions that are not in line with industry standards. In the context of the Italian film industry, non-conformity is calculated as a dummy that takes value 1 if the film is neither a drama nor a comedy, 0 if the film is either drama or comedy.

Independent variables

The independent variables are producing companies' *status* and *reputation*. We developed a measure of status and reputation in line with extant literature (for a review see Piazza & Castellucci, 2014). As highlighted in the theoretical section, whereas reputation "captures differences in quality or merit generating performance-based rewards, status captures differences in agreed-on social ranks generating privileges not related to performance" (Ertug & Castellucci, 2013: 412). In this light, status is calculated as the number of *David di Donatello* a producing company has won in the two years before the year of observation. In order to check whether the curvilinear relationship between status and non-conformity hypothesized by Phillips and Zuckerman (2001) is confirmed in our sample, we calculated also the squared value of status (*status sq*).

As far as reputation is concerned, in line with previous studies that highlighted how cinema is a strongly performance-dependent setting (Delmestri et al., 2005; Jones, 1996), we measured it as the logarithm (ln) of average box office gained by the movies produced by each producing companies during the two years before the year of observation. We used this measure for two reasons. First, box office revenues represent the more accurate estimates and most widely used measure of a movie's commercial performance (e.g., Hadida, 2009; Mezias & Mezias, 2000). Second, since for every successful movie 'hundreds of projects fall by the wayside' (Faulkner & Anderson, 1987: 886), box office revenues are highly skewed (Walls, 2005). Thus, we calculated the natural logarithm (ln) to correct for skewness.

Control variables

We also added to the regression model the following control variables, at the firm-, film- and industry-level:

- Number of non-conforming films in the previous two years,
- If the film producing company is also a distributor (a 0/1 dummy where 1 indicates that a producing company is also distributing the movie),
- If the film is produced also by a foreign co-producer (a 0/1 dummy),
- If the film producing company was founded by the director (a 0/1 dummy),
- The month the film was introduced,
- Italian GDP, computed the year of observation,
- The market share of Italian movies, computed the year of observation.

Results and discussion

Since our dependent variable is a dummy - i.e. = 1 if the film is neither a drama nor a comedy, a random-effects PROBIT regression was used for our analysis (Cameron Colin & Trivedi, 2009). Table 3 presents the results of the regression analysis.

Please insert Tables 3 about here

Model 1 (Table 3) is an examination of the effects of control variables on non-conformity. In Model 2 we added status, and status squared (status-sq). Although we do not propose any hypothesis on the main effect of status on non-conformity, we start from the assumption that the middle status conformity hypothesis (Phillips & Zuckerman, 2001), i.e. a U-shaped relationship between status and nonconformity, holds also in our setting. As can be noted in Model 2 status has a negative and significant effect, while the status-sq is positive and significant, suggesting the existence of a U-shaped relationship, confirming the Phillips and Zuckerman (2001) middle status conformity hypothesis.

Our Hypothesis suggests an organization’s economic reputation negatively moderates the curvilinear U-shaped relationship between its status and nonconformity in a way that, for high reputation, the high propensity of a high-status organization to non-conform is mitigated. In Model 4, following Aiken and West (1991) procedure, we computed the first and second order interaction between status and reputation, in order to test the positive or negative moderating effect of reputation on the status–nonconformity relationship. In interpreting the effect of moderators on the curvilinear U-shaped relationship, authors suggest to focus on the sign and significance of the second order interaction coefficients (i.e. squared term \times moderator) (Aiken and West, 1991). Model 4 shows that the first order interaction is not significant while the second order interaction is negative and significant, meaning that reputation negatively moderates the status-nonconformity relationship. In other terms, reputation affects the relationship between status and non-conformity making it ‘less U-shaped curvilinear’. Figure 1, produced using the coefficients of Model 4, depicts the effect of the interaction of status and reputation on the log count of the number of non-conforming movies produced by the producing companies in our sample. Low reputation is calculated as one standard deviation below the mean and high reputation one standard deviation above the mean. Results in Figure 1 support our Hypothesis: when reputation is low, the status-nonconformity relationship is U-shaped, as the one predicted by Phillips and Zuckerman (2001); when reputation is high the level of nonconformity of high-status actors collapses.

Please insert Figure 1 about here

Results support the idea that an actor’s reputation may affect the pressure s/he perceives to conform to his or her high-status identity. Mid-status conformity, in fact, applies only for producing companies with low economic reputation, but it is altered for producing companies

with high economic reputation. Thus, in line with the idea of economic reputation as a generalized expectation of an actor's economic performance based on past demonstrations of economic performance, results show the important moderating role played by reputation in affecting an actor's conformity to accepted norms of behavior.

Conclusions

Results support the idea that the expectations an organization's reputation poses on its behavior play an important role in the relationship between status and non-conformity. In particular, whereas middle-status conformity holds for organizations with low economic reputation, it does not hold for organizations with high economic reputation. In other terms, as reputation increases, external audiences' expectations on an actor's behavior are based more on reputation rather than status. As a result, actors with positive past economic performance are more likely to feel reduced constraints limiting their choice of action, thus being more able to deviate from accepted standards regardless their position in the social ranking.

