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Logic Duality, Conformity, and Survival in the French Film Industry, 1987-2008

Julien Jourdan

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« LOGIC DUALITY, CONFORMITY, AND SURVIVAL IN THE FRENCH FILM INDUSTRY, 1987-2008 »

THESE

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« Entre dans la forme, sors de la forme, et trouve ta liberté [...].
Toute création, je dirais même, toute existence digne de ce nom
doit passer par ces trois étapes obligées et, pour moi, la liberté
intérieure est bien la seule conquête qui vaille qu'on risque sa
peau dans ce « monde trompeur ». Cette entreprise, toujours
périlleuse, revêt des formes multiples [...]. »

Nicolas Bouvier – *Journal d'Aran et d'autres lieux*

INTRODUCTION

Before diving into theoretical developments and empirical analyses that will undoubtedly appear abstruse to some (hopefully not all) readers, I would like to remind as a starter some of the very practical questions that motivated this dissertation – largely inspired by situations I witnessed or experienced as a manager:

1. As a financial investor entering a ‘closed’, culturally specific industry, what can you do to be accepted as an appropriate business partner? Should you behave as usual? Or do you need to show incumbent organizations that you fit in?
2. As a film director, should you accept the money of publically traded investment funds? Is it a no-brainer (after all, money has no smell)? Or may this decision affect what you’re trying to achieve?
3. As a film producer, should you be ‘pure’ – that is only produce art house films and deal with arty film companies only? Or alternatively should you focus on mainstream movies and associate with commercially driven firms? Or, on the contrary, should your slate include both artistic and commercial films and your network span the arty/mainstream boundary?

At the outset of this work was the intuition that the coexistence in an industry of two distinct sets of values, assumptions, norms, or ‘rules of games’ – what scholars refer to as institutional logics – was not only raising rather unexplored theoretical questions, but was also relevant to managerial practices in many settings. Firms relying on scientific advances to innovate have to deal with both the logic of the market and the logic of science. Firms or organizations attempting to serve the ‘bottom of the pyramid’ (the 500 million to 1 billion poor people in the world) need to

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address both the logic of the market and the logic of welfare. Universities (and business schools) have to care for the logic of science and the logic of education. Information technology firms venturing into the open source world must reconcile the logic of communities and the logic of the market. Organizations involved in government bail out plans throughout the world after the 2008 financial crisis need to tackle both the logic of the State and the logic of the market. These organizations may have little in common, except that they operate, compete and attempt to survive in dual-logic contexts.

To a certain extent, some form of logic duality may be found in many settings. Even in an economy usually depicted as the archetype of market capitalism – the U.S. economy – cooperative and publically owned enterprises remain markedly present aside private corporations as ‘flotsam and jetsam’, left elements of abandoned institutional projects (Schneiberg, 2007). But in few instances logic duality appears in such a pronounced state as in the film industry in France. As an executive working for an American major film company in France, I was struck by the non-market features of the industry, and how these affected the behavior of all the firms competing in this arena, not only local ones. Even the Hollywood-based film division of a giant publically traded conglomerate would behave in a manner that would appear as economically insane to a naïve external observer. Why would an American film company fully produce and finance the worldwide release of an expensive 2-hour-and-14-minute French-spoken epic drama on the Great War? Even more puzzling, why would the same Hollywood studio fund and release a pompous 80-minute non-verbal documentary on Cambodia structured around a traditional Eastern Europe music-inspired symphonic score? Obviously, it was not a matter of firm-specific

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‘dominant logic’ (Prahalad & Bettis, 1986) – similar behaviors would be observed across film companies – but a broader social fact encompassing the whole industry.

So, are they all crazy? – as economists bluntly ask (Ravid, 2003). Institutionalists would rather argue that the prevalent institutions of the industry “set the limits on the very nature of rationality” (Friedland & Alford, 1991: 251). In other words, the way managers perceive reality and act upon it is informed by their institutional logic: what would be rational here (e.g., in the eyes of film industry member) may appear somewhat – or completely – irrational there (e.g., from a market finance logic perspective). This dissertation is about what happens when firms go from there to here, when investment funds owned by market investors enter an industry where non-market institutions are endemic.

As a strategy researcher, my primary level of analysis is the firm. How market finance-oriented investments funds behave when entering the ‘crazy’ French film industry? In return, how do incumbent filmmaking organizations deal with the ‘weird’ logic-foreigners? And what does it mean for firms to operate in a dual-logic context: in an industry organized around the two logics of the market and culture, where should production firms stand? Should they be ‘pure’ in one logic, or alternatively, should they seek to address and combine the two logics? All these questions are relevant to strategy in that they highlight the role institutional logics play, as both constraints and resources, in shaping firm behaviors and competitive interactions.

In examining these questions, I also try to address a broader puzzle at the industry level: how can two logics persistently coexist in one industry? We know that powerful

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forces, or *isomorphic pressures*, make firms and organizations more and more similar – this is probably the stronger and less disputed claim of new institutional theory (DiMaggio & Powell, 1983). How is it possible then that two distinct logics coexist on a long-term basis in an industry? For instance, why have the logic of care and the logic of science persisted alongside in the medical education industry in the U.S. for (at least) a century (Dunn & Jones, 2010)? In essence, what ‘*segregating pressures*’ contribute to maintain logics separated in some industries?

The case of investment funds in the French film industry offers some insights on this issue, and suggests a dynamic interplay between the organizational and industry levels of analysis: logic-duality affects firm strategies, which in turn contribute (or not) to sustain logic duality. Entrant firms suffer from their logic foreignness: by showing conformity – or *institutional deference* – to the industry logic, they may create the necessary conditions for the foreign logic to be imported into the industry. Incumbent organizations may further contribute to legitimize the foreign logic: showing *alternative conformity* to a minority logic might be a lever for them to escape dependence on a dominant audience and gain discretion. While these mechanisms allow two logics to overlap, selection pressures may keep them separated: there is evidence that firms attempting to combine the two logics are ‘weeded out’ in favor of those cultivating a certain level of *logic purity*.

This dissertation is an attempt at addressing the question of what keeps logics segregated and pure (or not). It is a huge, and largely unexplored research question. I believe a research study is somewhat like a film in that “no one can tell you how a movie [study] is going to do in the marketplace [research community]... not until the

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film [paper] opens in darkened theatre [journals] and sparks fly up between the screen and the audience” (Jack Valenti, cited by Sharda & Delen, 2006). My hope is that this work produces some sparks in the audience of organization and strategy scholars.

This document is organized as follows. In Chapter 1, I introduce the main concepts, the research question, and present the thesis developed in the following three chapters. In Chapter 2, I examine the ‘liability of logic foreignness’ firms face when entering industries where prevails an institutional logic which is different from theirs. In Chapter 3, I study how incumbent organizations address an audience holding a minority logic. And in Chapter 4, I revisit the concept of institutional capital in a dual-logic setting.

CHAPTER 1

AN INEXORABLE PUSH TOWARDS HOMOGENIZATION? LINKING FIRM STRATEGIES TO THE INSTITUTIONAL STRUCTURE

1 INTRODUCTION

In the management and strategy literatures, efforts at situating firms in the social structure have taken two distinct paths. On the social network path – which can be traced back to Granovetter’s (1985) call for considering the structure of social relations to understand economic action – researchers relate firm practices and key outcomes (e.g., performance, survival) to the position firms occupy in networks of economic and personal relations (e.g., at the center, at the periphery, bridging structural holes), and the attributes of these networks (e.g., dense, sparse, small world). In this view, the social structure is made of network ties that serve as either conduits of information (‘pipes’) or as identity cues (‘prism’) used by other firm, organizations and customers to assess unobservable firm characteristics (Podolny, 2001). On the new institutional path – going back to Meyer and Rowan’s (1977) work on rationalized myths and DiMaggio and Powell’s (1983) work on isomorphic pressures – researchers rather consider the broader institutional context in which firms are embedded (e.g., norms, codes, rules, categorical schemes) and how legitimacy requirements impinge on firms’ behaviors and performance. Scholars on this path adopt a broader focus and examine shared understandings and taken-for-granted assumptions underlying firms’ decisions. While scholars taking the social network paths are mostly concerned with the structural features of the social structure and are reluctant to abandon the assumption of rational action (Granovetter, 1985: 506), researchers on the institutional path are typically more interested in the content of the social structure (e.g., actors’ meanings, values, assumptions) and usually adopt the

view that rationality and interests are informed by prevalent institutions, defined as “both supra-organizational patterns of activity through which human conduct their material life and space, and symbolic systems through which they categorize that activity and infuse it with meaning” (Friedland & Alford, 1991: 243). Although these paths rarely cross, social networks and institutions can be seen as interrelated, or co-constitutive: institutions create the landscape in which network ties are formed, and the configuration of such ties can considerably alter the landscape (Owen-Smith & Powell, 2008). For instance, both ‘golden parachutes’ and ‘poison pills’ diffused through networks of board interlocks in the 1980s as defense mechanisms against hostile corporate takeovers, but the rates at which these innovations diffused were affected by differences in legitimacy: while the poison pill diffused quickly, the more contested parachutes spread slowly (Davis & Greve, 1997).

In this dissertation, I take stock of these two research streams and explore a complementary path, which builds on institutional analysis and borrows the topographical imagery of networks. My aim is to investigate whether the position firms occupy in the ‘*institutional structure*’ may affect firms’ behaviors and survival, and how in return these may influence the shape of the institutional structure. By institutional structure, I intend the historically built and socially constructed space resulting from the distinct institutional logics competing in a given industry, and according to which firms can be positioned. To conceptualize the institutional structure, I build on two conceptual blocks: the *institutional logics framework*, one of the most advanced outposts on the institutional path, and the *candidates-audience interface* metaphor, mostly used on the social network path. In doing so, I retain the assumption that actors’ rationality is shaped by institutions, and more precisely by

their institutional logics. In what follows, I define the key concepts of institutional logics and audiences.

2 INSTITUTIONAL LOGICS AND AUDIENCES

2.1 Institutional logics

Friedland and Alford (1991) introduced institutional logics as a conceptual device to relocate individual and organizational behavior in a societal context. The stated project was to break away from theories that posit instrumental and rational individuals, or view organizations as isolated from their institutional or societal environment. By and large, this stance was in line with the core contribution of institutional theory as a “foil to economic rationality” (Suddaby, Elsbach, Greenwood, Meyer, & Zilber, 2010: 1235).

Institutional logics have been defined as the ‘socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality’ (Thornton & Ocasio, 1999: 804). Logics are both symbolic and material: they are cultural beliefs that provide default templates for organizing and behaving, and shape the cognition of agents by informing their rationality (Dunn & Jones, 2010; Lounsbury, 2007; Rao, Monin, & Durand, 2003). Logics shape individual and organizational action in several ways (Thornton & Ocasio, 2008): they underlie collective identities (Lok, 2010; Zhou, 2005), they form the bedrock upon which status orderings develop (Lounsbury, 2002), they provide default classification and categorization schemes (Rao, Monin, & Durand, 2005; Ruef, 1999), and they affect the allocation of individuals and organizations’ attention

to sets of issues – by defining what is meaningful – and to potentially available solutions (Ocasio, 1997).

In other words, logics *condition* how agents understand and interpret economic processes, and shape the way they organize and formulate strategic decisions. For instance, Thornton’s studies of the higher-education publishing industry show that the determinants of organizational structure (Thornton, 2002), but also the factors underlying key decision about acquisitions (Thornton, 2001) and executive succession (Thornton & Ocasio, 1999) all changed when the industry shifted from an editorial logic, which strongly curbed economic pressures on firms, to a market logic.

Central to my thesis is the idea that contradictions in institutions make multiple logics available to organizations, which can exploit these contradictions as basis for action. Hence, while logics constrain organizations’ behavior, contradiction and ambiguities across multiple logics provide opportunities for agency and change (Schneiberg & Lounsbury, 2008). I specifically focus on the case of industries where two distinct logics co-exist (e.g., Dunn & Jones, 2010; Lounsbury, 2007), creating a dual candidates-audience interface.

2.2 *Audiences*

The conceptualization of firms as candidates accountable to audiences is important to understand both the construction of this dissertation, and some of its arguments. The metaphor was proposed by Zuckerman (1999) as a way to describe how the offers of agents in a social context (*candidates*) are screened and evaluated by an *audience* in a two-stage process: in the first stage, audience members select the candidates whose

offers conform to their minimal criteria and, in the second stage, the selected candidates are allowed to compete against each other while non-conforming candidates are ignored. A central feature of this role structure is that both candidates – also called producers (Hannan, 2010) – and audience members are *agents* that interact as such: candidates position their offer, audience members enforce a set of demands and screen candidates accordingly. Another key point relates to the asymmetry between candidates and audience members: the audience encompasses agents with control over material and symbolic resources that are key for the success and survival of organizations (Hsu & Hannan, 2005). In this framework, audience members' inattention constitutes a form of illegitimacy costs: candidates who do not meet the expectations of the audience are disregarded as players. Firms located in dual-logic settings can be depicted as candidates facing two audiences, each holding a distinct set of logic-based expectations, or logics. I thus combine the institutional logics and the candidate-audience interface frameworks by relaxing the assumption that the audience is homogenous.

As the candidate-audience interface model explicitly builds on new institutional theory (Zuckerman, 1999: 1403), the two theoretical frameworks appear compatible to the extent that the criteria audience members use to screen candidates are viewed as informed by distinct norms, beliefs, values, and rules embedded into their institutional logics. Both perspectives shy away from the definition of individuals and organizations as rational decision makers, but rather assume that understandings and interests are institutionally shaped.

3 THE PROBLEM OF LOGIC DUALITY

3.1 *Gap*

Although the idea that “institutional environments are pluralistic” (Meyer & Rowan, 1977: 356) was laid in the foundations of the theory, early works in the organizational institutionalism tradition were mostly concerned with the “inexorable push towards homogenization” driven by isomorphic pressures (DiMaggio & Powell, 1983: 148). Environments may be heterogeneous in the first place but, the theory predicts, they tend to an end state in which institutional homogeneity prevails. As norms of collective activity, values and meanings are widely shared and accepted, organizations in need for legitimacy to succeed and survive are led to adopt increasingly similar formal structures and practices independently of technical considerations (Tolbert & Zucker, 1983). Similarity in structures and practices in turn contributes to the maintenance of a stable *singular* institutional order.

Yet, challenging the prediction of DiMaggio & Powell (1983) that “in the long run” organizational forms and practices converge, a growing number of empirical studies document cases of sustained institutional plurality. For instance, Thornton and Ocasio (1999) show how the market logic contested over several decades the dominance of an editorial logic in the U.S. higher-education publishing industry. Rao, Monin and Durand (2003) document the emergence of Nouvelle Cuisine as a durable alternative to Classical Cuisine in the French gastronomic industry. Reay and Hinings (2005) describe how the medical-professionalism logic and the business-like logic were engaged in a lasting competition over values and meaning in the health care system of Alberta. In all these cases, shifts in logic dominance do not translate into institutional hegemony: a new rising logic does not eradicate an ancient one (Schneiberg, 2007).

Rather they both persist, and sometimes are in competition with each other for dominance, but there is no evidence, in these settings, that a logic will eventually defeat the other entirely. To the contrary, it appears that dual-logics arrangements may sometimes endure over decades: in a longitudinal study of archival sources, Dunn and Jones (2010) find that the two logics of care and science have co-existed in medical education in the U.S. throughout the 20th century (1910-2005).

Studying persistent duality (or plurality) departs from the exploration of institutional change. If duality does not necessarily imply change (i.e., dual-logic settings may be stable), institutional change is likely to lead to a state of heterogeneity as some agents adopt new values, meanings, and cultural schemas that challenge accepted ones. For instance, peripheral players may advocate institutional innovations resisted by more central players, as illustrated by the case of the U.S. broadcasting industry (Leblebici, Salancik, Copay, & King, 1991). Or elite's members may promote new practices to develop a new advantageous role identity, setting them apart from their peers, as in the case of French chefs (Rao et al., 2003). But beyond the examination of the factors that underlie institutional change, one key challenge institutional scholars face is to understand the conditions that favor the maintenance of *distinct* dual logics rather than a return to a homogenous *singular* institutional order. As Schneiberg (2007: 73) points out, there is a need "to consider how alternatives are segregated from one another, and can persist for some time". As argued before, a fully homogenous institutional order is probably more an ideal state than an observable situation; the focus here is hence on the dynamics that drive institutional contexts toward persistent duality, halting or slowing down the predicted inexorable trend towards homogenization.

Importantly, an emphasis on the persistence of institutional heterogeneity also helps recasting the debate between agency and structure in way that is highly relevant to strategic management. If logics embody default “rules of the game” (Dunn & Jones, 2010: 114) that define how organizations and firms ought to organize and behave, examining how different sets of rules come to endure (or not), and how that affects practices in a given competitive arena are critical questions. The study of heterogeneity is at the heart of strategy, from the heterogeneity that may arise from different industry structures or distinct strategic groups, to the heterogeneity among firms endowed with diverse stocks of resources and capabilities. Specifically, the relative positions of organizations in a dual-logic institutional structure may not only be associated with differences in practices, but is also likely to affect key organizational outcomes, such the ability to thrive and survive – the central concern of strategic management.

Accordingly, the overarching research question of this dissertation relates to the dynamic interplay between logic duality at the industry level and strategic behaviors at the firm level:

Research question. How does logic duality affect firm strategic behaviors and how, in return, do firm strategic behaviors contribute (or not) to maintain logics segregated?

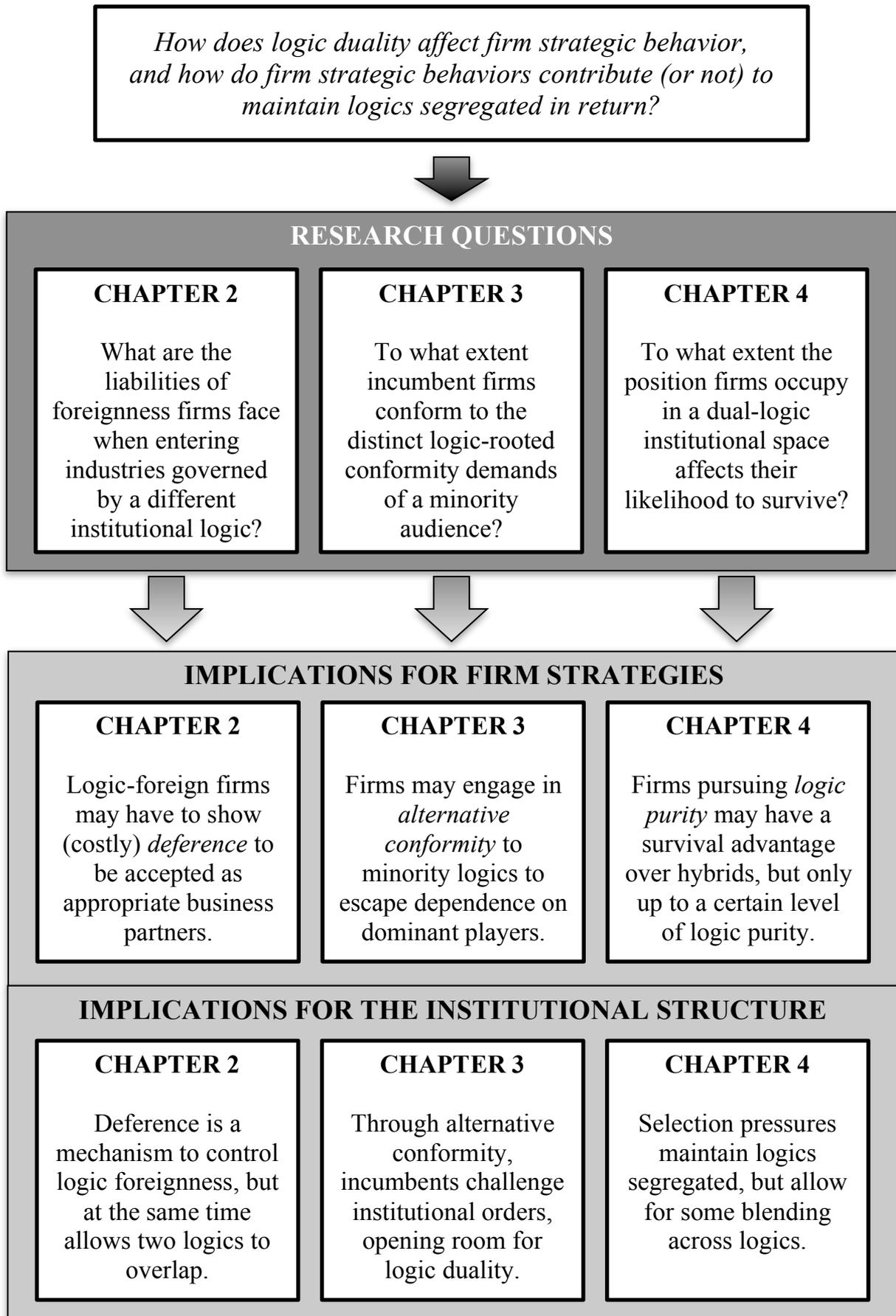
In what follows, I introduce my thesis and describe how it is articulated in three related arguments.

3.2 *Thesis*

Whereas past works have considered how firms as candidates address logic-based audience expectations (Zuckerman, 1999; Zuckerman & Kim, 2003) or audience members react to candidates' conformity behaviors (Durand, Rao, & Monin, 2007), I propose to account for the dynamic interplay between audience's logic offerings and candidates' conformity. The argument is the following: logics are only stable to the extent that they are continually reproduced through actors' behaviors and interactions (Sewell, 1992). Logic maintenance hence depends on both audience expectations and candidates' conformity behaviors. Accounting separately for audience's offers and candidates' conformity may not allow to fully capture how the strategic actions of audience members and candidates affect the institutional structure, and how the institutional structure impinge on firms.

To account for this dynamics, I consider the case of an exogenous shock by which two logics have come to overlap when new audience members enter into an industry governed by a different institutional logic. As illustrated by **Figure 1**, the argument is structured as follows. I focus on the new audience members first and study how they transpose their logic into a novel setting (Chapter 2). Then I reverse the mirror, and consider how incumbent firms, as candidates, address the distinct conformity expectations of the new audience (Chapter 3). Lastly, I turn to the consequences of logic duality, and examine to what extent the position candidates occupy in the institutional structure affects their chances to survive in the industry (Chapter 4).

Figure 1 – Articulation of the Thesis



In each step, I examine the strategic consequences of logic duality for the entity under scrutiny. In Chapter 2, I argue that firms entering an industry with a foreign logic show deference to the logic of the industry to overcome the liability of being a ‘logic foreigner’ and be accepted in the industry. Deference is costly, as it is a ‘gift ‘made to the gatekeepers of the industry. But several factors affect the pressures for deference: the extent to which the entrants are institutionally distant from the industry, their tenure in the industry, their social status and the resistance they experience – leaving room for strategic action.

In Chapter 3, I propose that incumbent firms giving a favorable response to minority participation (i.e. “alternative conformity”) contribute to decrease the influence of dominant players, alter the resource suppliers’ social structure, and promote new logics. Alternative conformity is as a soft control strategy for firms, which depends on the social context of the relationships the firm has with resources holders.

In Chapter 4, I suggest that firms’ offers and network of ties define their position in the institutional structure, affecting their ‘institutional capital’. I argue that pursuing ‘logic purity’ may be a beneficial strategy, but only up to a certain threshold.

Deference, alternative conformity, and the pursuit of logic purity are strategies available to firms in a dual logic context, i.e., theories “about competitiveness that helps organizational members select among available resource utilization and exchange modes” (Durand, 2006: 35). I further contend that these strategies (at the firm level) are not without consequences for the institutional order (at the industry level). In Chapter 2, I propose that institutional deference, that is a set of visible

demonstrations of conformity to the industry logic, is a mechanism through which the gatekeepers of the industry logic impose conformity pressures on new audience members controlling valuable resources. But deference has a side effect: it gives a green light to new audience members for entering the industry with both new resources and schemas impregnated with a new logic. In other words, deference makes logic duality possible: contrary to oppositional situations where incumbent firms and organizations resist entrants coming with a new logic (Marquis & Lounsbury, 2007), logic overlap may be facilitated when entrant firms are pressured to show deference in exchange for acceptance. Such overlap is further sustained when incumbent firms conform to the minority logic, as suggested in Chapter 3. To gain discretion and escape dependence on the dominant audience, firms dealing with the two audiences help legitimize the new logic within the industry. While it may contribute to the persistence of logic duality, I expect alternative conformity to recess as minority logic holders become more central in the network of resource suppliers and their logic gains institutional credit, eventually favoring the blending of elements of the two logics.

In Chapter 4, I consider selection pressures in a dual-logic industry and argue that logic-pure firms may have a survival advantage over hybrid firms that attempt to combine the two logics. Such a mechanism may contribute to explain why logic-duality may persist on the long term in a given setting: since hybrids are at a survival disadvantage as they suffer from an unclear identity, a lower status, and a less focused attention, firms pursuing a purity strategy may be favored. However, I expect the relationship between purity and survival to be curvilinear: while purity is beneficial, hard-core purity is likely to be detrimental, as firms will suffer from over-

embeddedness and may not adapt to market changes. If so, holders of the two logics would not live in separate worlds, but rather maintain some common understanding that may allow some blending while the logics remain separated.

I now turn to a brief description of the empirical setting and the data used to test the proposed theoretical arguments, which are both further developed in subsequent chapters.

4 THE CASE: INVESTMENT FUNDS IN THE FRENCH FILM INDUSTRY

4.1 Empirical setting

I study institutional heterogeneity in the film production industry in France starting in the mid 1980s. The choice of the industry as a relevant boundary to identify institutional logics is consistent with prior works: organizations vying for resources and status are engaged in social comparison processes that allow common identities and status competition to emerge, and eventually become embodied in institutional logics (White, 1981; Thornton & Ocasio, 1999).

The choice of empirical setting was guided by several factors. First, the French film production industry presents a highly specific and original institutional logic, rooted in its history going back to the end of the 19th century (Demil & Leca, 2003). The logic of the industry is largely established on non-market institutions, such as the family, the corporations, the professions – epitomized by the central figure of the “auteur” – and the State (see **Table 4**, p.51, for a deeper description and an ideal-type analysis). Second, the industry was thrown in a state of logic overlap when a new audience entered the industry in July 1985 as the law authorized the creation of

specialized investment funds named Soficas (*Société pour le Financement du Cinéma et de l'Audiovisuel*). Operated by financial institutions for the most part and financed by individual market investors, Soficas introduced an identifiable and distinct market finance institutional logic, emphasizing return and risks consideration, foreign to the industry. Third, due to the high level of reporting demands placed on industry members, available archival data is unusually detailed and exhaustive. The case thus allows me to capture the entry of a new institutional logic into the industry, and follow longitudinally the extent to which the resulting institutional heterogeneity was maintained.

4.2 *Multiple levels of analysis*

The structure and the richness of the data is such that the case can be considered from various angles and several levels of analysis can be examined (see **Table 1**). Multilevel analysis is particularly fitted to the institutional logic approach (Thornton & Ocasio, 2008), and allows researchers to develop both more precise and more general theories (Stinchcombe, 1991). In Chapter 2, I follow longitudinally from 1987 to 2008 Soficas as new audience members bringing financial resources in the film industry: I focus on tokens of institutional deference – investments in Art & Essai films – of which I examine both the antecedents (Soficas' institutional distance, tenure, status, and experiences of resistance) and the consequences on fund performance. In Chapter 3, I study filmmaking organizations as candidates facing two audiences (traditional films investors and Soficas), and empirically examine how they addressed the market finance logic of Soficas when developing films. In Chapter 4, I focus on film production companies' track record and network of ties with other firms

within the industry to assess their position in the dual-logic institutional structure of the industry, which I relate to their likelihood of surviving.

Table 1 – Levels of Analysis and Theoretical Variables (Chapters 2, 3 and 4)

Chapter	Level of analysis	Dependent Variable	Explanatory variables
Chapter 2	Sofica (fund)	Step 1: Deference to the film industry logic	Institutional distance Tenure in the industry Status in the industry Resistance
		Step 2: Fund performance	Deference
Chapter 3	Filmmaking organization	Conformity to the minority logic of the new audience	Resources provided by the new audience Moderators: logic adherence, centrality of audience members, institutional credit
Chapter 4	Film Production Firm	Candidates' exit rate	Logic purity Logic consistency Logic exclusivity

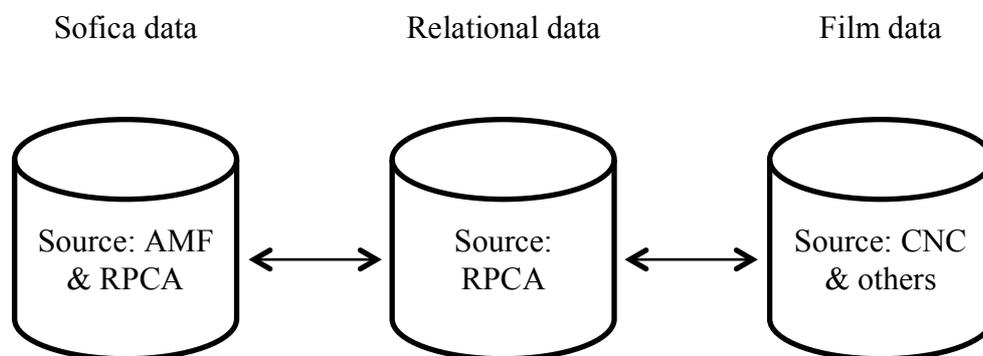
5 DATA AND METHODS

Most of the data collection effort took place between July 2009 and April 2010. The empirical analysis builds upon data drawn from several archival sources. Due to the historical nature of the case – institutional heterogeneity triggered by the entrance of a new audience in the mid 1980s – I chose to rely on historical analysis and archival data. As institutional logics are historically variant (Thornton, 2002; Thornton & Ocasio, 2008), examining archival data allows me to capture how organizations and firms behaved in the periods of interest, and to avoid potential risks of retrospective biases. Preliminary interviews were also conducted to get an overview of the current state of the industry with Sofica managers, a broker distributing Sofica shares, and CNC officials, complementing my professional knowledge of the industry.

This approach is in line with the principles of the ‘new archival tradition’ proposed by Ventresca and Mohr (2002:810): reliance on formal analytical methods, focus on measurement of social organization and its constituents elements (e.g., Sofica board members, directors and star performers in filmmaking organizations), emphasis on the study of relations, concern with measuring the shared forms of meaning that underlie social organizational processes, and interest to understand the configurational logics that tie various elements together into organized activity.

As illustrated in **Figure 2**, the data used in this dissertation relates to Sofica investment funds, theatrical films as organizations and products, and relations between firms involved in film production.

Figure 2 – Dataset Structure and Data Sources



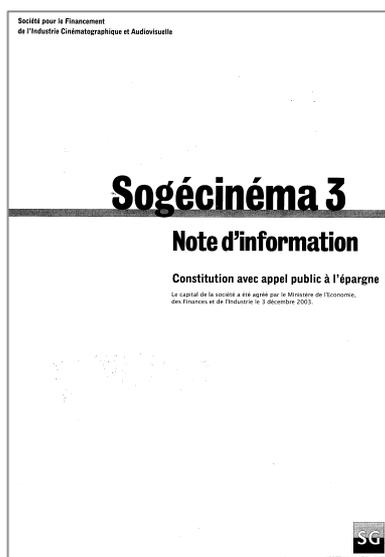
Data primarily comes from four distinct sources: the financial markets authority (AMF), the film industry regulator (CNC), the film contract public register (RPCA), and industry publications.

5.1 *The Financial Markets Authority*

During the summer of 2009, I went through the archives of the *Autorité des Marchés Financiers* (AMF)¹ to retrieve a copy of all the 203 prospectuses advertising market operations related to Soficas (initial offerings and capital increases), and approved by market regulators since the creation of the organizational form. Prospectuses were stored on microfilm up to 1996, and as electronic files (pdf format) in subsequent years.

A prospectus (“note d’information”) is a legal document providing material information on a market investment. Sofica founders are required to file a prospectus with the AMF for any public offering of shares. After AMF’s approval (materialized by an approval number called ‘visa’), banks and brokers distribute the prospectus to potential investors. Prospectuses convey important information on the governance of the investment fund and its investment strategy. As an illustration, I describe below the content of SOGECINEMA 3 initial offering prospectus (see **Figure 3** below). The AMF approved the prospectus on December 5, 2003, under the visa number 03-1077 (formalized at the end of the document). SOGECINEMA 3 was jointly created by Société Générale Asset Management (SGAM, a financial institution) and LGM (a film production company), and issued 3,250 shares of €2,000 each for a total €6.5m.

¹ Most of the prospectuses were originally filed with the Commission des Opérations de Bourse (COB), which was replaced by the AMF in August 2003.

Figure 3 – Front Page of SOGECINEMA 3 Prospectus

As legal forms, prospectuses are by and large structured on the same model, of which the prospectus of SOGECINEMA 3 offering provides an example:

1. Name (“*I. Raison sociale*”) and corporate purpose (“*II. Objet social*”) of the fund,
2. Founders (“*III. Fondateurs*”), along with their equity share (here, LGM and SGAM will own 2 and 3 shares respectively),
3. Investment policy (“*IV. Politique d’investissement*”), including investment objectives (here, to generate a fair return on investments compensating for the risks of investment²),
4. Governance structure (“*V. Administration – Direction – Contrôle structures de fonctionnement*”), including the composition of the board of directors (here: 3 directors are from SGAM and 2 from LGM) and the management,

² It is noteworthy that little variation is observed across statements of investment strategy (apart from funds specialized on a given type of product, such as animation). This may suggest that prospectus writers were monitoring each other and relying on similar templates. Stated objectives signal conformity to the finance logic, but typically remain vague and unspecific.

5. Financial characteristics (“*VI. Caractéristiques financières*”), stating expected costs and *ad minima* returns (derived from the tax credit),
6. Tax regime (“*VII. Fiscalité*”) applicable to investors³ and to the fund itself, and exit conditions (“*VIII. Cession des actions*”),
7. Corporate information (“*IX. Renseignements sur la Société SOGECINEMA 3*”), including the number of share and the equity,
8. Offering information (“*X. Renseignements concernant l’émission des actions*”), indicating the amount of capital offered and the financial institutions involved,
9. Purchase guarantee (“*XI. Garantie de rachat*”) offered by some of the Soficas (here: Société Générale bank offers to purchase share at a price of €1,700 in 2012, ensuring investors a minimum return,
10. Investors relation (“*XII. Information des actionnaires*”) and prospectus’ author (“*XIII. Personne responsable de la note d’information*”).

In addition, the AMF includes a warning (“*Avertissement*”) in introduction, which is meant to highlight the risks investors face.

The collected prospectus capture the offerings of 127 Soficas initiated between 1985 and 2008, of which 121 were active during the period 1987-2008.

5.2 *The Film Industry Regulator*

The *Centre National de la Cinématographie* (CNC) was instituted in 1946 to regulate the French film industry. Among its prerogatives, the CNC is in charge of approving the film projects which qualify for subsidies – a review process known as “*agrément*”. As such, the CNC keeps track of all the projects that are initiated in the industry.

³ Investors buying Sofica shares can deduct a portion of their investment from their income tax.

Under a non-disclosure agreement, the CNC agreed to provide me with the exhaustive list of films (N=2,814) that have received an *agrément* between 1986 and 2008. This list includes: the title and ‘visa’ number (unique identifier), the CNC classification of the film (according to the share owned by French producers), the year the film was approved, the name of the director(s) and executive producer(s).

Although most of the information is public, this list was critical to identify the exhaustive set of films produced (i.e., including the ones that may have not been subsequently released), and thus trace back all the organizations involved in film production during the period under study. As the focus was on the production side of the industry, relying on the set of films released – as do most analysts of the industry – would have caused two problems. First, it would have been difficult to identify locally produced films. Although most films are either 100% French or 100% non-French (e.g., American, British, etc.), some are co-produced by producers of diverse origins, of which some are eligible to the *agrément* and others are not⁴. Relying on a widely shared institutionalized definition of French films allows me to capture the activity of the players that are recognized as such by industry participants. Second, some projects never make it to the screen, either because they are abandoned or because they are eventually released on another media (DVD, Television) or abroad. Identifying films projects in early production stages is a way to avoid survival biases (Denrell, 2003), especially critical in network analyses (Uzzi & Spiro, 2005).

⁴ The rules of inclusion are fairly complex. They include the nationality of the director, the language used in the movie, the filming location, and the producers’ origin. These rules are largely taken-for-granted. But notable controversies are occasionally spawned. In 2003, Oliver Stone’s English-spoken *Alexander* just passed the bar of the *agrément* (in part because the director’s mother was of French origin), whereas Jean-Pierre Jeunet’s French-spoken *Un long dimanche de fiançailles* was rejected after a long legal battle for being funded by an American film (Warner Brothers).

5.3 *The Film Contract Register*

A division of the CNC, the *Registre Publicque du Cinéma et de l'Audiovisuel* (RPCA) registers a copy of all the contracts relating to CNC approved films. Filing is mandatory by law. I rely on the RPCA to capture the full set of interrelationships between organizations within the industry. For the purpose of data collection, I developed a set of Visual Basic for Applications (VBA) routines to capture and process relevant information available from the RPCA website⁵, and store them for further analysis. The data collection took place between November 2009 and April 2010.

One limitation of the data is that the website does not cover contracts registered before August 19, 1987. Since the first Soficas started operating in the first months of 1986, between 12 and 18 months of data is unavailable (accounting for the delay between the signature of the contract and its filing).

The data collected using the RPCA is of two kinds. First, the dataset includes relational data tracing back the exhaustive set of interorganizational relationships within the industry during the period under study. Each record indicates the name of the buyer(s) and the name of the seller(s), the type of contract (production, coproduction, distribution, etc.), the title of the product, and the date the contract was signed. Second, contracts details (terms, including investment amounts) are stored in a free text format, allowing for further analyses (e.g., content analysis). I focused on Sofica related records and semi-manually extracted the detail of the amount invested stated in each contract. I relied on VBA programs to perform first-stage analyses, but

⁵ <http://www.cnc-rca.fr>

a great deal of manual inspection was required to check and eventually cleanse the data (e.g., some contracts were eventually cancelled, other were amended, etc.).

Overall, 296,991 contracts were retrieved, relating to 64,034 different titles (including made-for-television films and series' episodes). Among these, 2,889 contracts involve Soficas.

5.4 *Industry Publications and Other Sources*

I used industry publications to add market information on film released during the period. For box office data and qualitative product information (release date, genre, censorship, “Art & Essai” classification, number of prints distributed, etc), I relied on the subscription-based professional database CBO. When data was missing (especially for early periods), I resorted for the most part to issues of the weekly business journal *Le Film Français* (FF) archived in the CNC library in Paris. Both CBO and *Le Film Français* are widely used in the industry and are recognized as reliable sources (unlike IMDB database which can be incomplete when it comes to the French film industry).

Additional data regarding the Cannes film awards, the Césars (French equivalent of the Oscars), and the “Art & Essai” classification was collected from the websites of the related organizations.

Overall, the dataset combines data on the organizational structure of Soficas (founders, composition of the board of director, etc.) and on the investments they made (feature film or television product, amount invested), information on all the films produced in France during the period (and also on all the releases), and the detail of the ties (nodes tied, date of contract signature) formed between firms

involved in feature film and television production. Key numbers are summarized in **Table 2** below.

Table 2 – Dataset Key Figures

Data	Source	N	Period	Comment
Sofica prospectus	AMF	203	1986-2008	Relating to 127 funds
Production contracts	RPCA	296,991	1987-2009	Relating to 64,034 titles ⁶
Produced films	CNC	2,814	1986-2008	Films with CNC <i>agrément</i>
Released films	CBO & FF	10,195	1985-2008	Exhaustive starting 1993

5.5 Methods

I resort to different quantitative analytical methods tailored to the theoretical perspective and the type of dependent variable under scrutiny in each chapter. **Table 3** presents an overview of the dataset and methods used, which are further detailed in the method section of the relevant chapters.

Table 3 – Empirical Analyses (Chapters 2, 3 and 4)

Chapter	Unit (N)	Period	Data	Method
Chapter 2	Soficas (121)	1987-2008	Panel data	Negative binomial and GMM regression
Chapter 3	Filmmaking org. (2,531)	1994-2008	Cross-section	GMM regression
Chapter 4	Production firms (2,340)	1994-2008	Survival data	Cox regression

In the last section of this chapter, I introduce the next three chapters addressing how logic duality impinged on firms' strategies in the French film industry between 1987

⁶ All production contracts filed with the RPCA since August 2007 (due to the delay between signature and filing, the dataset includes contracts signed in 1985 and 1986). The high number of titles is due to the inclusion of made-for-television films and episodes.

and 2008, and how firm strategies affected in return the institutional order of the industry.

6 THREE ESSAYS ON LOGIC DUALITY, CONFORMITY, AND SURVIVAL

6.1 *The Liability of Logic Foreignness: Investment Funds in the French film Industry, 1987-2008*

In Chapter 2, I begin by examining what are the entry barriers for firms holding a foreign institutional logic to penetrate an industry. I define institutional deference as the pattern of actions set in place by firms to overcome their ‘liability of logic foreignness’, and argue that proximity with the industry logic, tenure in the industry, and lack of incumbent organizations’ resistance contribute to reduce the need for deference. Acquired status in the industry reduces the need for deference if status provides a form of immunity, or alternatively may increase pressures for deference if status increases obligations to comply with the logic of the industry. I further predict that deference lowers short-term performance, but not long term performance.

First, I develop ideal-types of the two institutional logics that come to overlap when Soficas holding a market-finance logic enter an industry where prevails a logic strongly rooted in non-market institutions, including the institutions of the professions and the State (see **Table 4**, p.51). Second, I test the hypotheses on Sofica investment data from 1987 to 2008 using a two-step approach. I resort to negative binomial models to examine the antecedents of institutional deference, measured by the number of Sofica’s investments made in Art & Essai films. I subsequently relate deference to fund performance using GMM regression models. I find support for the model except

for two hypotheses: status in the industry appears to be positively related to deference, and there is no evidence that resistance had any effect on firms' behavior in this empirical setting.

Deference is a double-edge mechanism. On the one hand, deference favors logic homogeneity by making new audience member conform to goals that are regarded as appropriate in the industry. On the other hand, it creates the conditions for logic duality by making the new audience members acceptable in the industry. While conforming to institutionalized practices, new audience members import a new logic that contributes to institutional duality (a form of decoupling). Overall, this chapter highlights the possibility that actors holding different logics can encounter in a more symbiotic and cooperative way that suggested by studies emphasizing resistance to a new logic and conflict. It also contributes to the strategic management literature by providing evidence that logic foreignness can be a determinant of firm performance.

6.2 Jules or Jim: Alternative Conformity to Minority Logics

In chapter 3, I reverse the perspective and investigate how industry organizations, as candidates, tackle institutional duality and address the conformity demands of a minority audience that challenges the industry logic.

Whereas resource dependence and neo-institutional perspectives suggest that organization would mostly ignore the conformity demands of minority players, I argue that organizations may positively respond to minority participations by conforming to the minority logic as a means to enact their environment in a direction that reduces or counters the influence of dominant players, alters the social structure

of resource suppliers, and promotes new logics of action in the industry. I expect the association between minority participation and alternative conformity to be attenuated by organizations' adherence to the dominant logic, minority logic holders' structural position, and minority logic's institutional credit.

Much like a producers' monopoly harms consumer welfare, this chapter suggests that institutional singularity may restrain candidates' autonomy and discretion. Candidates may thus strategically choose to display alternative conformity to the minority logic. By doing so, they favor the maintenance of two distinct logics. But the case of the film industry in France indicates that such pressures toward logic duality are fragile, and tend to dissipate as the new audience members gains institutional credit. In the end, boundaries between the audiences may erode and candidates' practices incorporate elements of the new logic, allowing some blending to occur between the two logics.

6.3 Institutional Capital Revisited: Position in the Logics Space and Survival

While the two previous chapters focus on how firms accommodate institutional duality, Chapter 4 examines what are the consequences of a firm's position on a dual-logic institutional map on its chances to survive.

The underlying question is: is there such a thing as institutional capital? Despite its theoretical appeal, the concept, introduced by Oliver (1997), has not proved influential in the strategic management literature. I revisit the concept in the light of recent works in institutional theory, and discuss its discriminant validity with respect to resource capital and social capital. I then explore mechanisms through which

institutional capital, originating in the relative position a firm occupies in the logics space, may contribute to affect firm's survival chances. I predict that logic purity will have a curvilinear relationship with firm's survival: logic purity increases chances of survival, but only up to a certain level of purity. I then test the model, with two different measures of purity (accreditation purity and affiliation purity) using exhaustive data on firms involved in film production in France from 1994 to 2008. I find strong support for the theoretical proposition: logic purity has an inverted U-shaped relationship with firms' survival chances, after accounting for resource capital and social capital.

This chapter proposes that selection pressures favor organizations that remain logic-pure both in the offers they make to the market and in their affiliations to other firms. But the positive effect of purity on survival likelihood tends to fade away when purity becomes excessive, suggesting that institutional capital is the highest at medium levels of purity.

CHAPTER 2

THE LIABILITY OF LOGIC FOREIGNNESS: INVESTMENT FUNDS IN THE FRENCH FILM INDUSTRY, 1987-2008⁷

1 INTRODUCTION

What are the liabilities of foreignness (S. Zaheer, 1995) that firms face when entering industries governed by different institutional logics? Firms for example may expand into new geographical areas with distinct institutional logics and face unexpected resistance (Marquis & Lounsbury, 2007), or attempt to enter regional areas where nonmarket institutions are prevalent (Greenwood, Diaz, Li, & Lorente, 2010). Firms may also decide to extend their scope of activities to industries with divergent institutional logics, such as pharmaceutical companies penetrating into the biotech industry (Durand, Bruyaka, & Mangematin, 2008).

The research on the concept of “the dominant logic” suggests that firms and industries often operate by a dominant logic that shapes managerial cognition and the way managers conceptualize business and make critical resource allocation decisions, making diversification across industries problematic (Bettis & Prahalad, 1995; Lane & Lubatkin, 1998; Prahalad & Bettis, 1986). Similarly, the research on logics in institutional theory suggests that logics provide the default rules of organizing and behaving, relying on shared expectations about what a firm should or should not do; deviating from the prevailing institutional logic is likely to have negative consequences for the strategy of top leadership (Deephouse, 1999; Thornton & Ocasio, 1999).

⁷ This chapter was developed in collaboration with Patricia H. Thornton and Rodolphe Durand.

The research on institutional logics typically examines how firms adopt or resist adopting new logics that are diffusing into the industries in which they operate (Dunn & Jones, 2010; Lounsbury, 2007; Shipilov, Greve, & Rowley, 2010). However, the reverse perspective of how firms that carry a foreign logic are able to strategically penetrate and operate in a novel industry has not been considered. Moreover, the research on the liabilities of foreignness (Nachum, 2003; S. Zaheer & Mosakowski, 1997) defines and examines foreignness in the international context. Yet, foreignness may exist independently of geographical boundaries, as logics can be widely accepted globally, but not extolled by local incumbent firms. Therefore, there is a need to consider the concept of liability of logic foreignness at the organizational behavior level in an industry and the performance consequences for firms that espouse a foreign institutional logic.

For such firms, entering novel institutional contexts is likely to be problematic on several accounts. First, external logics need a translation effort (Zietsma & Lawrence, 2010). What firms introduce in an industry are not just practices but theoretical models (Strang & Meyer, 1993) that are perceived and interpreted through the lens of local institutions. Second, contradictions in logics are likely to trigger conflict and even retaliation across groups and organizations, as the meaning and relevance of the foreign logic are contested and result in resistance (Friedland & Alford, 1991: 255). An illustration of such resistance can be found in Marquis and Lounsbury's (2007) study of the banking industry: the national banks' efforts to develop branches throughout the U.S. spurred the creation of local community banks as a form of resistance to the national bank corporate logic.

This study aims to investigate how firms that espouse a foreign logic strategically establish themselves in new industries. We argue that firms transposing an external logic into a novel industry incur a *liability of logic foreignness* that is induced by resistance and refraction, including negative social sanctions in which firms are discredited and rejected in the face of increased resource competition. Building on Zaheer (1995) concept of the liability of foreignness, we refer to the "liability of logic foreignness," in two respects; the opportunity constraints suffered by firms that are not viewed as appropriate associates and hence incur a liability of logic foreignness because they are shunted-off to the second-best deals. Second, the costs incurred by pressure to comply with the dominant logic of the industry. In the context of the French film production industry, gaining acceptance may require deference translated in the form of firms' investment in lower profitability projects with the goals of preserving the historical and cultural position of the art of French films. The trade-off of doing business under such pressures is under-optimal attractiveness, thus reduced sales and heightened cost structure, hence reduced profitability.