Of course, this paper presents a number of limitations that also point to avenues for future research. First, in line with the twofold performance of cultural goods (i.e. economic and artistic), this study takes into consideration only economic reputation. Future research would therefore benefit from including in the analysis also an organization's artistic reputation in order to provide a more nuanced view of the role that reputation plays in the relationship between status and non-conformity. Furthermore, since film industry represents a setting where organizations need the collaborative input of other actors (producing companies, director, screenwriters, etc.) in order to assemble their offer, it would be interesting to include in the analysis also the reputation of actors involved in the production of a movie or how previous relationships may affect the relationship between status and non-conformity. Finally, it would be interesting to compare our results with other settings, which place a premium on

innovation and where actors may perceive less pressure to conform to extant norms of conduct.

Despite such limitations, we believe this paper could provide several contributions. For instance, results contribute to existing literature by showing that middle-status conformity theory might depend not only on the scope conditions underlined by Phillips and Zuckerman (2001), but also on the expectations that an organization's economic reputation poses on its behavior. More specifically, we contribute to reconciling the two opposing streams of research that have investigated the effects of high-status position on organizational behavior in terms of (non)conformity to extant norms of conduct (e.g., Phillips et al., 2013; Phillips and Zuckerman, 2001). Furthermore, by highlighting the moderating role that an organization's economic reputation plays in the relationship between status and conformity, we offer a contribution to extant research on organizational reputation. Whereas a large number of studies has showed the different roles that reputation and status have for organizational outcomes or choices (see for instance, Ertug and Castellucci, 2015; Jensen and Roy, 2008), it is still not clear how the interplay between reputation and status might affect organizational actions. Finally, we contribute to extant research on creative industries by highlighting new factors that explain whether producers of cultural products follow extant art world conventions or differentiate from them.

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TABLES AND FIGURES

Table 1. Number and percentage of movies (produced by Italian producing companies) per genre (1990-2011)

Genre	Number of movies	% on the overall production
Drama	1,232	47.8%
Comedy	1,027	39.9%
Documentary	88	3.4%
Thriller	93	3.1%
Animation	33	1.3%
Horror	20	0.8%
History	17	0.7%
Action	16	0.6%
Musical	16	0.6%
Erotic	14	0.5%
Fantasy	6	0.2%
Biography	5	0.2%
War	4	0.2%
Western	2	0.1%
Sci-fi	1	0.0%
Grotesque	1	0.0%

Source: our elaboration from *Giornale dello Spettacolo*

Table 2. Number and percentage of comedies and dramas produced by Italian producing companies on the overall Italian production (1990 – 2011)

Year	N. of movies	Comedy	Drama	% Comedy	% Drama	% Comedy + Drama
1990	78	46	24	59.0%	30.8%	89.7%
1991	78	42	28	53.8%	35.9%	89.7%
1992	87	52	32	59.8%	36.8%	96.6%
1993	56	22	30	39.3%	53.6%	92.9%
1994	65	35	24	53.8%	36.9%	90.8%
1995	78	45	26	57.7%	33.3%	91.0%
1996	82	42	32	51.2%	39.0%	90.2%
1997	89	52	31	58.4%	34.8%	93.3%
1998	84	48	28	57.1%	33.3%	90.5%
1999	153	79	60	51.6%	39.2%	90.8%
2000	65	38	21	57.6%	31.8%	89.4%
2001	154	61	76	39.6%	49.4%	89.0%
2002	157	59	78	37.6%	49.7%	87.3%
2003	150	48	72	32.0%	48.0%	80.0%
2004	125	46	63	36.8%	50.4%	87.2%
2005	139	33	87	23.7%	62.6%	86.3%
2006	108	40	54	37.0%	50.0%	87.0%
2007	176	51	103	29.0%	58.5%	87.5%
2008	173	43	107	24.9%	61.8%	86.7%
2009	164	47	88	28.7%	53.7%	82.3%
2010	153	43	82	28.1%	53.6%	81.7%
2011	159	55	84	34.6%	52.8%	87.4%

Source: our elaboration from *Giornale dello Spettacolo*

Table 3. Probit regression for the effect of status and reputation on nonconformity

	Model 1	Model 2	Model 3	Model 4
Constant	-1.251** (-6.37)	-1.247** (-6.48)	-1.233** (-6.40)	-1.357** (-6.75)
Status		-0.050* (-2.22)	-0.039 (-1.63)	-0.298+ (-1.68)
Status-sq		0.002* (2.06)	0.002 (1.58)	0.034* (2.49)
Reputation			-0.008 (-1.29)	-0.006 (-0.94)
Reputation × Status				0.013 (1.31)
Reputation × Status-sq				-0.002* (-2.31)
N nonconformity previous 2 years	-0.030 (-0.88)	0.002 (0.04)	0.014 (0.37)	0.021 (0.53)
If distributor	-0.147 (-1.50)	-0.124 (-1.52)	-0.090 (-1.05)	-0.062 (-0.72)
If foreign co-producer	0.209 (1.48)	0.215 (1.55)	0.216 (1.56)	0.220 (1.58)
If founded by director	0.009 (0.05)	0.049 (0.31)	0.071 (0.45)	0.084 (0.53)
Month of introduction	-0.086 (-1.59)	-0.089+ (-1.70)	-0.082 (-1.56)	-0.083 (-1.58)
Italy GDP	0.000** (3.94)	0.000** (4.12)	0.000** (4.18)	0.000** (4.51)
Market share Italian movies	-0.014* (-1.98)	-0.014+ (-1.92)	-0.013+ (-1.90)	-0.011 (-1.59)
Insig2u				
_cons	-2.998** (-2.92)	-14.213 (-0.46)	-15.111 (-0.04)	-14.521 (-0.47)
N	2445	2445	2445	2445

t statistics in parentheses

+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$

Figure 1. Effect of status and reputation on the log count of nonconformity