In the liability of foreignness literature (Hymer, 1976; S. Zaheer & Mosakowski, 1997), opportunity costs and pressures are associated with spatial distance and geography, unfamiliarity with the institutional and cultural context, lack of information networks or political influence in the host country, inability to appeal to nationalistic buyers, and regulatory restrictions imposed on foreign firms. However, the liability of foreignness literature comprehends institutions as given and external to firms. Instead, we extend this literature by shifting the level of analysis to an industry and viewing firms as conveyors of divergent logics (Haveman & Rao, 1997).

Foreignness is not just about being alien, it is conveying a set of orders and attention principles that characterize the way firms interpret and behave (Thornton & Ocasio, 1999). Thus, we equate foreignness to the logic itself and examine our arguments in a multi-level framework at the social, organizational, and behavioral levels.

We argue that to minimize the opportunity costs and foregone ability to increase revenue, firms need to express some level of *deference* to the dominant logic of the industry. Deference is the pattern of actions set in place by firms to over-come their liability of logic foreignness; for example when a firm crafts a strategy that blends elements of the industry logic with elements of the external logic, preventing the mere transposition of features of the foreign logic into the industry. Whereas resistance emphasizes the conflict ensuing from strict adherence to the external logic, for instance between out-of-town banks that “invade communities” and community members (Marquis & Lounsbury, 2007: 814), deference invokes a softer mechanism by which outsiders adjust to the industry logic and show respect to the local institutions. Deference requires that firms incorporate into their strategies elements of the industry logic in order to be accepted by insiders. Through deference mechanisms, firms manipulate symbols and practices, thereby adapting the foreign logic to the local institutional context. We further argue that factors pertaining to translation across logics, in particular institutional distance and newness, as well as accumulated status in the industry, and past experiences of resistance, influence firms’ level of deference, which in turn impacts firm performance.

We test these arguments on a longitudinal population of film investment funds in the French film production industry from 1987-2008 and find support for our hypotheses.

First we develop our theory in the context of institutional changes in the French film production industry. Then we develop our hypotheses and describe our methods of analysis and findings. We find that deference is positively related to institutional distance and status, but negatively related with the fund's tenure in the industry. However, we do not find any significant relationship between resistance and deference. Our findings support the prediction that deference negatively impacts performance, and suggest that such impact tends to decrease with time.

2 LOGIC FOREIGNNESS: INVESTMENT FUNDS IN FRENCH FILM PRODUCTION

We examine the entry of firms carrying a market finance logic, the investment funds called “Soficas⁸” into a cultural industry, the French film production industry. Soficas are a new form of organization founded largely by private banks, accountable to individual investors, and supervised by the Autorité des Marchés Financiers (AMF) the counterpart to the U.S. Securities and Exchange Commission.⁹ These investment funds for the production of films sharply contrast with the indigenous film production firms which are deeply rooted in local French culture. The offering and management of these investment funds are shaped by the logic of finance, which knows no boundaries. Grounded in rational universal mathematical models and legitimized by global academic and scientific recognition of market principles (e.g., Nobel prizes), finance tools and techniques are increasingly regarded as appropriate and taken-for-granted to allocate resources in many domains of economic life. For example, market finance models have continued to migrate and assimilate into many domains as

⁸ Sociétés pour le Financement du Cinéma et de l'Audiovisuel.

⁹ It is noteworthy that the leftist government at the time had to abandon its economic orientation in 1983 after 16 months of crisis, including several devaluations of the French currency of the time.

exemplified by the adoption of a shareholder value orientation in firms (e.g., Fiss & Zajac, 2004), the expansion of venture capital models to angel investors (Shane & Cable, 2002), and the emergence of microfinance as an appropriate solution for under-developed economies (Battilana & Dorado, 2010).

According to the finance logic, markets are the superior resource allocation mechanism and fund managers make investment decisions based on risk-return considerations. Thus, there is no rationale to invest in film projects that primarily aim at making an artistic contribution that builds the national cultural heritage, regardless of risk-return objectives. On the surface such investments appear irrational, but under closer examination such investments can be interpreted as a form of institutional deference, allowing funds and their managers to gain acceptance in the industry. We argue that such investments in artistic films are tributes paid by funds to the logic of the French film industry in exchange for access to the artistic resource networks of the industry.

It is open to debate whether or not the finance logic came to the film industry, or the opposite actually occurred with film producers calling on the financial industry for resources. Following a severe drop in theatrical attendance in the early 1980s, the French Ministry of Culture created reforms designed to supplement decreasing distributors' advances ('minimum guaranteed') in the early stage of film production. As part of these reforms, in 1985 Soficas were created with the mission to preserve the national identity, safeguard the creative talent and prestige of French films, foster job creation, and diversify French films into foreign markets. Instead of traditionally looking for resources within the boundaries of the industry, the government for the

first time made a bold appeal to the financial markets. To make the product financially attractive, a large tax benefit was offered to those daring to invest in an industry regarded as highly uncertain.¹⁰

The entry of Sofica investment fund firms into the film industry reflects a change in French society that is nested in a broader shift in the western world toward a market logic (Fourcade-Gourinchas & Babb, 2002). This in turn introduced a new type of investor and created structural overlap and resulting *bricolage* between the logics of the film and financial industries (Thornton & Ocasio, 2008). The traditional role of film investor, previously the domain of industry insiders such as executive producers, co-producers, theatrical and video distributors, and television companies, became available to bank executive and financial fund managers. Thus, after 1985, the State began by allocating public resources to market investors, which were free to invest provided the fund remained within the boundaries of the French film industry.

As investment funds, Soficas are an asset class with similarities to U.S. private equity and venture capital (VC) funds in that they are highly risky and illiquid. Moreover, like VC successful start-ups, box office hits are relatively rare events resulting in a highly skewed distribution of revenues with most films not earning enough to yield positive returns to the funds. However, a small number of successes can offset and sometimes exceed the losses due to box office failures. Sofica managers screen the market for investment opportunities in a context of great uncertainty, selecting projects knowing full well that there will be few successes and many failures.

¹⁰ Although companies were also offered a tax deduction, interviews with fund managers indicate that most, if not all, investors are individuals.

The main differences from private and venture equity and Soficas is that fund managers are authorized at the state level by the French national center of cinematography (CNC) to raise their funds through the public market using blind pool instruments in which the investor does not know what films are funded, only that they will receive a set tax deduction for their investment. Shares in Sofica funds are granted, but not publically traded. Sofica investments can be liquidated after 8 years, otherwise the investor forfeits the tax credit.

As Caves (2000) points out, it is extremely difficult to predict the success of a film, leaving both investors and film production teams largely unaware of the value of film contracts. In contrast to VC funded start-up companies, films are one-time projects and film production processes and costs are largely known in advance. Soficas invest early in the production process, usually before principal photography, and they get a contractually defined share of the profits earned in the theatrical, video, television, and foreign markets. Returns on investment are hence a negative function of production and distribution costs, and a positive function of revenues generated on different media, which are ultimately determined by the film's success at the box office.

Soficas investments are expected to be made within 12 months, but the organization can with CNC approval return to the public market and either raise additional money, or create a new fund. While the expectations for returns are tempered by the tax benefits to individual investors, in a sense guaranteeing a minimum level of return, fund managers are under constant pressure to maximize investors' returns under the scrutiny of banks and brokers. Funds are introduced in the market at the end of each

fiscal year and directly compete with other asset classes for investors. As Chevalier (2008: 12) points out, financial institutions “exert a constant pressure on Sofica managers to yield higher returns than expected.”

As funds are in competition for resources in the financial market and founded by banks, we expect the institutional logic of Sofica managers to be largely informed by a finance logic, rooted in the principles of market finance, and distinct from the institutional logic of the film industry, which we examine below.¹¹ **Table 4** abstracts a set of ideal type attributes of the market finance logic in contrast to the film industry logic (Doty & Glick, 1994).

¹¹ This expectation was supported by an expert of the French finance industry, who reviewed in detail a sample of Sofica prospectuses.

Table 4 – Ideal Types of Institutional Logics in the French Film Industry, 1987-2008

Key Characteristics	Film Industry Logic	Market Finance Logic
Societal-level Logic	Profession State Family	Market
Symbolic Analogy	Profession & Family as relational network State as redistribution mechanism	Market as allocation mechanism
Economic System	Welfare capitalism	Market capitalism
Sources of Identity	Film as art & culture Director as artist	Film as asset Producer as manager
Sources of Legitimacy	Aesthetics of film Prestigious awards Certifications Box office sales	Economics of film Prior fund performance Size of fund Box office profits
Mission	Build national culture heritage Breakeven	Build fund reputation Maximize returns
Basis of Norms	Membership in guild Citizenship in nation	Self interest
Focus of Attention	Film historical position	Quality of Deal flow
Strategy	Build producer’s reputation Build relational network	Hedge risks Predict box office hits
Theory of Value	Quality of craft	Mass market demand

3 THE FILM INDUSTRY LOGIC

In contrast to the market finance logic, the birth of the film industry logic coincides with the invention of the Cinematograph by Auguste and Louis Lumière, inspired by Edison’s Kinetoscope. The innovation was so radical that the first projection of “the arrival of the train in La Ciotat station,” a 50-second documentary, at the Indian Salon of the Grand Café in Paris in 1895, was received with awe and fascination by panicked spectators. The attractiveness of the medium, combined with narrative innovations such as Melies’ first fiction films, rapidly drove the expansion of the local film industry, giving French film companies a competitive edge in international markets. By 1914, French companies, led by Léon Pathé and Charles Gaumont, had

captured about 90% of the world market (Roud, 1983). Although they did not dominate the global market for long, large, integrated corporations such as Pathé and Gaumont (the oldest running film company in the world) have contributed to shape the institutional order of the French film industry. Moreover, the close association among families, characterized by the firms of Lumière Brothers and Pathé Brothers has durably imprinted the organization of the industry. Family ties are still today a base for association in the industry and a non-trivial number of authors, directors, actors, and producers are kin (e.g., although unrelated to the company founders, the current heads of Pathé and Gaumont are brothers).

Industry pioneers understood the need to develop the industry by training professionals to sustain the growth of their business. The first film school, Ecole Technique de Photographie et de Cinéma (now Institut Louis Lumière), opened in 1926 under the patronage of Louis Lumière and Léon Gaumont. It was followed in 1944 by the prestigious Institut des Hautes Etudes Cinématographiques (now Femis). The creation of the Cannes Film Festival consolidated the trend toward professionalization. Conceived in the late 1930s in reaction to the fascist influence of the 1938 film “Mostra di Venezia” (Mezias, Strandgaard Pedersen, Svejenova, & Mazza, 2008), the festival was designed as a celebration of technical and artistic achievements. The first edition, set to open in 1939, but was postponed to 1946, given the German invasion of Poland.. First envisioned as an exhibition venue, the Cannes festival rapidly evolved to structure the industry by creating a forum for the recognition of artistic prowess and technical mastery, in 1955 with the first Palme d’Or award, and in 1959 launching the vivid Cannes film market.

Similar to the institutionalization process described by Baumann (2001) in the United States, films became increasingly regarded as a form of art in French society, a trend precipitated by the advent of television, which offered a contrasting category by which to critique the artistic value of feature films. The identity movement of Nouvelle Vague directors and critics, epitomized by François Truffaut's pamphlet "A certain tendency of French Cinema" (1954), fueled a theorization effort (Greenwood, Suddaby, & C. R. Hinings, 2002) highlighting the "auteur." While the aesthetics of Nouvelle Vague eventually faded away, the symbols of the identity movement (Rao et al., 2003) that accompanied it had a lasting influence. In particular, the authors' claims symbolically resonated with the legacy of the older institution of the French legal doctrine of 'moral right.' This in effect guaranteed the inalienable right of authors to retain control over the integrity of what they create (Marvin, 1971), which in the film domain gives directors' the authority for the 'final cut' in film production.

The institutionalization of cinema as an art in French society also cannot be understood without accounting for the pivotal role the State played in the development of the industry after WWII. In 1946, the Blum-Byrnes agreement on war debt forced the State to remove the laws banning foreign films from the local market. This suddenly opened the doors of French theatres to Hollywood movies, creating a market for foreign films. The reaction to this change—that the French film industry is in danger with the Americans coming—prompted the State to endorse the definition of cinema as a form of art worth preserving and a critical part of the French cultural legacy. As a result, opening the French film market to American films also provided the justification for the protectionist policy of the newly created the Centre National de la Cinématographie (CNC).

Among the rules implemented to shelter local firms from the competition of foreign companies, the most visible measure was the creation of a box office tax¹² used to redistribute resources in favor of domestic filmmakers. The continued threat of foreign competition helped galvanize a coalition between the State, film professionals, and the largely privately held firms against market mechanisms as they were perceived as illegitimate. The mission statement of the CNC makes this claim highly explicit: the very purpose of the State agency is “to strengthen the French film industry and to correct the effects of the market” (CNC, 2008).

The resulting institutional order was congruent with the institutionally-rooted interests of the main industry participants: the State was cultivating a national cinematographic legacy and developing the national economy, the film professions were offered resources to create freely, without the burden of market constraints, and the corporations were largely protected from the fierce competition of Hollywood studios. The resulting consensus underlay the constitution of a unique institutional logic emphasizing the need for State regulation and the central role of the professions that shaped the logic of the industry. French firms facing large and powerful foreign competitors had to be equally large and powerful. Whereas U.S. major studios had to exit the exhibition business after the 1948 Paramount Antitrust case (Miller & Shamsie, 1996), vertical integration has remained legitimate and taken for granted in France. The largest companies (Pathé, Gaumont, and UGC) control and dominate activities that span production, distribution, and theatrical exhibition. Size is also

¹² A 10.72% ‘special tax’ is applied to box office receipts.

rewarded with financial privileges: industry statistics show CNC subsidies primarily end up in the pockets of the largest firms (CNC, 2009).

Categorization schemes highlight the main features of the industry's institutional logic (Thornton & Ocasio, 2008). The categorical distinction between major and independent found in the U.S. film market (Zuckerman & Kim, 2003) is largely irrelevant in the French context. Rather, the main classification system emphasizes films' national origin. Monthly CNC data are indicative in that they report the overall change in attendance and the market share of French versus American films. To validate this categorical polarization, we searched a sample of articles covering the film industry in the leading newspaper *Le Monde*.¹³ The first two keywords returned were 'American film' and 'French film.' Not only are the two categories salient, but they are often used in combination: 27.3% of the articles covering French films include a reference to American films. Another critical feature of the industry press coverage is the association between local films and art: French films are more frequently associated with the word 'art' (37.2%) than with market-oriented terms such as 'commerce,' 'receipts,' 'admissions,' and 'profit' (14.3% combined). It is also illustrative to note that, although there are large prominent film companies in France as previously noted, there is no equivalent to the 'major company' category as is the case in the American film industry. Nor is there a translation of the concept of 'blockbuster film.' While the term is occasionally used by the press, it typically applies to Hollywood, not French films.

¹³ Drawn from Factiva database, the sample includes 30,752 articles published in *Le Monde* between January 1, 2001 and November 19, 2010.

In sum, the institutional logic of the French film industry is deeply rooted in the local historical context, which emphasizes the central role of the State in sheltering both the professions and the French film companies from foreign market competition (Martin, 1995). One should not assume though that market mechanisms are absent: individuals and firms are engaged in a constant competition for resources, but the competition is shaped by the set of rules, values, and beliefs embedded in the institutional logic of the industry. Although the creation of investment funds specialized in film production (Soficas) was largely in line with this logic, it opened the doors of the industry to a foreign logic of market finance, unintentionally disturbing the institutional order.

4 THEORY

4.1 Deference: Institutional Distance, Newness, Status, and Resistance

The concept of liability of foreignness was initially proposed to identify the disadvantages suffered by multinational corporations operating in foreign countries. As noted earlier there are disadvantages associated with spatial distance, unfamiliarity with the cultural context, lack of legitimacy in the local context, and constraints imposed by the home country (Mezias, 2002; Miller & Parkhe, 2002; Zaheer & Mosakowski, 1997). This set of problems has a direct analog to our within industry analysis of a mixed population of firms, some carrying the indigenous logic of film directors as artists and others holding the external logic of film producers as financial managers.

We follow Thornton and Ocasio's (1999: 804) definition of institutional logics as the "socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material

subsistence, organize time and space, and provide meaning to their social reality.” Institutional logics shape the way firms perceive and act upon reality, and serve as a basis for collective identity (Lok, 2010; March & Olsen, 1989). Firms carrying distinct logics in effect create distance between firms and thus a firm coming from an external institutional context is likely to suffer from a liability of foreignness.

Extrapolating from this line of reasoning, we argue that the *liability of logic foreignness* incurred by a firm carrying an external logic into a new setting requires a translation effort that is contingent on four factors: (1) the unfamiliarity of the foreign firm with the norms and sources of identity and legitimacy that underlie the assumptions and beliefs embedded in the industry’s dominant institutional logic; (2) the newness of the firm in the industry; (3) the firm’s acquired status in the industry; (4) the local resistance to the firm as a result of misinterpretations and poor translation efforts which result in adverse reactions from incumbents.

We argue that success at translation is dependent on firms engaging in *institutional deference*, which is the pattern of actions and characteristics set in place in order to overcome the liability of logic foreignness. Translation is the process by which new concepts are analogically or symbolically transferred into an existing repertoire of terms or vocabulary (W. E. Douglas Creed, Scully, & Austin, 2002). The concept of deference for example represents a tribute outsiders are obliged to pay in order to gain acceptance by local members and to operate in the industry. Accordingly, we theorize that the extent to which firms express deference is negatively related to their institutional distance with the industry’s logic, their newness in the industry, status, and the lack of resistance they encounter. There are competing expectations for how a

firm's status may be either negatively or positively related to deference. In the French film production industry, the differential tribute paid to locals corresponds to investments in Art House films ('Art & Essai'), i.e. artistically ambitious films that are at odds with the pure financial logics conveyed by Sofica investment funds.

4.2 Hypotheses

A translation effort requires acculturation to the dimensions of the foreign logic – that is an understanding of the basis of the symbols and practices that guide the focus of attention and sources of identity and legitimacy of industry insiders. We argue that the availability and accessibility to knowledge of the categorical elements of a logic depends on the proximity of exchanges among decision-makers with respect to the specificities of their respective logics – or *institutional distance* (Kostova, 1999; N. Phillips, Tracey, & Karra, 2009). Can the players step into each others' shoes—can they cross the line and in some way signal they are identifying with each other?

Soficas are founded and operated by financial institutions in more or less close collaboration with industry participants. For instance, investment funds can strive for an internal balance between the bank's finance logic and the film industry logic by integrating their investment committees so that they represent individuals with bank as well as film backgrounds (Battilana & Dorado, 2010). The more proximate the management of a fund is to the film industry, the more likely the translation of its logic to film industry participants and the lesser the need for institutional deference. Conversely, for a fund only managed by logic foreigners (e.g., bankers), translation is less likely to be successful and require more concrete evidence of mutual comprehension in the form of institutional deference. In this case the fund will have a

greater need to show deference to garner the attention of industry insiders and signal industry membership.

Hypothesis 1. The more distant an investment fund (Sofica) is from the film industry logic, the more deferent it will be to the film industry logic.

Logic foreignness also relates to firm's liability of newness when entering a context where the logic-based 'rules of the game' are different (Dunn & Jones, 2010). Similar to newly founded organizations which have to go through potentially long and costly role-learning processes (Stinchcombe, 1965), Soficas entering the film industry need time to acquire knowledge on how to organize and behave according to the institutional logic of the industry. New entrants are more likely to be uncertain about the appropriate norms of behavior, and may express deference to avoid potentially harmful missteps. As time passes though, Soficas may become more skilled at decoupling, that is complying with the rationalized myths of the industry in ways that do not require expressing costly deference (Meyer & Rowan, 1977). Also, time is likely to erode perceptions of foreignness. As Soficas age, they acquire social capital in the industry and become known by incumbent organizations. Compared to investment funds that just entered the industry, older Soficas are thus likely to be more attuned with the industry logic and to be perceived as less foreign by key audiences.

Hypothesis 2. The longer the tenure of an investment fund (Sofica) in the industry, the less deferent it will be to the film industry logic.

Sofica investment funds as outsiders with a different mission and focus of attention are likely to have a lower status in the French film industry than industry insiders.

This is because status achievements are a key categorical element of institutional logics, which provide the underlying rationale for how status orders are interpreted and develop (Lok, 2010; Lounsbury, 2002). Whatever status Soficas may have in the finance world (for instance, through their affiliation with prominent financial institutions) is unlikely to translate into the film industry status ordering. As a result, Sofica entering the industry will not have any known status, which is equivalent to a low status ranking (Bitektine, 2011). Moreover, as they do not primarily seek compliance with the sources of legitimacy of the film industry logic, Soficas may have a hard time climbing the status ladder. As summarized by the ideal types in **Table 4**, Soficas are more likely to emphasize the economics of a film over the aesthetics of a film, the size and performance of a fund over acquiring prestigious awards and certifications; in essence their attention focuses more on market outcomes rather than film making as a process. They may nonetheless acquire status in the industry through the film projects they are involved in, and the relationship between status and deference may take two alternative forms.

On the one hand, status achievements may immunize Sofica from pressures to pay deference: as they enable a firm to obtain a higher social position in the film industry, thus they may not have to demonstrate their affinity for the prevalent institutional logic (D. J. Phillips & Zuckerman, 2001). Status would then indicate acceptance in the industry, and recognition gestures from industry members may progressively contribute to mitigating Soficas's perceived foreignness, reducing their need to show deference.

Hypothesis 3a. The higher the status of an investment fund (Sofica) in the industry, the less deferent it will be to the film industry logic.

On the other hand, granting status may be a lever for industry participants to increase demands for logic deference on Soficas. As they are given recognition and status, Soficas may be subject to a greater status anxiety – that is the fear of losing status and the related benefits (Jensen, 2006). In other words, when Soficas are recognized as industry members they may have stronger obligations to formally comply with the logic of the industry. Hence, giving status would be a way for logic gatekeepers to control Soficas' behavior, an argument suggested by Emerson (1962): industry participants, as a social group, may use status to attach valuable members. Status might then act as a symbolic compensation for deference, and as an incentive for Soficas to align with the goals and practices of the industry logic. We would then expect a positive relationship between status and deference.

Hypothesis 3b. The higher the status of an investment fund (Sofica) in the industry, the more deferent it will be to the film industry logic.

We expect the level of deference to vary in relation to the pressures associated with an industry's resistance to a foreign logic. Resistance results from the mobilization of individuals and organizations against institutional changes that may threaten their domain of action and autonomy (Marquis & Lounsbury, 2007; McAdam et al., 2005). Soficas pursue financial objectives that are perceived as adverse to the logic of the film industry. As envoys of the financial markets, they are visible symbols of market mechanisms, against which the film industry is likely to coalesce. Soficas also invoke sources of competition for traditional film investors for example in competing for the best film manuscripts and syndication partners. Resistance to Soficas may thus come from both the professions as in the case of directors, authors, actors, and other film

professionals and the corporations which include production and distribution companies. Resistance may materialize in various ways. According to Bourdieu (Bourdieu, 1991), the “refraction effect” can be measured by the severity of negative sanctions applied to heteronomous practices (i.e., the practices conforming to external pressures), and to the vigor of calls for resistance. Past experiences of resistance should draw Sofica managers’ attention to the film industry logic, which they may otherwise overlook (Ocasio, 1997). To the extent that deference is a way to avoid costly incumbent adverse reactions, higher past resistance may translate into stronger pressures for funds to show deference.

Hypothesis 4. The higher the resistance an investment fund (Sofica) has experienced, the more deferent it will be to the film industry logic.

Similar to wineries signaling the quality of their wine by deferring to a particular appellation (Benjamin & Podolny, 1999), funds supporting films that comply with the industry logic signal to key industry members, the directors, actors, producers, and regulators, that they share their mission and focus of attention. Accordingly, the effect of deference on a fund’s performance is two-fold. On the short-term, deference to a logic rooted in non-market institutions involves investment decisions that are likely to harm the fund’s profitability. As a signal addressed to industry members, the impact of deference is related to the cost incurred by the fund (Spence, 1974). Funds demonstrating deference implies investing in film projects that are consistent with the sources of identity of the industry logic in which film is a form of art and directors are artists. Such films are likely to have a lower profitability than alternative investment opportunities because they are not primarily designed to maximize returns. Conversely, funds that fail to show deference by acting in strict accordance with the

market finance logic—are less likely to incur the performance losses associated with investing in projects that are not profitability-driven.

As a way for a Sofica fund to reduce its liability of logic foreignness, deference may also have a longer term effect on performance. For instance, a fund that has expressed deference in the past is more likely to be perceived as an appropriate film investor and regarded as a desirable business partner. Thus the fund manager is likely to have access to a wider range of investment opportunities resulting in better quality deal flow, which will contribute over the longer term to improve its performance. While the cost of showing deference is immediate, the related benefits are likely to be more durable, and last long after deference has been expressed. Much like a scientist who has achieved a certain level of eminence cannot later on fall much below that level (Merton, 1968), a fund that has shown deference to the industry logic may benefit from a ‘ratchet effect’ (once an industry member, always an industry member). Hence, the following set of hypotheses.

Hypothesis 5a. Tokens of deference will be associated with lower fund performance.

Hypothesis 5b. The negative effect of deference on performance will decrease with time.

5 DATA AND METHODS

5.1 Data

As institutional logics are historically variant (Thornton, 2004), we relied on archival data from three sources to construct an original data set: the financial markets authority (AMF), the film public register (RPCA), and industry publications. The

resulting dataset includes the activities of the entire population of firms involved in the French film production industry from August 1987 to December 2008, including Soficas. To code the quantitative data we relied on the domain expertise of the lead author, who worked 6 years as an executive for a well known American-owned firm operating in the French film industry. In addition, the lead author conducted a series of open-ended interviews with Sofica managers, a financial broker, and CNC officials to further ground the interpretation of quantitative data.

The attributes of funds are coded from fund prospectuses archived by the Autorité des Marchés Financiers (AMF). Prospectuses convey information on the governance of the investment fund and its investment strategy. Founders are required to file a prospectus with the AMF for any offering of Sofica shares. After AMF's approval, banks and brokers distribute the prospectus to potential investors. The 202 prospectuses collected capture the offerings of 127 Soficas initiated between 1985 and 2008, of which 121 were active during the period 1987-2008.

Data on Soficas investments are coded from the Registre Publique du Cinéma (RPCA), where by law all production contracts are filed. Of the 296,991 contracts archived in the public registry, we extracted all contracts related to Soficas' investments. Removing legal and technical amendments resulted in 2,737 investment contracts, representing a total of €755.41m. The contracts relate to 1,729 titles, including 1,192 feature films, 401 made-for-television films or series episodes, and 136 films that never made it to the screen. Similar to Uzzi and Spiro's (2005) study of Broadway musicals, this approach allows us to identify film projects in early production stage and avoid survival biases. Data provided by the CNC under a non-

disclosure agreement allowed us to double check the accuracy of the data. The dataset was further augmented with film attributes, distribution, and box office performance from the *Ciné Box Office* database and issues of the weekly trade journal *Le Film Français*. Additional data on the Cannes film festival awards and the *Césars* (French equivalent of the Oscars) were obtained from the related organizations' websites.

Industry and market definition – The film production industry consists of firms that finance and make feature films in France, including production companies, television networks, distribution firms, Soficas, and the CNC. There are several roles firms can occupy in a given project. Executive producers recruit investors, assemble a team of actor talent and film technicians, orchestrate the filmmaking process, and own the film negative. Co-producers are financial partners. Distributors, including television networks, buy a right to exploit a feature film in a given market and a specific territory, for a predefined period of time. The CNC reviews film projects and allocate subsidies. Films are sequentially released in several markets, starting with movie theatres. The theatrical market is a key lynchpin in that success at the box office largely determines future revenues in the video, pay for television, and free television markets. Results in domestic theatres also strongly influence the potential value of distribution rights in foreign markets.

Organizational form definition – The French law defines Soficas as financial organizations dedicated to film financing. Soficas are small organizations usually formed around one or two managers, assisted by a limited administrative staff and in some cases by an investment committee, and are accountable to a board of directors appointed by the organization's founders. Soficas offer shares to market investors

who benefit from a tax deduction. Although corporate investors are allowed to buy shares, interviews with fund managers indicate that investors are mostly, if not only, individuals. Soficas are mandated to invest the money raised in the financial markets within 12 months. After this period, a Sofica may raise additional funds. Alternatively, another Sofica may be created as a distinct legal entity but under the same organizational identity (e.g., *Cinéma 1* created in 2004 was followed by *Cinéma 2* in 2005). Since there may be organizational discrepancies within a family of Soficas, we focus on the individual Sofica as our unit of analysis. We follow Soficas' investments longitudinally by calendar quarters. Investments are assigned to a given time period based on the signature date of the contract. Likewise, dates of market release and award ceremonies are used to position box office results and awards in the timeline.

5.2 Variables

Dependent variables

The dependent variable, *institutional deference*, is a count of Soficas investments made in “Art & Essai” films in each quarter. The French Association of Art House Theatres (AFCAE) grants the “Art & Essai” certification to feature films that involve “research and novelty in film creation.” AFCAE is a central gatekeeper of the industry logic through its evaluating committee, composed of exhibitors, producers, directors, and critics which meets twice a month to screen upcoming films. The AFCAE was established in 1955 at the outset of the Auteursism movement by a group of avant-garde film critics and theatre owners interested in supporting and encouraging the distribution of art house films. The AFCAE proactively promotes “independent movies dedicated to all creative endeavors with unlimited freedom.” We

expect a count variable to best capture deference as an important signal that is highly visible to industry audience participants. Whereas investment amounts are not disclosed and publically visible,¹⁴ the participation of a Sofica in a film is widely known by its publication in highly circulated trade journals (e.g., *Le Film Français*, *Ecran Total*), and Soficas are listed in opening film credits.

The dependent variable, *fund performance*, is the equal to the gross box office revenues minus the production budget, cumulated across the investments made by a Sofica during each quarter (the variable standardized such that it has a mean of 0 and a standardized deviation of 1). It should be noted that *fund performance* is a relative measure of Soficas' financial performance, not the profitability of a fund as this information is not available. Among other factors such as distributions fees, the bottom line of a film also depends negatively on distribution costs (P&A, print and advertising costs), and positively on revenues in ancillary markets (video and television markets). *Fund performance* is a conservative measure of deference's effect on fund's performance because the discrepancy in profitability between Art & Essai films and other films is likely to be greater than what is reflected in the variable. This is because Art & Essai films tend to have lower P&A (they are less widely released), they also have a much lower chance of making a hit on the video market and being broadcast on television.

Independent variables

The concept of *institutional distance* is measured by the percentage share of a Sofica's board of directors that originate from banks and financial institutions, as described in

¹⁴ Investment amounts can be found in the contracts filed with the Registre Public du Cinéma (RPCA). However, as contracts are usually made available some time after the deals have been closed and are only accessible upon (paid) request, little is known in the industry about actual investment amounts.

the fund's market prospectus. We expect that funds with boards directed by a larger percentage of bankers will have to exhibit a larger translation effort than funds with boards of directors primarily from the film industry.

The concept of *tenure in the industry* is measured by the number of calendar quarters elapsed since a Sofica signed its first production contract, as of the observation period.

The concept of *status in the industry* is measured by the cumulative count of awards received by a Sofica i as of the quarter of interest. We look at films in which the fund was involved and cumulate Césars awards (French equivalent of the Oscars) and awards received at the Cannes film festival. Our assumption is that status benefits flow to all the parties visibly involved in a film. As Sofica's involvement in individual films is widely known, their affiliation to an award winner film is visible and is likely to contribute to their status in the industry in the same way affiliation to high-status winemaking areas benefit wineries (Benjamin and Podolny, 2001).

The concept of *resistance* is measured by the percentage of change in assets allocated annually to a Sofica by the CNC. Due to the tax deduction mechanism, the amount Sofica are allowed to raise (and subsequently reinvest in film production) is determined by the CNC. We interpret this decision as a form of feedback given by a central industry player, the CNC, to Soficas. We expect funds regarded as not sufficiently respectful of the industry logic to suffer from a lower investment allowance, as an expression of resistance.

Control variables

A number of fund attributes may affect expressions of institutional deference and performance. *Size* may be an important factor, which we measure by the natural log of the assets raised by a fund in the financial markets, as indicated in the prospectuses. As non Art & Essai films have bigger production budgets, larger funds may have more opportunities to invest in these projects than smaller funds. Also, some of the funds declare a partnership with a film producer in their prospectus. As this may affect their investment choices, and thus their expressions of deference, we add the dummy variable *partnership with studio* in the analysis. In addition, we add a dummy variable to flag whether a fund disclosed in its prospectus its reliance on an *experts committee* to make investment decisions. While such disclosure may be purely ceremonial, this variable allows us to control for any possible effect related to the involvement of industry experts. We also control for the existence of a guaranteed return offered to market investors: in a *guaranteed fund*, managers may have a greater pressure to secure valuable projects, as the investment risk is supported by the founders of the fund rather than by a myriad of faceless individual shareholders.

In addition to fund attributes, we control for factors that may affect the opportunities funds have to show deference, and are likely to impact fund performance. *Investment volume* is the natural log of the total amount invested by a fund in a quarter. For a given fund, the volume of investments may vary across periods. A higher volume is likely to be positively associated with deference, as volume offers greater opportunities to express deference. Finally, resource competition may also be an important determinant of investment opportunities. A commercially valuable film projects is a rare resource: the level of competition between Soficas may thus affect

fund's investment opportunities. *Resource competition* is proxied by computing the Herfindahl-Hirschman Index (HHI) of the market for Sofica investments – that is the sum of Soficas' squared market shares in the period. Because a high level of competition can hinder funds' ability to express deference, we expect resource competition to be negatively related to deference.

5.3 Selection of Models

Ideal Types

The ideal types presented in **Table 4** were constructed from archival data and interviews with industry members. The market finance logic and film industry logic are shown on the X axis as industry specific referents to the institutional orders of the market and professions of the inter-institutional system (Friedland & Alford, 1991). The Y-axis decomposes the X axis into elements representing the cultural symbols and material practices of each logic. The ideal types are an abstract model used to interpret cultural meanings into their logically pure forms; they are used to gauge the relative distance of the observations from the extreme or ideal type which is then used to predict some outcome variable (Thornton, Ocasio, & Lounsbury, 2012). For instance, we expect Soficas to be closer to the attributes of the market finance logic than incumbent firms (production companies, distributors, exhibitors, etc.), which are better represented by the attributes of the film industry logic.

Statistical Models

We develop two sets of empirical models to examine the *antecedents* of deference (Models 1 to 5), and the performance *consequences* of deference (Models 6 to 9). In the first set of models, we rely on negative binomial models to account for the count nature of *institutional deference*. We estimate population-averaged effects to estimate

the effects of deference determinants across the population of Soficas. In the second set of models, we examine how *fund performance* is related to *institutional deference* using the general method of moments procedure (GMM), a two-step instrumental variable approach recommended when the sample size is large and when heteroskedasticity is present (Stock, 2001; Stock & Yogo, 2005). We compute a number of tests to check the robustness of the models (Bascle, 2008). We test instruments' relevance by comparing the first-stage F-statistic to Stock and Yogo's (2005) recommended values. We further test for instruments' exogeneity by computing a Hansen J-statistic (Hansen, 1982), under the assumption that at least one of the instruments is exogenous (Murray, 2006). We also test for the presence of heteroskedasticity (Pagan & Hall, 1983), and serial correlation that may bias standard errors estimation downward (Arellano & Bond, 1991). We rely on the Durbin component of the Durbin-Wu-Hausman test to confirm the need to account for the endogeneity of the regressor (Baum, 2006). We also run the tests recommended by Pagan and Hall (1983) and Arellano and Bond (1991) to check for heteroskedastic standard errors and serial correlation respectively. Finally, we confirm estimation results using Moreira's conditional likelihood ratio (CLR) which has been found to draw correct inferences independently of the strength of the instruments (Moreira, 2003), and has been argued to be the "test of choice in instrumental variables applications" (Murray, 2006).

6 RESULTS

6.1 Descriptive Statistics

Table 5 presents a cross tabulation of Soficas' investments by film market category and investment volume during the observation period. Most investments were

directed to feature films (75.3%), of which 39.0% were dedicated to Art & Essai films. **Table 6** shows the estimated gross returns by non Art & Essai films is higher than Art and Essai certified films. That is, the number of artistic films certified as Art & Essai is greater than non Art & Essai films, but the number of tickets sold to these artistic films is considerably less. Using these data we calculated an estimate of gross returns as the ratio of gross box office revenues to production budget. The average Art & Essai film in the data set sold 264,777 tickets, to be compared to 621,533 tickets for non Art & Essai certified films. Despite being less costly to produce, Art & Essai films appear to be less profitable, suggesting that Art & Essai films have a significantly lower financial return.

Table 5 – Sofica Investments, 1987-2008¹⁵

Type	Number of titles	Investments (€)	% of total
Feature films <i>(including Art & Essai)</i>	1,192 <i>(648)</i>	568,729,271 <i>(222,037,671)</i>	75.3% <i>(29.4%)</i>
Made-for-TV	401	118,272,731	15.7%
Unreleased as of 2008	136	68,407,770	9.1%
TOTAL	1,729	755,409,772	100%

Table 6 – Characteristics of Art & Essai Films Compared to Others, 1987-2008¹⁶

	N	Tickets Sold	Budget (€)	Gross Return
Art & Essai	648	264,777	3,843,555	.34
Non Art & Essai	544	621,533	7,513,279	.41

Table 7 presents descriptive statistics and correlation coefficients for all variables in the models. A significant negative correlation (-.502) is found between the variables

¹⁵ The dataset includes all titles released as of the first quarter 2011. 8 of the 136 unreleased titles are planned for release at a later date. Remaining titles were never theatrically released in France.

¹⁶ The estimated Gross Return is the ratio of gross box office revenues over production budget.

partnership with studio and *expert committee*, suggesting that film companies provide expertise to the funds they are tied to. Expectedly, *size* has a positive correlation with *tenure in the industry* (.233) and *status in the industry* (.384). *Institutional distance* is also correlated with *size*, suggesting that funds with strong backing by financial institutional tend to be larger than other funds.

Table 7 – Chapter 2 Descriptive Statistics and Correlations (N=1,224)

Variable	mean	s.d.	1	2	3	4	5	6	7	8	9	10
1 institutional deference	0.855	1.557										
2 institutional distance	0.674	0.277	0.070									
3 tenure in the industry	8.786	8.883	-0.245	0.221								
4 status in the industry	3.080	4.223	0.075	0.323	0.345							
5 resistance	0.229	1.027	0.048	-0.077	-0.087	-0.121						
6 size	15.880	0.629	0.035	0.303	0.233	0.384	-0.015					
7 partnership with studio	0.355	0.479	0.029	-0.289	-0.074	0.089	0.036	0.180				
8 expert committe	0.572	0.495	-0.115	0.037	0.124	0.021	0.009	-0.150	-0.502			
9 guaranteed fund	0.459	0.499	-0.149	0.246	0.166	0.042	-0.025	-0.040	0.041	0.043		
10 investement volume	0.617	0.837	0.374	0.032	-0.246	0.013	0.171	0.213	0.083	-0.124	-0.061	
11 resource competition	0.240	0.095	-0.122	0.114	0.085	0.201	-0.069	0.263	0.021	-0.089	0.079	-0.031

6.2 Statistical models

We test our hypotheses in two steps. First, we examine the antecedents of *institutional deference* (hypotheses 1 to 4). Second, we estimate the consequence of institutional deference on *fund performance* (hypotheses 5a and 5b).

Table 8 presents the results of the negative binomial models examining the antecedents of *institutional deference*. Model 1 introduces the control variables. The coefficient for *investment volume* is negative and highly significant indicating the more funds invest, the more opportunities they have to show deference. However, *institutional deference* appears negatively affected by *resource competition*, which may reduce chances to express deference. In Model 2, we add the variable *institutional distance*. Supporting Hypothesis 1, *institutional distance* is positively and

significantly associated with deference: in our context, the higher the share of bankers on the board of directors, the more likely the fund is to invest in Art & Essai films. The variable *Tenure in the industry* is introduced in Model 3. The coefficient is negative and significant, lending support to Hypothesis 2: as Soficas become known and interact with industry incumbents, they tend to tone down expressions of deference. *Status in the industry* is added in Model 4. We observe a strongly positive and significant effect of status on deference, supporting Hypothesis 3b. This finding lends support to the view of status as an incentive offered to Soficas to show greater deference to the logic of the industry. The alternative -argument (Hypothesis 3a), of status as a resource that frees funds from pressures to conform to the prevalent logic, is not supported in this context. Last, in Model 5 the coefficient for resistance is not statistically significant, failing to support our argument in hypothesis 4 that the higher the *resistance*, an investment fund receives, the more deferent it will be to the film industry logic. The coefficients of the full model (Model 5) confirm prior results: deference appears to be negatively related to *tenure in the industry*, and positively associated with *institutional distance* and *status*.

Table 8 – Estimated Effects of Institutional Distance, Tenure in the Industry, Status in the Industry, and Resistance on Institutional Deference (Negative Binomials Models)

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5
<u>Control variables</u>					
size	-0.173 (0.137)	-0.372* (0.148)	-0.133 (0.159)	-0.259 (0.173)	-0.262 (0.172)
partnership with studio (dummy)	-0.080 (0.221)	0.186 (0.220)	0.194 (0.215)	0.093 (0.223)	0.093 (0.222)
expert committee (dummy)	-0.308 (0.211)	-0.182 (0.198)	-0.216 (0.194)	-0.381+ (0.204)	-0.384+ (0.204)
guaranteed fund (dummy)	-0.332+ (0.178)	-0.447* (0.175)	-0.503** (0.177)	-0.546** (0.177)	-0.545** (0.178)
investment volume	0.726*** (0.038)	0.721*** (0.041)	0.616*** (0.040)	0.621*** (0.041)	0.619*** (0.043)
resource competition	-1.265* (0.511)	-1.186* (0.496)	-1.176+ (0.643)	-1.228+ (0.659)	-1.215+ (0.654)
<u>Theoretical variables</u>					
institutional distance		0.870** (0.301)	0.806** (0.292)	0.597* (0.289)	0.601* (0.289)
tenure in the industry			- 0.075*** (0.010)	- 0.090*** (0.011)	- 0.089*** (0.011)
status in the industry				0.051** (0.017)	0.052** (0.017)
resistance					0.017 (0.068)
constant	2.759 (2.142)	5.161* (2.262)	1.905 (2.434)	4.087 (2.657)	4.123 (2.651)
N	1222	1222	1222	1222	1222
Number of id	121	121	121	121	121

Standard errors in parentheses
 *** p<0.001, ** p<0.01, * p<0.05, + p<0.1

In **Table 9**, we present the results of GMM models estimating *fund performance* in relation with *institutional deference*. Model 6 indicates that *institutional deference* is associated with lower fund performance, after accounting for endogeneity in the estimation model: logic foreignness is costly as it imposes on Soficas a need to

express deference through investments in lower-return projects. This finding supports hypothesis 5a. The results of the first-stage equation (unreported due to space limitations) confirm the results of the negative binomial models: *institutional distance* and *status in the industry* are positively related to *institutional deference*, while *tenure in the industry* has a negatively effect, adding support to hypotheses 1, 2 and 3b. Again, the coefficient for *resistance* is not significant.

Several diagnostic procedures were performed to test the robustness of the findings. First, we checked that the two instruments used are both relevant and exogenous: the first-stage F-statistic (31.65) is largely above the levels recommended by Stock and Yogo (2005), bringing confidence that the instrument variables meet the relevance condition, and the p-value of the Hansen J-statistic (77.90) does not suggest rejecting the null hypothesis that the instruments are exogenous. Second, the p-value of the Durbin Hausman-Wu-Test (.0144) confirms that deference is endogenous to the equation of interest, and that an ordinary least-square model would yield biased estimates. Third, we found evidence of heteroskedasticity (p-value of Pagan-Hall test statistic = .0004), confirming the choice of the GMM procedure. However, test results suggest that standard errors are not serially correlated (p-value = .4994). Finally, Moreira's CLR confidence interval ([[-0.575, -0.215], p-value = .0000) reinforces our confidence in the coefficient estimate of *institutional deference*.

Hypothesis 5b predicts that the negative effect of deference on performance will erode with time. To test this prediction, we ran GMM models with increasingly lagged values of *institutional deference*: Model 7 includes a 1-quarter lagged independent variable, Model 8 a 2-quarter lagged variable, and Model 9 a 3-quarter

lagged variable. As can be observed by comparing the coefficient estimates of Models 6, 7, 8 and 9, the effect of *institutional deference* on *fund performance* remains consistently negative, but tends to decline as the time lag increases: the coefficient estimate is -.379 in Model 6 (current *institutional deference*), -.361 in Model 7 (1-quarter lag), -.320 in Model 8, and -.299 in Model 9. Estimates are all statistically significant, and robustness checks confirm that the instruments are both relevant and exogenous. These results lend support to Hypothesis 5b.

Table 9 – Estimated Effect of Institutional Deference on Fund Performance (GMM models)

VARIABLES	Model 6	Model 7	Model 8	Model 9
<u>Control variables</u>				
tenure in the industry	-0.001 (0.003)	-0.005 (0.003)	-0.004 (0.003)	-0.003 (0.003)
resistance	-0.056 (0.086)	-0.104 (0.118)	0.019 (0.111)	0.104 (0.115)
size	0.026 (0.046)	0.059 (0.058)	0.094 (0.062)	0.108 (0.069)
partnership with studio (dummy)	-0.021 (0.052)	0.009 (0.060)	-0.001 (0.063)	0.006 (0.071)
guaranteed fund (dummy)	0.002 (0.050)	0.027 (0.061)	0.048 (0.063)	0.041 (0.070)
investment volume	-0.247*** (0.074)	-0.441*** (0.067)	-0.439*** (0.071)	-0.482*** (0.092)
resource competition	1.273*** (0.277)	1.604*** (0.308)	1.507*** (0.322)	1.424*** (0.340)
<u>Institutional deference (endogenous)</u>				
institutional deference	-0.379*** (0.080)			
institutional deference (1-quarter lag)		-0.361*** (0.086)		
institutional deference (2-quarter lag)			-0.320*** (0.084)	
institutional deference (3 quarter lag)				-0.299** (0.095)
Constant	-0.198 (0.759)	-0.671 (0.953)	-1.268 (0.989)	-1.497 (1.122)
Number of instruments	2	2	2	2
First-stage F-statistic	31.65	30.14	29.66	25.64
p-value of Hansen J-test	.7790	.6877	.2674	.1329
p-value of the Durbin component of the Durbin-Wu-Hausman test	.0144	.0008	.0012	.0034
Moreira's CLR	[-.575, -.215]	[-.580, -.191]	[-.545, -.160]	[-.572, -.123]
p-value in parentheses	0.0000	0.0000	0.0001	0.0014
N	1222	1101	981	862
R-squared	0.234	0.133	0.124	0.107

Robust standard errors in parentheses
 *** p<0.001, ** p<0.01, * p<0.05, + p<0.1

Overall, empirical results provide strong support for our theoretical model, with the exceptions of hypotheses 3a and 4. Contrary to hypothesis 3a, we find that status is positively associated with deference (supporting hypothesis 3b). And we do not find support for hypothesis 4: resistance does not appear to be related to deference. We conclude by discussing these findings in what follows, and highlighting the contributions of this research to institutional analysis and strategic management.

7 DISCUSSION AND CONCLUSION

We study the entry of Sofica investment funds in the French film production industry from 1987 to 2008. The empirical setting allows us to examine the case of firms entering an industry where the prevailing institutional logic significantly differs from the logic of entrant firms: Soficas carried a globally rooted financial market logic into a highly localized cultural industry. In doing so, Soficas incurred a liability of foreignness, similar to the liability that multi-national enterprises suffer when entering new countries (Zaheer, 1995): we find evidence that, to be able to operate in a context governed by different institutional rules of the game and to interact with incumbent firms, Soficas expressed deference to the industry logic, under cutting their capacity for short-term performance. Our results suggest that funds which were institutionally distant and new to the industry showed greater deference. While experiences of resistance did not appear to have affected deference, we find that social status accumulated in the industry through affiliation with award-winning films did not provide immunity to pressures for deference, but rather seems to have encouraged funds to show greater deference to the film industry logic.

This last finding suggests that, in this context, incumbent and logic-foreign firms may have been engaged in a novel form of a gift-giving relationship. Building on anthropological studies, Marcel Mauss (1923) argued that gifts are not free, but give rise to reciprocal exchanges: through deference Soficas were expressing their appreciation for the goals and values embedded in the industry logic, and in return tokens of status offered by industry logic gatekeepers were a way to make salient the obligation of the Soficas to the prevalent logic. In contrast with settings where logic overlap resulted in opposition and conflict (e.g., Marquis & Lounsbury, 2007), this case contributes to the study of institutional change by suggesting that the encounter between actors holding different logics can take place in a more symbiotic and cooperative way. Our results suggest that *the carrot* (status offering) may have been preferred to *the stick* (competitive expressions of resistance) as a way to induce investment funds to act in concert with the values and missions of the film industry logic. While more work would be needed to explore the conditions leading to a quiet, or alternatively to a contested logic overlap, it is noteworthy that Soficas were carrying much needed resources into the industry, which would probably have incited logic gatekeepers to adopt a more conciliating approach. Conversely, in cases where foreign logic firms enter into resource competition with incumbent firms (e.g., U.S. national banks vs. local community banks), there may be less room for conciliation across logic holders, and contestation may be then more explicit. As a result of this exchange of gifts and obligations, Soficas have contributed to the mission of the film industry logic by financing culturally ambitious films. At the same time, acceptance of deference and associated rewards by industry incumbents have contributed to give Soficas the green light to transpose financial market practices and resources into the film industry, opening the door to a form of logic plurality in this industry.

By highlighting an unexplored determinant of firm's performance, this study contributes to the strategic management literature. We find that entrant firms holding a foreign logic suffered from a liability of logic foreignness, which translated into a performance loss. Although the performance penalty is related to entrant firms' inherent logic foreignness, our results highlight several factors that may help firms to overcome such a liability. First, institutional distance may increase pressures for deference. Bringing in board members or managers able to translate the foreign logic into the codes of the industry logic may be an effective strategy to avoid costly deference. Second, status in the industry may have some deference implications. According to our results, social status may have a dark side in that status demonstrations may carry an increased pressure for deference. Whenever possible, firms entering industries governed by a different logic need to carefully consider the path dependent effects of a strategy to to seek status achievements in line with the prevailing logic of the industry. Time appears to reduce the liability of logic foreignness: tenure in the industry appears to reduce pressures for deference, and the detrimental performance effect of deference tends to decrease as time passes. This is because deference may have immediate costs but durable benefits.

By introducing the concept of institutional deference and by shedding light on some of its antecedents, this study contributes to address the question of how actors manipulate and switch institutional logics (Thornton & Ocasio, 2008: 121). It may also have practical implications for managers of firms entering an institutional *terra incognita*.

CHAPTER 3

JULES OR JIM: ALTERNATIVE CONFORMITY TO MINORITY LOGICS¹⁷

1 INTRODUCTION

Firms and organizations in general confront more and more situations where they need to cater to conflicting resource holder demands. Entrepreneurs face diverging investors' expectations, while many large corporations must meet both their bottom line and their sustainability requirements simultaneously. Cultural organizations (museums, film making, or art galleries) need to combine public good and profit-based logics in their actions, while, in the aftermath of the 2007-2008 financial crisis, manufacturing firms, insurance companies, and banks had to respond to the demands of new shareholders in the form of government agencies that provided capital alongside their traditional shareholders. In all these cases, while dominant resource providers – and their logic – maintain their hegemony over organizations, minority actors promoting alternative institutional logic(s) challenge their influence. This study seeks to understand to what extent organizations conform to the demands of these latter logic holders, a situation we call *alternative conformity*, which has been ignored in past research despite the frequency of its occurrence and its importance as a factor accounting for gradual change in institutions.

Organizations are both supported and bounded by their environments: in responding to environmental demands to secure the resources they need, they face pressures to conform to various external expectations, a situation that is particularly consistent

¹⁷ This chapter was developed in collaboration with Rodolphe Durand. It will appear in the *Academy of Management Journal*.

with both resource dependence and neo-institutional theories. Resource dependence theory considers how organizations counteract the power of key resource holders (Pfeffer & Salancik, 1978), while neo-institutionalists study how organizations adopt structures and practices to address critical environmental demands so as to gain legitimacy (Meyer & Rowan, 1977; Oliver, 1997): as Oliver (1991) noted, both theories agree that organizations seek legitimacy, are self-interest-driven, and averse to uncertainty.

At first glance, neither theory would suggest that minority logic holders would trigger any significant conformity response from those organizations to which they supply resources. Resource dependence scholars view organizations as coalitions of interests among which influence and control are negotiated, and allocated to the “organizational participants which are most critical to the organization’s continued survival and success” (Pfeffer & Salancik, 1978: 36). This view holds that organizations conform to external actors’ demands to the extent that such actors have discretion over resources that are both critical and scarce. Merger and acquisitions (Casciaro & Piskorski, 2005; Finkelstein, 1997), joint ventures and alliances (Lester, Hillman, Zardkoohi, & Cannella, 2008; Xia, 2011), and changes in board composition (Katila, Rosenberger, & Eisenhardt, 2008) are the material responses implemented by firms seeking to alleviate their dependence on major resource holders. As Pfeffer nevertheless underscored in the Introduction to the Classic Edition of *The External Control of Organizations* (2003), the presence of various different logics of capitalism raises new challenges for Resource Dependence Theory, which tends to ignore the dynamics of organizational conformity to minority participants (Davis & Cobb, 2010).

For institutionalists, organizations cater first to the salient demands of those important actors that could challenge their legitimacy: thus, again, they have no clear need to attend to the demands of minority logic holders, or to decouple symbolic and technical procedures to meet them. Looking at questions of conformity, neo-institutionalism-inspired studies mostly examine the consequences of decoupling (MacLean & Behnam, 2010; Tilcsik, 2010) or deviance (Durand et al., 2007; D. J. Phillips & Zuckerman, 2001) vis-à-vis dominant players. And while a growing number of studies document settings where several institutional logics coexist and compete, they tend to emphasize field-level changes in identities (Reay & C. Hinings, 2009), practices (Lounsbury & Crumley, 2007) and discourses (Dunn & Jones, 2010), rather than the degree of organizational-level conformity to minority logics (for an exception, Greenwood et al., 2010).

We draw on the idea from resource dependence scholars that conformity is engaging and more than symbolic, and the neo-institutionalist notion that conformity is more probabilistic than deterministic, more a continuous than a binary variable (Marquis & Lounsbury, 2007; Thornton & Ocasio, 2008). We argue that organizations may conform to minority logic holders' logics as a means to enact their environment in a direction that reduces or counters the influence of dominant players, alters the social structure of resource suppliers, and promotes new logics of action in the industry. Hence, we examine how these factors play out in explaining what we call *alternative conformity*, i.e. conformity to the demands of minority logic holders. We suggest organizations may modulate their conforming behaviors in response to resource supply according to how much they adhere to the dominant logic, how central the

minority logic providers are, and the extent to which the minority logic has already garnered institutional credit

In empirical terms, we study French film-making organizations that are involved with both traditional film investors (including producers and media distributors) and specialized investment funds called Soficas. We combine exhaustive data from several unique sources on 2,531 films over the period 1994-2008. Soficas are accountable to market investors and thus present film-makers with demands that conflict with the taken-for-granted values and goals widely shared by traditional film investors. Film-makers need not apply for their funds and Soficas remain only secondary investors in the industry, supplying between 7% and 12% of the total investments over our study period. The French film industry thus makes an interesting setting to study how organizations responded concretely to the demands of minority logic investors. We look at the extent to which film-making organizations conformed to Soficas' expectations by committing resources to opening their films in a wide range of theatres on the first week of their release, and find evidence to support our hypotheses after correcting for endogeneity.

We expand resource dependence and neo-institutionalist perspectives by analyzing situations that concern minority logic holders directly and their interactions with dominant players. Despite supplying limited resources, minority investors influence organizations' material engagements in accordance with their new logics. We show that organizations conform to minority logic holders' demands contingent on past logic adherence at the organizational level, socialization processes at the resource suppliers' level, and accumulated institutional credit in favor of the new logic.

Organizations appear to use alternative conformity as a *soft-control strategy* to resist resource and ideological pressures from dominant players. Although it does not threaten dominant players at the organizational level and, for this reason, has largely been ignored, we suggest that alternative conformity is a powerful mechanism to alter prevailing practices, resource engagements, and institutional order.

2 ORGANIZATIONAL CONFORMITY TO EXTERNAL DEMANDS

As open systems, organizations depend on and enact their environments to access critical resources – both material (e.g., financial capital, production inputs), and symbolic (e.g., legitimacy) – to operate, survive and thrive. To ensure continuation of the much needed flows of both productive and legitimizing resources, they must conform to exogenously imposed demands to satisfy those who control those resources. We define conformity as an objective modification of organizational behavior that accedes to the requests or expectations that resource holders formulate and promote according to their own institutional logics.

Institutional logics provide the ‘rules of the game’ in a given organizational context: they are cultural beliefs and rules that shape how actors perceive and act on reality (Friedland & Alford, 1991; Thornton & Ocasio, 1999). A single institutional logic reigns in most industries, which has generally been established by dominant players. When external participants (e.g., investors, raters) hold distinct logics, they are likely to have different expectations and demands about how the organization ought to behave, prompting the question of why and to what extent organizations may choose to conform to or deviate from the dominant industry logic. For instance, the chefs who conformed to the *nouvelle cuisine* principles, a minority logic in France in the 1970-1985 period, helped give credit to a new logic and challenged the industry order

(Rao, Monin, & Durand, 2005). Institutional credit characterizes the comprehensive acceptance of a logic in an industry. By definition, minority logic holders promote a contrasting logic and lack credit. Although we use ‘minority’ chiefly to characterize the lack of logic prevalence, minority logic holders are also expected to control a relatively minor share of the industry’s pool of critical resources: logics and resources are linked together, since the schemas composing logics “are the effects of resources, just as resources are the effects of schemas” (Sewell, 1992: 13). Minority participation corresponds to resource supply or investments of a minority logic holder in favor of an organization. Conforming to minority logic holders’ demands is what we term an ‘alternative conformity’ to conforming only to the interests and logics of the dominant resource holders.

Prior works on conformity essentially conceive organizations as constrained by powerful resource holders (Pfeffer & Salancik, 1978; Zuckerman, 1999). The resource dependence perspective emphasizes the influence of ‘organizational participants’, identified as individuals or organizations that participate in the coalition of interests governing the organization and which, in pursuit of their own interests, attempt to impose their own agendas on focal organizations. As organizations are unable to respond to every environmental demand, organizations faced with conflicting expectations are thus expected to make their decisions about conformity based on the criticality of the demands involved (Pfeffer & Salancik, 1978: 27–28). Empirical works in this tradition tend to focus on the tactics organizations deploy to escape external constraints, from more or less coordinated efforts (e.g., alliances, cooptation) to constraint absorption (e.g. M&As), and rely on industry-level data. As Casciaro and Piskorski (2005) illustrated in their study of M&As among U.S. public

corporations, resource-dependence studies typically examine patterns of material exchanges (i.e., inputs-outputs) across industries (Burt, 1983; Finkelstein, 1997) and rarely account for variations in response intensity across organizations to resource holders holding different logics. Averaging results at the industry level falls into the ‘ecological fallacy’ trap which has been denounced as a limitation of resource-dependence theory (Davis & Cobb, 2010: 27).

Whereas resource dependence theory underlines pressures to conform to dominant participants’ individual interests, the institutional perspective points to various selection forces originating from the broader institutional context. Organizations are pressed to comply with taken-for-granted norms, logics and rules, or risk losing legitimacy (Deephouse & Suchman, 2008; Meyer & Rowan, 1977). Even more than in resource-dependence theory, conformity is conceived as a constraint (Oliver, 1991, 1997) which depends on the variety and prevalence of institutional logics (e.g., Dunn & Jones, 2010) more than on the agenda of individual self-interested actors. Thornton and Ocasio (1999) explain how the changes in structural forms of American publishing houses (e.g., refocusing on core business or opening top executive positions to MBA graduates) correspond to changes in firm behaviors to conform to a (financial) market logic. Zuckerman (1999) argues that stock market listed firms are pressured to conform to a single institutionalized market category used by securities analysts. In this view, conformity is not a property of dyadic relationships between the organization and external participants, but rather relates to its relationship with a larger external audience and its shared understandings about what the organization should do (see Tolbert and Zucker (1997) who detail this objectification process).

But the assumption of audience obedience may not always hold, and is particularly likely to vary when minority logic holders enter the game. For instance, Espeland and Sauder (2007) document how a new category of agency –raters– entered the U.S. higher education sector and challenged how universities regarded themselves and their competitors, while, in a related context, Durand and McGuire (2005) studied how the internationalization of the American-based AACSB accreditation agency challenged the social hierarchy of European business schools and elicited a countervailing effort towards establishing a European accreditation system. In their longitudinal study of the U.S. feature film industry, Cattani et al. (2008) find more evidence that the level of consensus among resource holders (in their case, film distributors) is not stable over time. In fact, a growing body of evidence suggests that many organizations do not operate in homogenous institutional environments, but rather face institutional pressures nested in competing institutional logics operating at the societal level (Friedland & Alford, 1991; Greenwood et al., 2010).

Recent studies document the coexistence of two competing logics in a wide variety of settings – the U.S. medical education sector (Dunn & Jones, 2010), the nascent Bolivian micro-finance industry (Battilana & Dorado, 2010), and the field of genetically modified mice (Murray, 2010). In such cases, organizations face conflicting institutional demands (Rao et al., 2005; Lounsbury, 2007; Kraatz & Block, 2008) with different historically and socially elaborated logics presenting conflicting interpretations of how organizations ought to behave. In all these cases, the pre-existing institutional order was eventually upended, but this may not be an inevitable outcome: logics can gradually gain credit without achieving dominant status, suggesting that a complete shift in institutional prevalence is not a necessary

condition to study why and to what extent organizations might respond to minority participation by acceding to minority logic holders' demands.

3 ALTERNATIVE CONFORMITY

Resource dependence theory assumes that, at the industry level, organizations develop actions to counter their dependency on major resource holders. Where a given resource is available from a plurality of holders, some will be more established and powerful than others, and precedence will be given to them. The institutional logic framework offers two main variations. First, conformity is a conditional process (Bicchieri, 2005; Thornton & Ocasio, 2008: 106): as environments and organizations' characteristics vary, so will organizational propensities to conform to dominant or minor resource suppliers' requirements. Second, logics are not viewed only as constraints, but also seen as resources that organizations can draw on as basis for action (Friedland & Alford, 1991: 253), recasting the conformity question in different terms. When facing pressures to conform to different sets of institutionalized norms and rules, organizations may have some latitude in addressing logics with distinct institutional credit (Battilana & Dorado, 2010; W. E. D. Creed, DeJordy, & Lok, 2010; Powell & Colyvas, 2008). Conformity to a minority logic in case of minority participation may seem an unlikely response, but may also provide organizations with opportunities to shape environmental constraints and alter the make-up of their institutional environments.

Against this backdrop, we consider two groups of suppliers, dominant and minority, for an essential resource, each holding a distinct institutional logic. By definition, the latter both extol a distinct logic with a lower institutional credit and supply a smaller share of the essential resource than the dominant players. Dominant resource holders

act to ensure organizations employ their resources according to their institutional logics. As in the cases mentioned in introduction (private-public investors in technological ventures, cultural production, or bail-out plans) minority participation, i.e. resource supply or investments of a minority logic holder in favor of an organization, does not threaten this established institutional order: dominant logic holders still control the majority of resource stocks and flows, legitimacy access, and symbolic granting, among other things.

In this context, in case of minority participation, organizations can use alternative conformity, i.e. the modification of their behavior to accord with the minority resource providers' logic, as a means of reducing the control their dominant resource providers enjoy. They can increase their chances of securing the resources they need by being able to source them from two alternative origins (dominant and minority suppliers), and reduce the overlap with rival organizations for accessing the rare and critical resources controlled by dominant players. Complying with the requests from supplementary types of suppliers allows organizations to mitigate the direct pressure exerted by dominant resource providers in both present and future investment situations (Smith, 2011). As dominant logic holders still supply the greatest share of resources, substantive and symbolic, they are not per se challenged at the organizational level, and so need not retaliate.

By accepting minority logic holders' participation and making material and visible changes in favor of their demands, the mutual dependence between organizations and minority logic players increases (Casciaro & Piskorski, 2005; Xia, 2011). As a consequence, organizations contribute to socializing low credit players into the

industry, a process that entails a gradual displacement of dominant players in the industry's social network and leads to the erosion of their institutional credit (Rowley, 1997). As their involvement in the industry increases, minority logic participants learn about the industry's 'tricks of the trade', become better known and more acceptable by more central players. This interconnectedness between different kinds of logic holders alters the social structure of the industry, relatively weakening the most powerful and central suppliers –a desirable outcome for focal organizations. Complying with minority logic holders' demands make these players matter in the industry helping focal organizations temper what dominant resource holders can impose on them.

As enactors of their institutional environments, organizations may also conform to minority logics to alleviate the symbolic pressures exerted by dominant resource holders. Organizations become more actors in their own destinies the more they are aware of alternative logics and practices (Meyer, 2010). They can contribute to accruing institutional credit for minority logics. By acceding in concrete, material ways to minority logics' demands in return for their participation, the unorthodox views, rules, and norms of minority logic holders are introduced to the industry, gain an audience, and become audible and credible: alternative conformity widens debate about industry practices, values and norms (Zietsma & Lawrence, 2010). For the above reasons (control; social structuration; logic promotion), we expect alternative conformity to be positively related to minority logic holders' participation:

Hypothesis 1. The greater the degree of participation of minority logic holders to an organization, the more it will conform to the related logic i.e. exhibit alternative conformity.

Oliver (1991: 153) stressed that an organization's conformity depends on its awareness of institutional processes and its own interests. In the same way, control, social structuration, and logic promotion favor alternative conformity but their influence varies according to each organization's awareness and willingness to influence their institutional environment and their relative dependencies on dominant resource holders.

Established organizations whose sustained practice involves both receiving resource supplies from and giving repeated obedience to dominant suppliers are embedded in the field and entrenched in its order and dominant logic. Resources are attached to logics of action and corresponding institutional order (Sewell, 1992) and organizations that adhered the most to dominant logic holders' demands partake in their establishment and share their values and interests. When agreeing to receive minority participation, relative to neutral peers, more entrenched organizations suffer less from dominant resource suppliers' demands and need less to gain control over them (they are content with *status quo*); they are less willing to alter the social structure of the industry and transfer their own legitimacy to minority players (the social structure is favorable to them); they do not see high interest in promoting a new logic of actions (they share beliefs and interests with dominant logic holders). As a result, past (ideo)logical adherence to dominant players makes organizations less aware and willing to respond favorably to minority logic holders' demands in response to their participation:

Hypothesis 2. The stronger an organization's adherence to dominant players' logic in the past, the lower will be the association between minority

participation and its degree of alternative conformity.

The various links organizations have with dominant and minority resource suppliers create direct and indirect associations between logic holders at the resource supply level (Fernandez & Gould, 1994; Rowley, 1997). As a result, the position of minority logic holders in the resource supply network evolves as their affiliations with focal organizations and dominant resource holders develop. In their awareness and willingness to loosen the dominant players' yoke, organizations will be likely to respond differently to minority participation contingent on whether minority logic holders are more or less central to the supply network (Borgatti, 2005; Freeman, 1979). Tying the organization with peripheral minority players characterizes a heightened awareness and willingness to counterbalance majority resource suppliers' domination. Demonstration of independence and thus control over dominant resource suppliers is stronger and more salient when minority participation comes from peripheral logic holders as it appears more threatening for the established resource suppliers. Engaging with peripheral minority suppliers alters more deeply the resource supply networks since it increases the mutual dependence between organizations and minority logic holders and brings the alternative logic closer to the network core (Casciaro & Piskorski, 2005). Logic promotion intensifies when minority logic holders that participate to an organization's enterprise are more peripheral than central, because the less central minority logic holders are also less socialized and more radical in their advocacy of their own logic (Leblebici, Salancik, Copay, & King, 1991; Phillips and Zuckerman, 2001). Therefore, the effects of control, social structuration, and logic promotion on an organization's alternative conformity will be stronger when the minority participation proceeds from more

peripheral logic holders. Hence:

Hypothesis 3. The more central minority resource suppliers are in the network of resource providers, the lower will be the association between minority participation and an organization's degree of alternative conformity.

An organization's awareness of and willingness to conform to a minority logic is likely to vary inversely with the degree of institutional credit that the logic has accumulated in the industry (Lounsbury, 2007). The more evidence adds up to show that minority logic holders have gained acceptance in the industry (and thus their logic has gained credit), the lower are benefits of increased control, alteration of social structure, and new logic promotion. As cases accumulate where organizations resort to minority resource suppliers, for each new minority participation, the counterbalancing effect of minority resource providers on dominant players' power fades away due to the normalization of the minority logic and the socialization of its proponents. As the institutional credit of minority logic increases, minority participations have a diminishing effect on the social structure of resource suppliers. Finally, as the acceptance of minority logics becomes more obvious, for each new case of minority participation, organizations' need and willingness to promote the minority logic weakens. For these reasons, as credit favorable to minority logic holders accumulates, the strength of the relationship between receiving minority players' resources and alternative conformity diminishes. Thus:

Hypothesis 4. The more institutional credit a minority logic has accumulated, the lower will be the association between minority participation and an organization's degree of alternative conformity.

4 EMPIRICAL SETTING: TWO LOGICS OF FILM PRODUCTION

Born in the 1890s from the Lumière Brothers' invention of the cinematograph, the French film industry was profoundly transformed by two post-WWII phenomena, which set it apart from more market-oriented film industries (e.g., Hollywood). First, while a set of cultural changes led to the gradual institutionalization of film as an art form throughout the 20th century in the Western world (Baumann, 2001), the movement was particularly pronounced in France. Benefiting from the legal doctrine of *moral rights* (Marvin, 1971), which give them authority over the 'final cut,' directors –or *auteurs*– became increasingly central in the French industry, gaining public exposure at major events such as the Cannes film festival (created in 1946). The *Nouvelle Vague* movement of the 1960s, theorized by François Truffaut in the pamphlet *A Certain Idea of French Cinema* (Truffaut, 1954) provided directors and critics with symbolic resources linking films with art, and made the ethos of the French film industry antithetic to the overt search for financial profits (Martin, 1995)

Second, the fierce competition of Hollywood films after WWII led the French state to intervene increasingly in the industry's organization. The Blum-Byrnes agreement on war debts forced France to open its theatrical market to foreign films, prompting the state to the counteracting effort of creating the *Centre National de la Cinématographie* (CNC), a government agency with wide regulatory powers. Gradually, the CNC implemented a set of policies aimed at sheltering producers from financial risk and protecting and enhancing the national cultural legacy, in accordance with a doctrine now known as 'cultural exception' (Caplan & Cowen, 2004). Various subsidies and pre-sale guarantees meant French film producers were typically

accountable for less than one third of total film budgets, dramatically different from the situation in the U.S. market. The overall effect of these moves was to confirm artistic creativity and cultural diversity, not financial success, as the main imperatives driving film production in France. Producers who did make box office successes were expected to reinvest their profits in new projects again valuing artistic considerations over financial objectives. Embedded over the years, this locally rooted institutional logic was supported by a large industry consensus (Demil & Leca, 2003).

4.1 *The Minority Logic of Market Finance*

But by the early 1980s, despite several decades of this protective policy, the number of French films produced each year had declined dramatically, as had film attendances. The average French film budget increased, with determined competition from American movies making them even less likely than before to break even. At the same time, other forms of cultural production pulled producers' limited funds away from movies (particularly towards production for television, where the number of channels grew from one in 1974 to six in 1986). In 1985, the French government created a new mechanism designed to entice private capital into film production, establishing a new form of 'tax shelter' applicable exclusively to investment in film production (Eling, 1999). Specialized investment funds – Soficas (*Sociétés pour le Financement du Cinéma et de l'Audiovisuel*) – were instituted to raise film production funds from financial markets. Founded by banks and regulated by financial market authorities, Soficas were modeled on equity funds, with individuals' investments being partially tax-deductible. Importantly, they also brought a stricter financial imperative to an industry not historically structured around financial maximization. As their short-life span reinforced the need for a quick return on investment, the arrival of Sofica investment funds opened the film industry up to an alternative logic,

that of market finance.

Accountable to their market investors, Sofica managers are expected to act like venture capitalists, picking film projects that minimize risks and maximize short-term expected returns. As a Sofica founder and former manager points out, investors and financial institutions “*exert a constant pressure on Sofica managers to yield higher returns than announced originally.*”(Chevalier, 2008: 12). As financial companies, Soficas are less sensitive to the normative expectations of such professional gatekeepers as performers’ unions, art house associations and critics, and so impose significantly different demands on film-making organizations than do traditional French film producers. Being focused on financial returns, Soficas are likely to give precedence to commercial considerations, whereas traditional producers, although not against breaking-even or making a profit, are more obliged to focus on the cultural and artistic goals embedded in the traditional industry logics.

In the period under study (1994-2008), Soficas raised a total €445m from financial markets which was directly reinvested into film production. Overall, the contribution of Soficas was about 8.5% of the budgets of the films they invested in, so covering a much-needed share of production costs but by no means a leading proportion. Directors could still fund their movies via the traditional sources (including traditional film producers and media companies), which continued to represent the great majority of film financing. Hence, Soficas fit our definition of minority logic holders in that they institute an alternative to the dominant film industry logic, and also control critical but relatively limited resources.

4.2 *Alternative Conformity to the Market Finance Logic of Soficas*

The demands Soficas, as minority logic holders, present to film-makers depart significantly from those of traditional film producers. In particular, the two types of film investors are likely to disagree on the appropriate release strategy, and particularly the number of screens on which the film opens. Theatrical releases are crucial for film-makers as they largely determine the fate of the movie in the theatrical market, and later in ancillary markets including video, television, and international markets (Ainslie, Drèze, & Zufryden, 2005). As a result, all decisions regarding releases are a prime contractual responsibility of film-makers, who ultimately incur the cost of print and advertising and have the final word in disagreements with distributors. We expect financially driven Soficas to support wide releases, following what has been described as ‘saturation booking’, ‘take the money and run’ (Hadida, 2009) or ‘blitz’ release strategies (De Vany & Walls, 1997). Such tactics are conceived to build anticipation prior to the theatrical release through major advertisement and media publicity campaigns, and accumulate as much revenue as possible before word-of-mouth starts spreading (Eliashberg, Jonker, Sawhney, & Wierenga, 2000). Given the high uncertainty of the film business (Caves, 2000), Soficas are likely to value such strategies as driving toward profit maximization and risk minimization: blitz releasing helps secure revenues whatever the intrinsic quality of the film and the level of moviegoers’ appreciation.

In line with the film industry logic’s emphasis on cultural diversity and quality, the gatekeepers of the film industry logic regularly voice concerns about blitz releases, accusing those who employ such strategies of preempting the theatrical market and depriving higher-quality films of the chance to be seen and to build audiences. In this

dominant logic, movie audiences are given rather than built through marketing techniques. Proper releases strategies are designed to “*exhaust the potential audience*” a film may have, and contrast with “*Kleenex strategies that multiply prints (...) and sacrifice films that need time to find their audience*” (De Baecque, 2004). In 2004, a group of film directors circulated a petition to ‘Liberate Screens’, expressing concerns that blitz releases would wreck the chances of so-called “*films d’auteurs*” to survive in the market, and calling for the demise of the “*financial logic*” in which films are no more than “*ordinary mass market products*” (De Baecque, 2004). Similar worries are regularly expressed by such professional organizations as the Film Directors Society: “*It is not rare to observe five films occupying 70% of the 5,400 French screens, directly impacting competition: other releases are barely visible and have increasingly short lifecycles. Dozens of films are not given a chance to meet the audience in the first week of their release*” (Société des Réalisateurs de Films, 2006). Under the film industry’s dominant logic, every film deserves a chance to encounter its own audience, which is why, despite being financially attractive, flooding the market with prints is regarded as inappropriate, and constitutes a violation of an important and embedded industry norm. By contrast, the financial logic seeks to create large audiences from scratch, and quickly. As a Sofica manager put it in one of our interviews: “*Distribution is everything. After investing, my primary concern is to make sure that films are properly marketed and released as soon and as largely as possible.*” As a consequence, release strategies are likely to be a major area of difference between the two types of resource holders: while Soficas may push film-makers to secure revenues through blitz-like releases, traditional film producers may remain reluctant to do so. Thus the relative width of theatrical screenings in the first week of a film’s releases can be seen as an indicator of the extent of a film-making

organization's conformity to the minority logic of Soficas.

5 DATA AND METHODS

Unlike most film industry studies, which typically rely on distribution data, our work focuses on the production side of the industry. We documented the dominant logic of the French film industry and the minority logic of Soficas using archival materials (Sofica prospectuses, newspaper articles, and regulatory reports) and building on semi-structured interviews with Sofica managers, financial brokers and industry regulators (Thornton, Ocasio, & Lounsbury, 2012). Under a unique non-disclosure agreement, the *Centre National de la Cinématographie* (CNC) provided us with detailed (and previously unexploited) data on the 2,818 films that went into production between 1994 and 2008, including some not subsequently released. There are reasons to believe that this dataset is exhaustive: all French film production projects have to go through the CNC for accreditation (a process known as “*agrément*”) in order to qualify for advantages that significantly reduce their production costs, and thus producers' financial risks. We removed 283 projects that had not been released by the end of our period (for which few data is therefore available), as well as 4 titles made for the ‘Géode’ IMAX theatre, as being atypical niche products not shown in regular theatres, leaving us with 2,531 films produced in France between 1994 and 2008 and subsequently released in theatres.

We used data from the *Registre Public du Cinéma et de l'Audiovisuel* (the Film Public Register), which was instituted in 1944 to ensure the transparency of the intellectual property exchange market, to trace back the contractual relationships between firms involved in film production in the study period. We identified 8,232 production contracts related to films produced during the period, of which 1,489

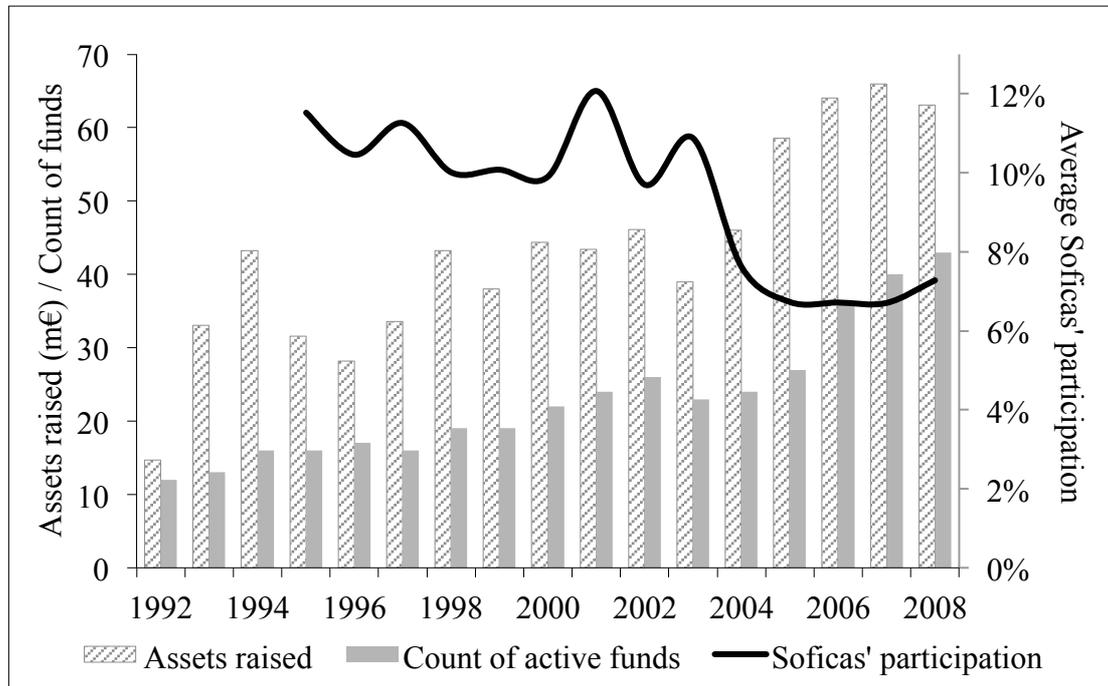
involved Sofica funding. Again, we are confident the data is complete: contract registration is a legal requirement, and courts use Film Public Register records in litigation cases. The contracts allow us to faithfully and exhaustively reconstruct the film-financing network in the relevant period, which we found comprised 18,072 ties between 2,340 distinct firms. We completed our dataset with additional data from the professional database *Ciné Box Office*, weekly issues of *Le Film Français* (a trade journal), and the Cannes Festival's online archives.

Although the Sofica scheme actually started in 1986, partial data availability before 1994 and tepid success of the initiative prevent us from observing the effects of Soficas on the film industry in its early years.¹⁸ Banks began in the early 1990s only to guarantee investors minimum yields to increase the attractiveness of Sofica financial products, which spurred interest, leading to a gradual (although not continuous) growth of the number of funds and total assets in subsequent years (**Figure 4**). During this time however, the average contribution of Soficas remained relatively limited, in the range of 7% to 12% of production budgets, slightly lower in later years. A dummy variable used to control for the few funds established before 1994 proved non-significant, and was not retained in the displayed models. We also introduced a dummy variable in unreported models to identify films produced in 2008 (the last year of our dataset) to investigate possible right-censoring issues: the effect of the dummy variable appeared non-significant, suggesting right censoring was not a

¹⁸ The market finance logic had not significantly pervaded the industry and remained a minority logic in 1994. Past studies have shown that institutionalization processes and blending of opposing logics take at least fifteen years (Lounsbury, 2007; Rao et al., 2005, Thornton and Ocasio, 1999). In our setting, Sofica investment activity did not really start to take off until 1994. The number of new funds actually fell from 9 in 1986 to 4 in 1991, and their total assets shrunk from the equivalent of €40m to €15m, less than the full budgets of three movies.

major concern either.

Figure 4 – Population of Active Soficas, Volume of Assets Raised, and Average Soficas’ Participation to film production budgets (1992-2008)



5.1 Measures

Dependent variable

Consistent with our definition of conformity as being continuous rather than dichotomous, we interpret the breadth of a film release (i.e., the number of prints distributed the first week of exploitation) as indicating film-makers’ conformity to Soficas market finance logic. We therefore use the natural log of the number of prints distributed as a measure of *alternative conformity*, continuously capturing film release breadth: the more prints distributed (and thus screens occupied), the closer the release strategy approaches to the blitz model, i.e., the more it aligns with market finance logic and departs from the dominant film industry logic. We choose this variable because print numbers are directly under film-makers’ control, and thus fit with our definition of conformity as illustrating concrete engagement by the production

organization.

Independent variables and moderators

The independent variable *minority participation* captures the involvement of minority logic holders in film-making organizations as the natural log of the amounts invested by Soficas, and was constructed by identifying production contracts involving Soficas from the Film Public Register and retrieving the amounts invested from the contract details. When more than one Sofica invested in a film, the amounts were summed. This continuous measure allows for a precise assessment of Soficas' material involvement in the making of the film. Note that Soficas finance production costs, not print and advertising expenditures. We resort to a two-stage estimation procedure (as explained below), which uses the film budget as an instrument to predict the value of minority participation in the first estimation step. For that reason, we use the total investment amounts as our independent variable rather than the proportion of Sofica investments in a film's total budget; although results are similar, the instruments' exogeneity was significantly weaker using the latter indicator.

Three moderating variables are used to test our model. We measure the concept of *logic adherence* by counting the number of 'Art & Essai' movies the film director has been involved with before directing the focal film. The 'Art & Essai' classification was created during the Nouvelle Vague movement by directors, critics and theatre owners from the Association of French Art-house Theatres (AFCAE), to celebrate "*all creative endeavors with unlimited freedom*", and signals directors' allegiance to the industry's established culturally oriented logic. We focus on the directors' track record, as they are the central figures in French cinema: it is they (not the producers) who are legally entitled to decide on the 'final cut' (the version of the film that is

actually released) and who therefore occupy the central roles in film-making organizations.

We measure the concept of a minority resource supplier's *structural position* by computing the normalized value of Soficas' average degree centrality in the producers' network (Freeman, 1979), i.e. the number of ties incident on a Sofica over a 3-year window.¹⁹ We include 'failure' data on ties formed in projects that were never completed, which allows us to avoid a statistical bias common in network studies (Uzzi & Spiro, 2005). Consistent with longitudinal network studies in similar industries (Cattani et al, 2008), we assume ties remain active for 3 years (thus a tie formed in 1994 is deemed active until 1996), a timeframe which appears reasonable given the industry's project-based nature, and the typical one-two years it takes to make a film. Results remain unchanged when using alternative specifications based on two-year and four-year windows. The moving-window approach presumes that older ties dissolve as new ones form because tie maintenance has costs that limit the number of ties that can be kept active simultaneously. Our moving-window approach means that models that include *structural position* as a variable exclude the first two years of observations used to compute centrality measures, reducing the number of observations to 2,300 films. Degree centrality is better suited than other centrality measures to study how logic holders are positioned in resource supply networks because it captures their involvement in the network (Opsahl, Agneessens, & Skvoretz, 2010) and the immediate likelihood of them being influenced by the logic of adjacent network nodes (Borgatti, 2005; e.g., Davis, 1991). Normalized degree centrality is computed using UCINET 6.289 (Borgatti, Everett, & Freeman, 2002).

¹⁹ Organizations not involved with Soficas are assigned a value of zero because their conformity behaviors are not affected by the structural position Soficas occupy.

Finally, we measure the concept of *institutional credit* over time by counting the accumulated number of films financed by Soficas as at the calendar month when a focal film enters into production (first production contract signed) divided by 1000. We also tested the cumulative amount invested by Soficas as another measure, and obtained very similar results.

Control variables

Film characteristics found in other studies (Cattani et al., 2008; Hsu, 2006) may affect exhibitors' demand and film-makers' choice for new releases. The *genre* of the film may be an important factor (e.g., comedies might be more widely distributed than dramas), so we control for this factor by including 16 distinct categorical variables (comedy, drama-comedy, drama, documentary, thriller, adventure, fantastic, animation, action, horror, science fiction, musical, historical, western, war and erotic). We also control for film ratings, since the release strategy of censored films may be more likely to follow a blitz approach as they have more limited pools of viewers and shorter sales patterns. Our *rating* is a categorical variable equals to 0 for films rated suitable for all audiences, and 1 otherwise. By definition, sequels are designed to repeat prior successes, may have the preference of theatre owners, and open more widely. The variable *sequel* takes the value of 1 where the film is a sequel to a previous release, and 0 otherwise.

The presence of stars in the cast may also increase public exposure, raise exhibitors' demand, and entice film-makers to increase the number of releases the first week. In our models, we add the variable *stars*, a count variable equal to the number of cast members who were among the top 5 grossing actors in the 3 years preceding

production. Awards are also scrutinized in the industry (Rossman, Esparza, & Bonacich, 2010), and those granted before release²⁰ may affect how films are released. Cannes Film Festival awards are so timed, so we include *Cannes* as a categorical variable equal to 1 if the film is awarded a major award at Cannes²¹, and 0 otherwise. We focus on awards at Cannes rather than from other film events because the festival ethos and history, and its wide media coverage, have made it arguably the industry's (and certainly the French industry's) most influential event; we expect such awards will be positively related to wider releases.

The biggest distributors may also have specific release patterns by virtue of their greater power in the exhibitor market: *top distributor* equals 1 if the film's distributor was among the top 5 grossing distributors in the preceding year²², and 0 otherwise. We also account for the level of competition the film faces in the theatrical market: *competition* is the number of other films released the same opening week, and is expected to negatively impact the dependent variable.

Finally, we control for unobserved factors across and within years that may affect the size of film releases. To account for changes in attendance and competition in the theatrical market, we include 14 categorical *release year* variables (1996, 1997...

²⁰ Most awards (e.g., *Academy Awards*, *Les Césars*, etc) are largely irrelevant to our analysis, as they are often granted months after films have been shown in theatres

²¹ *Palme d'or*, *Grand Prix du Jury*, *Prix Spécial du Jury*, *Prix du Jury*, *Prix d'Interprétation Masculine*, *Prix d'Interprétation Féminine*, *Prix de la Mise en Scène*, *Prix du Scénario*, *Prix de la Caméra d'or*, *Prix Un Certain Regard*.

²² Unlike other markets (e.g., North America), there is no clear-cut distinction between major and independent distributors in the French market. We therefore opted for a concentration index grouping the five major distributors. Results are similar with a classical concentration index using the four top players, but we preferred an index of five because there was clear drop in market share between the 5th and 6th biggest distributors, but no significant difference between the 4th and 5th.

2009) to capture potential year-specific effects. We also add two categorical variables that capture the seasonality of the film market - *Christmas* and *summer* - equal to 1 if the film was released at those times, 0 otherwise. Films released at such periods when cinema attendances are high may face higher competition for screens, which will constrain their release strategies, and may negatively impact the measurement of our dependent variable.

Model Specification, Estimation, and Robustness Checks

There are reasons to believe that the independent variable under study is endogenous: Sofica fund managers do not invest at random, but make investment choices based on factors that also relate to alternative conformity. This is confirmed by examining the Durbin component of the Durbin-Wu-Hausman test (Baum, 2006): the null hypothesis that an ordinary least square method would yield consistent estimates is rejected in all instrumented models (see bottom panel, Table 2). To account for endogeneity properly, we rely on Generalized Method of Moments (GMM) procedures. GMM is recommended in case of heteroskedasticity, the presence of which in our dataset was confirmed by a Pagan and Hall test (p -value=0.0000). GMM allows more efficient estimations than the two-stage least square method (2SLS) when the model is over-identified and the number of observations is large (Stock & Yogo, 2005).

We rely on two instruments. *Overall investments* is the natural log of the overall amount of assets invested via Soficas' in the year a film is produced. We expect this to be relevant, as Soficas' decisions to invest or not in a given film project are likely to be affected by asset availability at the time. The instrument is exogenous in that its value results from a legislative decision: the annual overall amount of tax breaks available to investors in film funds is voted as part of the annual French State budget,

before being allocated to individual funds by the Ministry of Finance. The other instrument –*film budget*– is the natural log of a film’s production budget. We see production budget levels as relevant instruments, as fund managers are likely to be sensitive to key financial considerations when making investment decisions. We expect this instrument to be at least partially exogenous. The two instruments are strongly dissimilar (pairwise correlation of .04), alleviating concerns of multicollinearity. As interacted variables inherit endogeneity from the main independent variable, additional instruments were added to estimate models with moderating effects by interacting the two instruments with the moderator, under the assumption that the latter is exogenous to the equation of interest.

We followed Bascle (2008) in computing a first-stage F-statistic to ascertain the strength of the instruments (Stock & Yogo, 2005), and used the Hansen J-statistic to test for over-identifying restrictions in GMM regressions, confirming the results of the latter via Sargan and Basman tests. When applicable, we also computed difference-in-Sargan statistics to verify the exogeneity of each instrument considered in isolation²³. We subsequently ran Moreira’s (2003) conditional likelihood ratio to confirm the main effect in Model 2 (Andrews, Moreira, & Stock, 2008) and, finally, used the Durbin component of the Durbin-Hu-Hausman test to confirm the endogeneity of *Sofica investments* in all models. All relevant statistics are reported in the bottom panel of **Table 11**.

6 RESULTS

Table 10 provides summary statistics and pairwise correlation coefficients for all

²³ The difference-in-Sargan statistics is not applicable when the number of instruments is lower than the number of endogenous regressors + 2.

variables in the models. The correlation between *Minority participation* and *Structural position* (.7842, significant at .001) is due to the fact that centrality is only observed for films in which Sofica funds were invested: on the subset of Sofica-funded films, however, the correlation between the two variables drops to -.2601 (significant at .001). In addition, modeling *Minority participation* as an endogenous variable alleviates multicollinearity concerns.

Table 10 – Chapter 3 Pairwise Correlations and Summary Statistics (n=2,531)

	mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 alternative conformity	3.43	2.11															
2 minority participation	4.48	6.08	0.295														
3 logic adherence	1.06	1.94	0.124	0.073													
4 structural position	0.66	1.12	0.240	0.784	0.079												
5 institutional credit	0.43	0.27	0.371	0.129	0.074	0.161											
6 rating	0.07	0.26	0.010	0.013	-0.030	0.005	-0.050										
7 sequel	0.01	0.09	0.132	-0.009	0.011	-0.011	0.048	-0.008									
8 stars	0.05	0.24	0.186	0.059	-0.018	0.045	0.050	-0.015	0.144								
9 cannes	0.02	0.13	0.064	-0.026	0.065	-0.008	-0.020	0.043	-0.012	-0.026							
10 christmas	0.07	0.26	0.001	0.003	-0.006	-0.001	0.017	-0.037	0.007	0.027	-0.016						
11 summer	0.12	0.33	-0.041	0.020	-0.025	0.013	0.008	0.040	-0.021	-0.008	-0.007	-0.107					
12 top distributor	0.17	0.38	0.301	0.095	0.032	0.026	0.016	-0.021	0.062	0.153	0.000	0.010	-0.015				
13 competition	10.45	2.98	0.112	-0.006	-0.036	0.045	0.267	-0.039	0.027	0.033	-0.092	-0.035	-0.066	-0.019			
14 minor. particip x logic adherence	5.60	17.16	0.197	0.446	0.585	0.380	0.099	-0.015	-0.009	0.026	0.011	-0.028	0.013	0.072	-0.011		
15 minor. particip x structur. position	8.29	13.90	0.253	0.795	0.082	0.996	0.156	0.003	-0.008	0.056	-0.009	-0.001	0.011	0.041	0.044	0.390	
16 minor. particip x inst. credit	2.13	3.52	0.352	0.813	0.088	0.691	0.455	-0.030	0.015	0.073	-0.021	0.001	0.020	0.082	0.089	0.402	0.696

Table 11 presents the results of regression equations for the 2,531 films produced between 1994 and 2008: Models 1 and 2 are Ordinary Least Square regressions (OLS), while the others are GMM regressions treating the main independent variable as endogenous. Models 2 and 3 test the direct effect of *Minority participation* on *alternative conformity*. Models 4 to 7 sequentially introduce the moderating effects of *logic adherence*, *structural position* and *institutional credit*. All models rely on heteroskedastic-robust standard errors, and include dummy variables to capture fixed *genre* and *release year* effects.

Table 11 – OLS and GMM Estimations of the Effect on *Alternative conformity of Minority participation, Logic adherence, Structural position, and Institutional credit*

VARIABLES	OLS Model 1	OLS Model 2	GMM Model 3	GMM Model 4	GMM Model 5	GMM Model 6	GMM ^a Model 7	GMM Model 8
Genre dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Release year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
rating	0.274* (0.137)	0.248+ (0.133)	0.061 (0.280)	0.032 (0.287)	0.086 (0.277)	-0.261 (0.415)	-0.252 (0.410)	-0.379 (0.431)
sequel	0.944*** (0.235)	1.093*** (0.259)	2.192** (0.825)	2.114* (0.836)	2.126* (0.833)	2.137* (0.877)	2.061* (0.878)	2.171* (0.856)
stars	0.681*** (0.154)	0.631*** (0.143)	0.270 (0.296)	0.312 (0.308)	0.270 (0.296)	0.652+ (0.393)	0.615 (0.379)	0.656+ (0.392)
Cannes	1.386*** (0.238)	1.446*** (0.237)	1.880*** (0.483)	1.825*** (0.473)	1.876*** (0.479)	2.852*** (0.522)	2.844*** (0.526)	2.894*** (0.515)
top distributor	1.355*** (0.088)	1.287*** (0.088)	0.793*** (0.213)	0.845*** (0.216)	0.766*** (0.212)	0.603+ (0.332)	0.497 (0.328)	0.592+ (0.337)
competition	-0.059*** (0.012)	-0.055*** (0.012)	-0.028 (0.025)	-0.028 (0.026)	-0.027 (0.025)	-0.037 (0.038)	-0.046 (0.038)	-0.043 (0.039)
Christmas	-0.170 (0.124)	-0.170 (0.119)	-0.171 (0.263)	-0.235 (0.273)	-0.165 (0.260)	-0.456 (0.382)	-0.431 (0.376)	-0.517 (0.387)
summer	-0.315** (0.098)	-0.322*** (0.094)	-0.366+ (0.206)	-0.337 (0.210)	-0.359+ (0.205)	-0.501 (0.330)	-0.519 (0.321)	-0.551 (0.337)
minority participation		0.069*** (0.005)	0.575*** (0.041)	0.626*** (0.050)	0.563*** (0.047)	1.550*** (0.177)	1.528*** (0.167)	1.679*** (0.197)
logic adherence				0.162** (0.053)		0.246** (0.082)	0.233** (0.080)	0.228** (0.084)
minority participation x logic adherence				-0.041*** (0.012)		-0.042* (0.019)	-0.040* (0.019)	-0.039* (0.020)
experience					0.023 (0.046)			
minority participation x experience					0.002 (0.012)			
structural position						5.669* (2.884)	4.736** (1.555)	5.986* (2.914)
minority participation x structural position						-0.962*** (0.277)	-0.882*** (0.169)	-0.994*** (0.280)
institutional credit								2.235** (0.001)
minority participation x institutional credit								-0.258+ (0.155)
Constant	2.463*** (0.724)	2.212** (0.719)	0.435 (1.911)	0.434 (1.684)	0.387 (1.908)	0.425 (2.632)	0.821 (2.656)	-0.525 (2.987)
R-squared	.4469	.4843	-	-	-	-	-	-
No. of endog. regressors (instruments)	-	-	1 (2)	2 (4)	2 (4)	3 (6)	2 (4)	4 (8)
First-stage F-statistic	-	-	105.07	53.10	51.06	27.13	22.42	20.47
p-value of Hansen J-test	-	-	.3974	.6042	.4859	.0850	.2027	.4589
Difference-in-Sargan statistic	-	-	-	Yes	Yes	No	Yes	Yes
p-value of Durbin component	-	-	.0000	.0000	.0000	.0000	.0000	.0000
Moreira's CLR	-	-	[.50, .68]	-	-	-	-	-
p-value in parentheses	-	-	.0000	-	-	-	-	-
Observations	2531	2531	2531	2531	2531	2300	2300	2300
Period	1994-08	1994-08	1994-08	1994-08	1994-08	1996-08	1996-08	1996-08

p *** p<0.001, ** p<0.01, * p<0.05, + p<0.1. Heteroskedastic-robust standard errors are given in parentheses below the coefficient. For the difference-in-Sargan statistic, "Yes" means that all instruments are exogenous.

^aIn Model 7, minority participation x structural position is treated as an exogenous regressor.

Model 1 examines the effect of the control variables on *alternative conformity*. Overall the estimates are in the expected direction: *rating*, *sequels*, *stars*, *Cannes* and *top distributors* are positively and significantly related to wider releases, while *Summer* and *competition* have opposite effects. *Christmas* is negative (as expected) but statistically non-significant. Overall, the model explains .45 of the variance in release strategies.

Hypothesis 1 predicts that *alternative conformity* will be positively related to *minority participation*, which we introduce in Model 2. The coefficient estimate of the variable of interest is positive and strongly significant (.069, p-value=.000), supporting our prediction. We suspect that the decision of Soficas to invest in film-making organizations is not random, since factors underlying investment decisions are likely to be correlated with the dependent variable, violating an important assumption of OLS estimation. To correct for the resulting bias, we treat *minority participation* as an endogenous regressor in Model 3, and estimate the equation using GMM. We find that the estimated coefficient of *minority participation* remains positive and significant, lending support to Hypothesis 1. Note that the p-value of the Durbin component of the Durbin-Wu-Hausman test (p-value=.000) allows us to reject the null hypothesis that the regressor is exogenous, and confirms that the OLS model yields biased estimates. Between Model 2 and Model 3, we also observe a dramatic increase in the size of the coefficient. As both the independent and dependent variables are natural logs, we can interpret the coefficient as a sort of elasticity measure: a 10% increase in Sofica's participation (as predicted by the first-stage equation) is associated with a 5.75% increase (p-value=.000) in the degree of conformity to the minority logic (after accounting for endogeneity). In more concrete

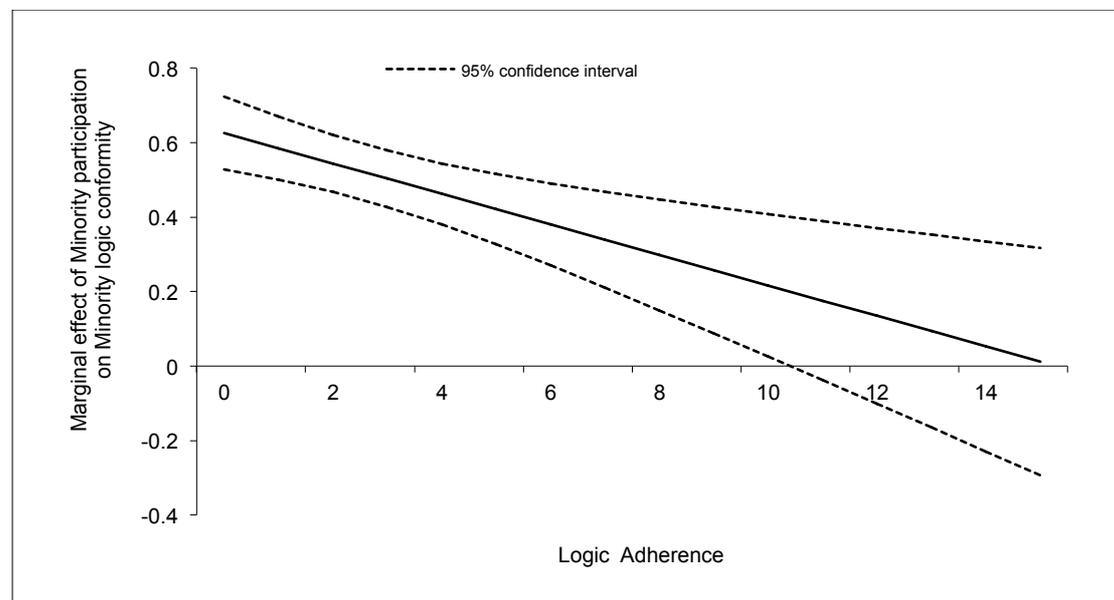
terms, over the period, the average investment in film by Soficas is €495,000: Model 3 shows that a 10% increase in Sofica investment (i.e. from €495,000 to €545,000) is associated with an increase of 10 (from 166 to 176) in the number of prints released, all else being equal. (The model also shows that the absence of Sofica investment would have dropped the average print numbers released to just 71.)

Looking closer, we observe that *stars* and *competition* lose significance in Model 3, hinting that the relationship between these factors and the dependent variable observed in Model 2 (OLS) may be induced by endogeneity in the model. From the tests of the relevance and exogeneity of the instruments, we see that the first-stage F-statistic (105.07) is largely above the value recommended by Stock and Yogo (2005) –19.93 for one endogenous regressor and two instruments (based on TSLS size)– confirming the relevance of the instruments. The Hansen J-statistic for over-identifying restrictions (p-value=.5754) supports the assumption that the instruments are exogenous while, finally, Moreira’s CLR estimate ([.50; .68], p-value=.000) confirms the accuracy of the estimation.

In Model 4, we add *logic adherence* as a direct and as a moderating factor. The direct effect is positive and significant (.162, p-value=.002), indicating that when filmmakers are led by directors with demonstrated adherence to the dominant film industry logic, they have on average wider releases, which is likely concomitant of them being known in the exhibitor market. Hypothesis 2 concerns the interaction of *logic adherence* with *minority participation*, and predicts that organizations that are more entrenched in the dominant logic of the industry will tend to be more reluctant to embrace the market finance logic of Soficas in case they receive such funds’

participation. The negative and significant coefficient of the interaction effect (-.041, p -value=.001) lends support to this hypothesis, although the estimates of the interaction terms are conditional marginal effects, and cannot be interpreted in isolation from the dependent variable. For this reason, we represent the marginal effect of *minority participation* on *alternative conformity* conditional on *logic adherence* graphically in **Figure 5** (Brambor, Clark, & Golder, 2006), using the estimations of Model 4. We observe that the marginal effect decreases monotonically with *logic adherence*, up to the point where it becomes close to zero and statistically non significant (above a value of 10). All else being equal, for an average level of *minority participation*, and compared to film directors who never shot an art house films, the estimated marginal change in *alternative conformity* is about 1/3 and 2/3 lower when film directors have directed 5 and 10 art house films respectively.

Figure 5 – Marginal Effect of Minority participation on Alternative conformity conditional on Logic Adherence



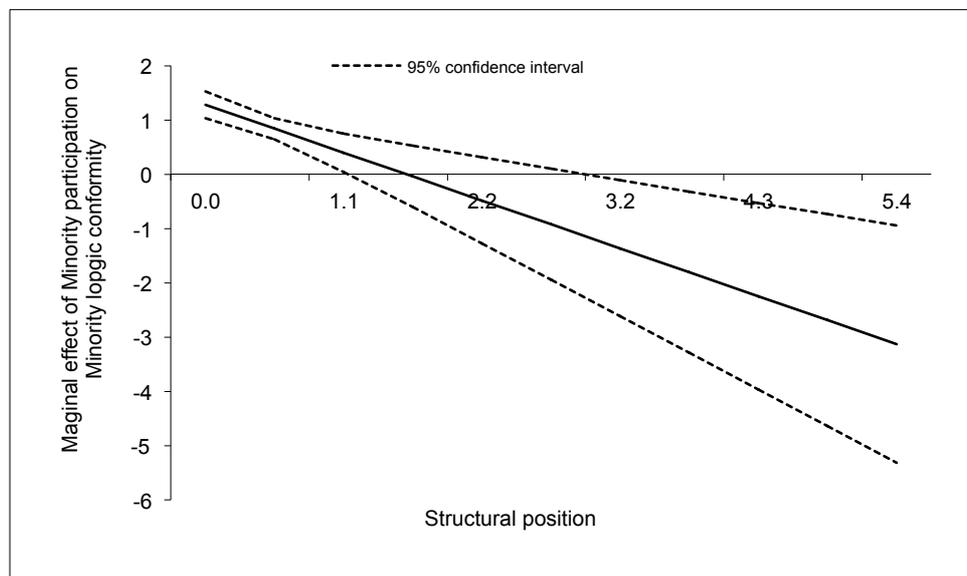
There is a concern that the findings of Model 4 may be related to the general experience of film directors, rather than their prior involvement with the dominant

logic. To guard against this alternative explanation, we ran the same model replacing *logic adherence* by *experience*, a count variable of all the director's previous films. In Model 5, which presents this test, the estimated coefficient of the interaction is far from significant. Graphically too (unreported), the marginal effect of *minority participation* on *alternative conformity* appears not to vary much with respect to *experience*, reinforcing our confidence that *logic adherence* rather than general experience drive the results of Model 4, in line with hypothesis 2.

We introduce the direct and moderating effects of *structural position* in Model 6 (after having tested them separately). The direct effect of *structural position* is positive, suggesting that film-making organizations financed by Soficas occupying a central position in the network of resource suppliers have broader releases than those financed by more peripheral funds; this finding is in line with classical network arguments that see centrality primarily as a vector of influence (e.g., Borgatti, 2005). Hypothesis 3 suggests that Soficas' centrality will reduce the association between *minority participation* and *alternative conformity*; we find that the estimated coefficient of the interaction term is negative (-.962) and significant at the 0.1% level. However, an inspection of the tests reveals that one of the instruments in Model 6 is not exogenous (p-value of the Difference-in-Sargan statistic=.0202) and that the interaction term *minority participation x structural position* is not endogenous to the equation (p-value of the Durbin component of the Durbin-Wu-Hausman test=.5765). Accordingly, and to confirm the results, we estimated Model 7, in which the interaction term associated to *structural position* is treated as exogenous. The coefficient estimate of the interaction term appears in the same range and equally significant (-.882, p-value=.000), confirming the results of Model 6 and adding

support to Hypothesis 3²⁴. All the instruments of Model 7 are exogenous. The graphical representation (**Figure 6**) allows a closer analysis of the marginal effect of *minority participation* on *alternative conformity* conditional on *structural position*. Consistent with Hypothesis 3, we observe a strong effect of Soficas' *structural position* on the relationship of interest. The marginal effect is positive and significant at low normalized degree centrality values (below 1.1), becomes non significant at medium values, and even turns negative at higher values (above a degree centrality of 3), which seems to indicate that (in line with Hypothesis 3) the socialization of Soficas in the overall resource network strongly reduces film-makers' propensity to respond to their participation by conforming to their minority logic.

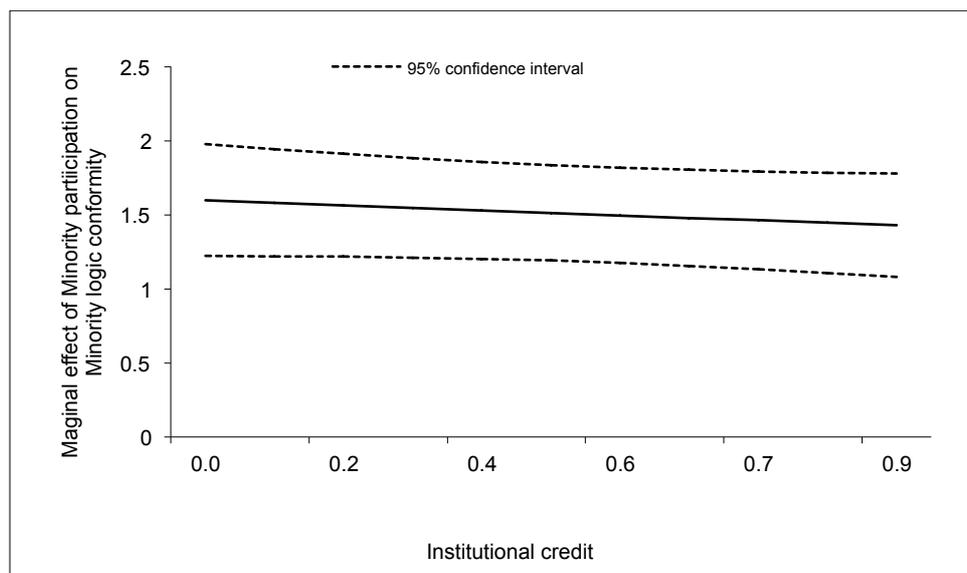
Figure 6 – Marginal Effect of Minority participation on Alternative conformity conditional on Structural position



²⁴ An anonymous reviewer raised concerns that, as both *minority participation* and *structural position* have both strongly positive direct effects, this result might be related to the bounded nature of the dependent variable. Although such bias appears unlikely as no film in the sample occupies more 20% of screens, we tested for this possibility in unreported models. First, we added a dummy variable to control for films released on an *exceptional scale* (over 800 prints). As it appeared not significant, we created another dummy variable for films released on a *large scale* (over half the maximum number of prints in the sample). Again, the variable failed to reach statistical significance. Furthermore, when exceptional and large-scale observations are dropped from the analysis, the moderating effect of *structural position* remains negative and highly significant.

Finally, Model 8 adds the direct and moderating effects of *institutional credit*. The direct effect is positive and significant, suggesting that, as the involvement of Soficas becomes more common, conformity to the market finance logic is increasingly likely. The coefficients of the two other moderating effects remain consistent with the previous models' results. Of particular interest, the interaction coefficient of *institutional credit* on *minority participation* is negative and marginally significant (p-value=.097), giving support to Hypothesis 4. **Figure 7** shows the moderating effect of *institutional credit* on the relationship between *minority participation* and *alternative conformity*: the marginal effect recedes as institutional credit increases, although the slope is not as pronounced as for the other two moderators. Overall, we find strong support for our set of hypotheses. Concretely, when considered in combination, a 10% simultaneous increase in *logic adherence*, *structural position* and *institutional credit* relative to their average values would lower the estimated number of prints for an average Sofica-financed film by about 55%.

Figure 7 – Marginal Effect of Minority participation on Alternative conformity conditional on Institutional Credit



Our measure of conformity captures the breadth of a film's theatrical release (i.e.,

number of prints made available for its opening) under the assumption that blitz-like releases translate into higher first week revenues and thus appeal to the market finance logic of Soficas. To confirm this, and as an additional robustness check, we ran a series of additional models using the natural log of *first week box office* admissions as a measure of the effect of alternative conformity: as expected, the measure has a strong but not perfect correlation with *alternative conformity* (.782, p-value=.000). Overall, the estimation results presented in Table 3 confirm the robustness of the patterns found in Models 1-8. Estimated by OLS, model 9 introduces control variables and Model 10 adds minority participation. Model 11 confirms the positive and significant effect of *minority participation* on *first week box office* when endogeneity is accounted for, adding support to Hypothesis 1. For the average film financed by Soficas, a 10% increase in Sofica investment (+€49,500) is associated with 10,243 additional admissions in the opening week, adding about €56,334 in gross box office over one week (with an average ticket price at €5.5). Without Sofica money, the estimated opening revenues (all else being equal) would be cut by more than two thirds. The negative and significant moderating effects of *logic adherence* and Sofica's *structural position* on the main effect are corroborated in Models 12 and 13, in line with Hypotheses 2 and 3. The moderating effect of *institutional credit* is negative as expected, but fails to reach statistical significance in the full Model 14.

7 DISCUSSION AND CONCLUSION

In contrast to prior works which have emphasized how powerful external actors control critical material or symbolic resources, our theory of alternative conformity draws attention to the unexplored role of minority logic holders. Sofica investment

funds, despite being marginal players in the French film industry from both institutional and resource standpoints, played a significant role in modifying film-makers' release decisions. The more financially involved Soficas became in film production, the more the film-makers with whom they interacted adopted release policies that departed from the established industry logic, a finding that cannot be explained by resource dependence and institutional views that conceive conformity either as a *control* mechanism or as *obedience* to the constraints imposed by dominant players and audiences.

To us, alternative conformity is a *soft-control strategy*, i.e. a strategic behavior that changes how dominant providers exert and impose their interests on organizations, but does so indirectly and progressively. By accepting minority participation, organizations secure secondary resource supply, alter the social structure (centrality) of dominant players, and promote distinct theories of action in the industry. In return, they adjust their behavior in conformity with their suppliers' minority logic. While the industry remained dominated by incumbent film investors promoting the institutional *status quo* as some film-makers chose to conform to the Sofica's market finance logic, dependence on traditional film investors eased and more market-oriented actions gained ground. Deviation from the dominant logic was gradual and moderate (see Model 3), took place at the organizational level, and as a result did not elicit a massive reaction from dominant players. Alternative conformity is conditional on the context of the exchange. In case of minority participation, film-makers' awareness and willingness to conform to minority logic holders' demands depend on the film-maker's previous level of adherence to the dominant logic, the centrality of the suppliers in the resource supply network, and to a lesser extent the institutional credit

garnered by the minority logic. All these factors are directly and positively related to the breadth of a film's theatrical release but moderate negatively the main relationship between minority participation and alternative conformity.

7.1 Contributions to the Resource Dependence Perspective

Studies following the resource dependence perspective have mostly regarded organizations' responses to external constraints as direct reactions against the industry-level pressures from resource providers in a mono-logic context. As Hillman et al. (2009) stress, resource dependence theory has not yet specified which dependencies take precedence over time where multiple suppliers with distinct logics are involved. We answer this call in this study. Organizations' struggle for autonomy and control, at the heart of the resource dependence perspective, must be recast in situations where distinct resource suppliers attempt to enforce more or less conflicting logic-based demands. At the organization-resource supplier level, coexistence of dominant and minority logic holders opens up alternative conformity opportunities for organizations, a point that has largely been ignored in past research.

So by varying their levels of conformity to minority resource suppliers, organizations can loosen dominant players' hold, favor minority players' socialization, and promote alternative logics; hence, they gain control and autonomy over established resource holders. Alternative conformity help build mutual dependence (Casciaro & Piskorski, 2005): organizations depend on resource suppliers, but resource suppliers (in particular minority players) need tokens of conformity from organizations if they aim to survive and introduce and maintain their logic in the industry. Our study avoids the ecological fallacy of previous resource-dependence studies by revealing the dynamics of alternative conformity at the organizational level, dynamics that would not be as

apparent at the industry level (Davis & Cobb, 2010). Our study encourages also researchers to consider resource dependence from a perspective where conformity is not just proportional to the relative ‘magnitude of the exchange’ with each supplier (Pfeffer & Salancik, 1978: 46) but accounts for the context and characteristics of the parties involved in the exchange. In multiple logic contexts, research on resource dependence needs to integrate the direct *and* indirect control mechanisms used by organizations to attenuate dominant resource suppliers’ hegemony.

7.2 *Contributions to Neo-institutional Theory*

Resource dependency and institutional logics cannot be assumed to be fixed facts external to the resource relationship context, but should be conceived as social choices that are maintained through actors’ enactment. The challenge for institutional scholars today is to shed light on what mechanisms generate and maintain institutional plurality without assuming a shift in logic dominance is necessary (Kraatz & Block, 2008; Murray, 2010). With this in mind, our study complements recent work in at least two ways.

First, many studies about institutional plurality ignore the material engagements involved in conformity, focusing instead on changes in rationalities, discourses, practices and identities. Echoing the original spirit of neo-institutionalism, which stressed the formal and costly modifications organizations may have to undertake to accommodate legitimacy granting institutional actors (Meyer & Rowan, 1977; Tolbert & Zucker, 1997), we show clearly that conformity implies material engagements: our case indicates that without Soficas’ investments, the release policy of the average film would differ substantially –71 copies instead of 166 on average. So there can be significant modifications in behavior according to a logic, but without implying

dominance on the part of this logic and its industry-level holders.

Second, several studies document how individuals and organizations make sense of the constraints involved in the confrontation with plural logics by creating hybrid structures (Murray 2010) or by reframing their identities (e.g., Battilana & Dorado, 2010; Lok, 2010). Our study changes the focus to the organization-resource supplier level: it sees institutional plurality as an opportunity to challenge institutional orders and generate new mutual organization/supplier dependencies. It illustrates the subtle dynamics of concrete institutional evolution that take place in situation of exchange between minority participation and alternative conformity. Despite being minority suppliers both at the organizational and industry levels, Soficas' influence, among many others undoubtedly, was effective. Over our period of study, the proportion of films that earned more than 40% of their admissions in their opening week increased from less than a third of the production slate in 1994 (31%) to two thirds in 2008 (67%).

Our study is not without limitations, the most obvious of which concerns the external validity of our findings. Although the film industry has received some management literature attention, prior studies have mostly built on North American data. While looking at the French film production industry allows us to examine how the market finance logic penetrated a setting where non-market culture and institutions were strongly established, it still faces the shortcomings of any national study. Second, our context meant we could only study the supply of one critical resource by two distinct logic holders, so the sensitivity of our results to more complex situations needs to be tested. What happens when the two suppliers are not complementary but act as

substitutes? Or when two distinct resource holders supply two distinct resources? Or when there are more than two logics, with a varying degree of compatibility between them, or when the influence of a new logic grows to the point where it supplants a previously dominant one? These questions are not addressed in this paper, which sought rather to establish the presence and conditions of alternative conformity. Nevertheless, we expect the theory we have developed here to be applicable to other industry settings where minority logics exist and to offer an adjustable baseline for different scenarios. For instance, to confirm our results, future research could investigate the entrance of new organizations mandated by the State to allocate bailout resources to industries in crisis, maintaining the hegemony of market institutions but dramatically modifying concrete practices. Or one may look at situations where a plurality of logics imposes changing demands on agents – as with responsible investment and sustainable development. In sum, we argue that the influence of minority logic holders cannot be fully captured by looking simply at their feebler resource supply or institutional unconventionality. Looking closely at the exchanges in terms of the resources they provide to organizations and the material responses they receive from these organizations reveals that alternative conformity is a soft control strategy that contributes to alter actions concretely and tinker institutional orders without overthrowing dominant players.

CHAPTER 4

INSTITUTIONAL CAPITAL REVISITED: POSITION IN THE LOGICS SPACE AND SURVIVAL

1 INTRODUCTION

Institutional capital has been defined as “the context surrounding resources and resource strategies that enhances or inhibits the optimal use of valued resource capital” (Oliver, 1997: 709). The main idea was to explore the social context in which resource decisions are made and highlight cultural and institutional factors influencing how resources are selected, and thus contribute to explain why firms fail to make rational choices when pursuing economic rent. The model predicts that the normative rationality of managers and personnel, the compatibility of firm-level norms and culture with institutional demands, and the strength of isomorphic pressures at the interfirm level affect resource selection. In combination, these factors determine institutional capital, which in turn affects a firm’s ability to pursue a sustainable advantage.

A review of the management and strategy literature shows that, despite its theoretical appeal, the concept of institutional capital has not caught much attention in the discipline. One possible reason may be that, as Oliver (1997:706) points out, the two theoretical perspective she attempts to combine have different focuses: the resource-based view of the firm emphasizes firm-level heterogeneity, whereas early works in new institutional analysis are mostly concerned with what makes firms similar (DiMaggio & Powell, 1983; Scott, 1987). As a result, the validity of the proposed theory is challenged by a logical paradox and an ontological incompatibility.

Logically, how can institutional pressures toward homogenization contribute to explain sustainable firm heterogeneity? If firms are subject to industry-wide isomorphic pressures, institution based firm-differences are at best temporary, and cannot contribute to a sustainable advantage. Equally serious is the incommensurability of ontological assumptions across theoretical perspectives: whereas early studies in new institutional analysis depict firms *subject* to powerful external constraints, the resource-based view portrays *actors* engaged in a strategic search for key resources and capabilities.

Nearly fifteen years later though, the two research streams – once on opposite sides of the under-socialized / over-socialized debate in social sciences (Granovetter, 1985) – have made steps in each other’s direction. In line with early theoretical propositions on the “dominant logic” of the firm (Bettis & Prahalad, 1995; Prahalad & Bettis, 1986), strategy researchers have explored the importance of normative and cognitive factors in explaining strategic outcomes. Building on the work of Porac, Thomas and Badden-Fuller (1989), the relationship between cognition and strategy has been thoroughly explored both theoretically and empirically (for an overview see Kaplan, 2011): rivalry is not solely viewed as dependent on economic factors, but is regarded as shaped by social constructions such as markets and categories. The distribution of attention to specific issues and answers within firms is determined by internalized ‘rules of the game’ that define which strategic actions are thinkable, or not (Ocasio, 1997: 519). Such rules are embedded in institutionalized professional norms that define the appropriateness of strategic actions (Jonsson & Regnér, 2009). While strategy scholars were exploring the influence of institutionalized rules and understandings, institutional theorists were moving away from a view of firms as

‘cultural dope’ toward a greater appreciation of the role agents play in shaping the social structure (Powell & Colyvas, 2008). This trend has been exemplified by the research on institutional entrepreneurs (Battilana, Leca, & Boxenbaum, 2009) who attempt to change institutions. Although this line of research has still to fully address the question of ‘embedded agency’— i.e., how can decision-makers emancipate themselves from the institutions there are embedded in (Seo & W. E.D Creed, 2002) – recent works on institutional works have begun to tackle this issue (e.g., Zietsma & Lawrence, 2010). Overall, theoretical developments in both the strategy and the institutional literature have contributed to make the two perspectives more compatible from an ontological standpoint, and open a window of opportunity to reexamine the concept of institutional capital.

To escape the logical paradox described above (i.e., explain firm heterogeneity by looking at homogenizing forces), I focus on cases where several institutional logics co-exist within the boundaries of an industry (Dunn and Jones 2010; Kraatz and Block 2008), and explicitly consider how institutional plurality may shape a firm’s institutional capital. More specifically, I argue that, when pressures for conformity are not uniform but remain persistently heterogeneous and firms have some room to address them (Oliver, 1991; Schneiberg & Clemens, 2006), firm-level differences may arise as a result of the relative position firms occupy in the institutional space. The goal of this paper is to investigate whether, and why, such differences may give rise to sustained firm-level differences, affecting their chances of survival. I begin by outlining a definition of institutional capital in a dual logic setting, and investigate two dimensions of institutional capital that may affect firms’ chances to thrive and eventually survive: accreditation purity and affiliation purity. I use empirical evidence

from the film production industry in France to test the model and find strong support for the hypothesized relationships. I conclude by discussing the theoretical contributions and limitations of this study.

2 INSTITUTIONAL CAPITAL

2.1 *Original formulations*

Oliver (1997) introduced the concept of institutional capital in an effort to combine the resource-based view of the firm (Barney, 1986; Wernerfelt, 1984) with insights from the new institutional theory. The argument was that sustainable firm heterogeneity may not only result from the properties of the resources firms hold (e.g., valuable, rare, imperfectly imitable, and non-substitutable), but may also be related to the social context in which these resources are embedded, such as firm traditions, networks ties or regulatory pressures. More precisely, Oliver suggests that the social context affects how firms select and develop resources by shaping the normative rationality of agents, and by creating isolating mechanisms that inhibit resource optimization at the firm level. At the interfirm level, she predicts that pressures toward homogeneity tend to reduce the effects of resource difference on firm heterogeneity. Whereas the resource-base view of the firm assumes that imperfections in factor choices arise from uncertainty, information limitation and heuristic biases (Amit & Schoemaker, 1993), the emphasis here is on how norms, traditions, and firms' cultural and political contexts may lead to economically suboptimal choices. In Oliver's view, institutional pressures thus *constrain* both resource selection and resource accumulation, as norms and traditions impose social and psychological costs on firms (cognitive sunk costs) and prevent them from appropriately exploiting economic rents. The concept of institutional capital is

proposed to capture the level such constraints impose on firms: institutional capital is “the firm’s capability to support value enhancing assets and competencies”(Oliver, 1997: 709), complementing resource capital as a source of competitive advantage.

While institutional theory has become central in organization theory (Boxenbaum & Rouleau, 2011; Davis, 2010), it is notable that the concept of institutional capital has remained mostly ignored in the strategy and management literature. A search in J-Stor reveals that the term has only reappeared four times in major publications since 1997 (see **Table 12**). Institutional capital was applied to characterize entrepreneurs and multinational corporations along two distinct dimensions. Hoskisson, Eden, Lau and Wright (2000: 256) see institutional capital as a country-specific attribute: firms have institutional capital when they operate in countries where institutions enable them to build a competitive advantage. This view resonates with the perspective of new institutional economists who see institutional capital in contexts where (formal) institutional arrangements *enable* agents. Hardin (1999: 178), for instance, sees as a source of institutional capital the legal institutions that stand behind contracting and enable agents to enter into exchanges that would be prohibitively risky without legal enforcement of relevant obligations. By contrast, other studies relate institutional capital to the familiarity firms have with the prevailing institutions, and to their skills at expressing conformity with the norms, values and symbols embedded in such institutions. Lounsbury and Glynn (2001: 559) describe the ability of entrepreneurs to assess, in their institutional context, the credibility of the story they tell investors as a form of institutional capital. Pollock and Rindova (2003: 632) apply a similar argument to characterize firms’ ability to manage media coverage during an initial public offering. A related idea underlies Wu and Shenkar’s (2002: 615) suggestion

that MNE's ability to derive an advantage from institutional distance (i.e., the dissimilarity in institutions across countries) relates to institutional capital. In these studies, institutional capital is associated with the actor's – individual or firm – acquisition of *and* affinity for prevailing institutions, two attributes which in turn have the potential to contribute to a form of competitive advantage. This perspective is consistent with Lin's (Lin, 2002: 110) suggestion that institutional capital is significant for both organizations and individuals “as they attempt to match and interact with the larger society prevailing values and practices”. Applying this idea to Chinese society, Lin (Lin, 2002: 193) posits that institutional capital has to do with actors' sociocultural knowledge and skills of how to perform institutional tasks.

Table 12 – Institutional Capital in the Management and Strategy Literature²⁵

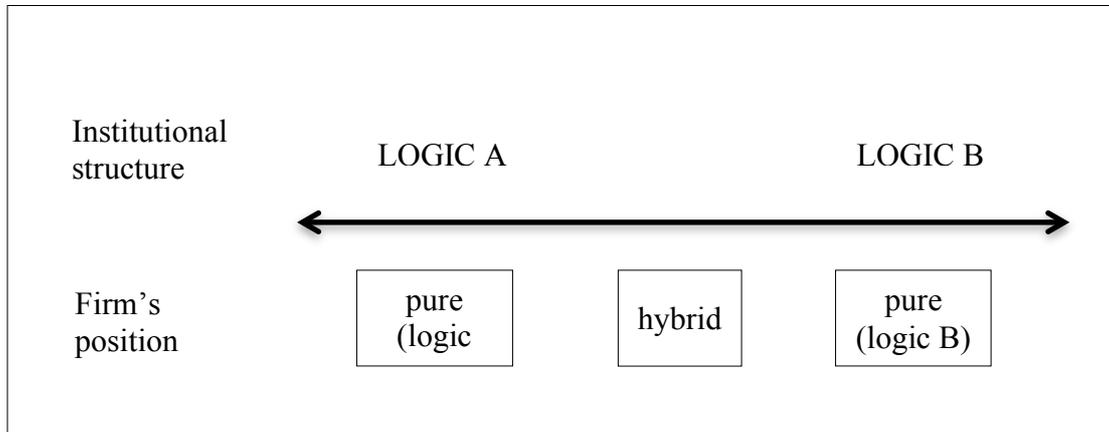
Reference	Publication	Quotes
Oliver (1997:709)	SMJ	“Institutional capital can be defined as the firm’s capability to support value-enhancing assets and competencies. Institutional capital is the context surrounding resources and resource strategies that enhances or inhibits the optimal use of valued resource capital”
Lounsbury and Glynn (2001:559)	SMJ	“Entrepreneurs must also be skilled in assessing what the broader institutional environment establishes as appropriate or credible. (...) stories [told by entrepreneurs] are shaped by institutional capital”
Xu and Shankar (2002:615)	AMJ	MNE’s “competitive advantage (is) derived from the ability to exploit the uneven distribution of resources and institutional capital”
Pollock and Rindova (2003:632)	AMJ	“Lounsbury and Glynn (2001) highlighted the importance of such research by arguing that while positive media coverage of an industry as a whole provides generalized ‘institutional capital’ on which entrepreneurs in the industry can draw”
Hoskisson, Eden, Lau and Wright (2000:256)	AMJ	“Oliver (1997) analyzed the issue of a firm’s sustainable advantage in terms of resource-based and institutional factors and suggested that firms are able to create or develop institutional capital to enhance optimal use of resources”

2.2 *A definition of firm’s institutional capital in a dual-logic industry*

I apply these ideas to firms competing in dual-logic industries. To this purpose, I draw on recent theoretical and empirical works that conceive of industries as arenas where several institutional logics coexist and sometimes conflict (Dunn & Jones, 2010; Lounsbury, 2007; Marquis & Lounsbury, 2007; Schneiberg, 2007). In this perspective, logics are not only viewed as sources of constraint but also as resources firms can draw upon (Friedland & Alford, 1991; Thornton & Ocasio, 1999).

²⁵ The publications searched are the Academy of Management Journal (AMJ), the Academy of Management Review (AMR), Administrative Science Quarterly (ASQ), Organization Science (OS), and the Strategic Management Journal (SMJ) in J-Store database, as of January 10, 2011. In total, 11 occurrences were found. Two content summaries, one article where institutional capital is only stated in the title of a reference (Boyd and Bresser, 2008, citing Bresser and Millonig, 2003), and one article where institutional capital is the capital provided by institutional investors (Zhara, Ireland, Gutierrez and Hill, 2000:517).

Paralleling Burt's (2004: 351) definition of social capital, I propose that institutional capital exists where firms have an advantage because of their relative location in the institutional structure. By institutional structure, I intend the historically built and socially constructed space resulting from the distinct institutional logics competing in a given industry, and according to which firms can be positioned. This position is assumed to be continuous on logic-based dimensions, and should be conceived in relative rather than absolute terms – i.e., institutional logics reflect ideal-types such that no individual firm fully embodies one logic (Thornton, 2004). For the sake of clarity, I focus on the case of industries where two logics coexist in an industry (e.g., science and education, art and commerce, professional standards and market). In a such a dual-logic setting, I postulate that any firm *i* competing in the industry can be positioned in the institutional structure according to the extent to which *i* instantiates one of the two logics. Accordingly, *i* can be situated on a continuum that goes from full adherence to one logic to full adherence to the other logic (see **Figure 8**). Whereas extreme positions denote *logic purity* (in one of the two logics), firms attempting to reconcile the two logics in the way they are organized and operate – *logic hybrids* (Battilana & Dorado, 2010) - occupy intermediary positions. To the extent that logics are 'available to individuals and organizations as bases for action' (Friedland & Alford, 1991: 253), the relative position a firm *i* occupies at a given point in time in institutional structure may be a source of firm heterogeneity and constitute a base for firm *i*'s institutional capital. Generally speaking thus, firm A has higher institutional capital than firm B if its relative position in the institutional structure 1) provides A with an advantage over B, and 2) this advantage is durable – all else being equal.

Figure 8 – Firms Relative Position in a Dual-Logic Institutional Space

2.3 *Institutional capital vs. resource capital and social capital*

An important issue relates to the discriminant validity of the concept of institutional capital, relative other kinds of capital such as resource capital and social capital. The main attributes of resource capital, social capital, and institutional capital are compared in **Table 13**.

Table 13 – Three Types of Firm-Level Capital

	Resource capital	Social capital	Institutional capital
Basis for capital	Firm’s control of VRIN resources	Firm’s position in the industry network of ties	Firm’s position in the industry institutional structure
Source of heterogeneity	Imperfections in the resource market	Uneven distribution of information and control in the network	Variations in affinity for and mastery of norms, values and beliefs
Scope of analysis	Firm	Network of ties	Audience logics
Relevant period of analysis	Time t	Recent years	Firm’s life
Acquisition of capital	Acquisition and development of resources	Formation and severance of ties	Demonstrations of deference to logics and affiliations
Inertia in stock of capital	Low inertia (due to time compression diseconomies)	Low inertia for structural holes Mid-level inertia for closure	High inertia
Exogenous threats	Resource obsolescence (e.g., radical technological shift)	Disruption in network structure	Change in audience structure

Resource capital and social capital have been extensively studied, and their definitions and properties are well known, although still debated. The term capital denotes here a durable but not necessarily tangible asset available to a firm and that contributes to sustainable competitive advantage. As emphasized by the resource-based view of the firm (RBV), a firm’s resource capital relates to its set of valuable, rare, inimitable and non-substitutable resources and the capabilities to configure these resources appropriately in response to changes in the environment (for a review see Newbert, 2007, 2008). Heterogeneity in resource capital results from imperfections in the markets for resources and the imperfectly mobility of resources, which make the distribution of resources uneven in a population firm. Whereas resources can be found within the boundaries of the firm, social capital, a central concept of the emerging theory of social networks (Borgatti, Mehra, Brass, & Labianca, 2009), is a product of

the structural position of the firm in a network of ties: it inheres in the set of relationships the firm has – or has had – with other individuals and organizations (Coleman, 1988: S98). Social capital materializes in the form of information and control advantages benefiting firms in given network positions (R. S. Burt, 2001; Granovetter, 1973), and also in status-signaling cues carried out by apparent ties to more or less prominent firms (Bitektine, 2011; Podolny, 2005; Washington & Zajac, 2005). By contrast, institutional capital is not directly related to what the firm owns and controls, or to whom the firm is tied to. Rather, it results from the position the firm occupies with regards to the logics existing in broader environments, such as the industries the firm operates in. Much like social capital, institutional capital is intangible in essence, but unlike social capital, it has more to do with the past trajectory of the firm than with its recent and current actions²⁶.

Several clarifications are in order. First, it is important to note that the position of the firm in the institutional structure has two interrelated but distinct dimensions. Within the firm, logics shape the way firms' managers perceive and act upon the competitive environment, choose issues to attend to, and select appropriate responses within a repertoire of available solutions (Ocasio, 1997). Externally, the logics instantiated by the firm influences the way others actors, such as other firms and relevant audiences, perceive the firm: logics shape expectations about social identities (Lok, 2010), and also form the bedrock upon which status orderings develop (Lounsbury, 2002; Zhou, 2005). Second, institutional capital is likely to be stickier than resource and social capital. Whereas the firm can make the decision to acquire or divest resources in the short term, and may invest in social capital by forming new ties and letting older ones

²⁶ Although networks have a “memory”, the effects of past network positions are likely to fade away after a few years (Soda, Usai, & Zaheer, 2004).

dissolve, institutional capital is highly dependent on an historical trajectory, i.e. it is strongly path dependent. Specifically, the position of a firm in the institutional space is often strongly influenced by the prevalent institutions at the time and place of its foundation. Testing Stinchcombe's imprinting hypothesis (1965) in the U.S. banking industry, Marquis and Huang (2010) found that founding institutions – the banking policy and the political culture of the State at the time the banks were created – had lasting effects on their behaviors, even long after environmental conditions had changed. Both internal attention-focusing processes and external perceptions are subject to strong inertial forces, such that firms' actions may take time before translating into changes in actual institutional position. Compared to other forms of capital, institutional capital is thus likely to be subject to more severe time compression diseconomies: quick changes in position within the institutional space may be very costly, if not impossible (Dierickx & Cool, 1989). It must not be inferred though that firms have no control over their stock of institutional capital. I here adopt the view that logics, as cultural elements underlying firm actions, are parts of a "tool kit" (Swidler, 1986). As such, and to the extent that alternative logics are available, firms are assumed to have some ability to position themselves in the institutional structure, although this ability is likely to be limited by their embeddedness in a set of institutions (Holm, 1995; Seo & W. E.D Creed, 2002). Changes in a firm's stock of institutional capital are thus expected to be gradual as radical shifts may be neither thinkable nor legitimate. Third, institutional capital may be impacted by factors that are not under the control of the firm, in the same way resources can become obsolete as a result of a radical technical innovation or social capital can vanish as the structure of the network evolves. The advantages (or disadvantages) a firm enjoys (or suffers) from its position in the institutional structure are in part attributed by the members of

the audience, that is the set of individuals and organizations with control over material and symbolic resources that are key for the firm's survival or success (Hsu & Hannan, 2005; Zuckerman, 1999). As a result, a change in the composition of the audience affects a firm's stock of institutional capital, independently of the firm's actions. In sum, whereas resource capital is a property of the firm and social capital inheres in the structure of the firm's dyadic relationships, institutional capital relates to the firm's knowledge of and compliance to the expectations of industry audiences.

3 FIRMS' INSTITUTIONAL CAPITAL AND SURVIVAL

To what extent may a firm's relative position in a dual-logic institutional structure affect its chances at surviving? Barnett (1997: 138) argues that the ability to conform to institutional expectations and rules provides large organizations with an avenue to survival unrelated to its technical fitness – a mechanism referred to as 'compensatory fitness'. While size has been found to be a significant predictor of survival, firms of similar size may vary in their ability to accommodate institutional demands, and may thus benefit from different levels of compensatory fitness. In an industry where two logics coexist, a firm's offer in the market can demonstrate differing degrees of affinity with each logic: from clear instantiation of one logic to straddling across logic boundaries. Logic-pure firms instantiate one logic only, at the exclusion of the other logic present in the industry, and are recognized as such by audience members. By contrast, logic-hybrid firms blend the two logics (Mars & Lounsbury, 2009; Murray, 2010). For instance, Battilana and Dorado (2010) document how two commercial microfinance organizations in Bolivia attempted to combine development and banking institutional logics by forging an organizational identity striking a balance between the two logics.

The relative position of a firm in the logic space (i.e., pure vs. hybrid) may affect its ability to survive through three distinct dimensions: social identity and categorization, status orderings, and attention (Thornton & Ocasio, 2008). First, logic-pure firms are likely to have a clearer identity than logic hybrids. A focused identity provides an advantage as audience members – individual and organizations who control material and symbolic resources that are key for the firm’s success and survival (Hsu & Hannan, 2005) – can more easily understand what the firm is offering. On the contrary hybrid firms may suffer from a lack of attention, as audiences struggle to make sense of the firm’s activity (Zuckerman, 1999; Zuckerman, Kim, Ukanwa, & Von Rittmann, 2003). As a consequence, hybrids may experience pressures for purity (Zuckerman & Kim, 2003), which could create instability and increase risks of failure. As logics underlie categorization schemes, firms demonstrating a high level of logic purity are also more likely to align with known categories than hybrids which may occupy multiple categories, incurring risks of social sanctions (Hsu, Hannan, & Koçak, 2009; Zuckerman, 1999). Internally, it may be difficult for hybrids to strike a balance between the competing expectations of different audiences. Compared to a pure identity, a hybrid social identity may create tensions between individuals and groups that may have different affinities for logics, due to their background and preferences, increasing risks of internal conflicts (Battilana & Dorado, 2010). Second, as logics form the bedrock upon which status ordering are built (Lounsbury, 2002), pure firms may have greater chances of attaining a high status in the industry as they are recognized and supported by the tenants of the logic they instantiate. To the extent that status is an indication of unobservable quality (Podolny, 1993), logic purity is likely to contribute to status, as pure firms are more likely to be favorably evaluated

by peers that understand what they do and view their activity as legitimate. On the contrary hybrids may have to address the expectations of two audiences, which is likely to be more difficult (Hsu et al., 2009). As status provide firms with both economic advantages (Benjamin & Podolny, 1999) and social privileges (Washington & Zajac, 2005), logic purity may reduce risks of failure. Third, logics shape how firms understand their competitive environments and how they select issues to attend and potential solutions (Ocasio, 1997; Thornton & Ocasio, 1999). Logic pure firms can focus on known sets of issues and draw on established repertoires of solutions. They can thus rely on stable routines, whereas hybrid firms have to attend to more various issues (relevant issues are likely to differ across institutional logics) and are likely to face more ambiguity when selecting appropriate solutions. However, while a focused attention may help the firm survive, it may also have some drawbacks. Pushed to its limit, purity may prevent firms from perceiving and understanding changes in the industry and limit the range of thinkable solutions to adapt to new environments. Some hybridity may develop abilities at dealing with new problems and at devising appropriate solutions. Also, hybrid firms address a broader audience in the industry, and may thus tap into a larger pool of resources, including key material resources (e.g., financing). Accordingly, while logic hybrid firms are likely to face higher chances of failure than logic pure firms, I expect the relationship between offer purity and firm mortality to be curvilinear. Hence, the two following proposition:

Proposition. In a dual-logic industry, the position a firm occupies in the institutional structure has a significant effect on the firm's chances to fail, independently of the firm's resource capital and social capital: logic purity

has a curvilinear (U-shaped) relationship with the likelihood of failure such that purity will decrease risks of failure, but only up to a certain threshold.

4 AN EMPIRICAL TEST: INSTITUTIONAL CAPITAL IN THE FRENCH FILM INDUSTRY

4.1 Data

I study the relationship between institutional capital and firm survival in the population of film production companies in France from 1994 to 2008. As a cultural industry, the French film production industry offers a compelling case of arena where two institutional logics compete: a market logic on which the industry initially developed at the end of the 19th century, and an artistic logic that became progressively institutionalized throughout the 20th century (Baumann, 2001). The artistic logic is epitomized in France by the Nouvelle Vague movement, which has put forth the central figure of the director-author, and has been supported by the State's cultural policy since WWII (see Chapter 2).

Thanks to the high reporting demands imposed on film producers in France, I was able to examine the activity of the full set of companies involved in film production during the period. By law, producers are mandated to file a copy of all contracts relating to film financing and production with the Public Film Register (RPCA). From this database, I extracted the 17,707 RPCA contracts categorized as either production, coproduction or association to production, and related to films produced in France during the period under investigation. Through the contracts, I was able to exhaustively trace firms' involvement in film projects during the period and construct an affiliation network of interorganizational ties (firms are tied when they are jointly

involve in a contract). For social capital measure, I adopt a moving-window approach (Soda, Usai, & Zaheer, 2004), following the assumption that ties in the film production industry remain active during 3 years (Cattani et al., 2008). Additional data on the French theatrical film market comes from the professional database *Ciné Box Office*, and was complemented with data from the trade journal *Le Film Français*. The list of Art & Essai accredited films was collected through the AFCAE's website²⁷. The final dataset includes data on 2,340 firms, involved in 2,495 different feature films²⁸.

4.2 Variables

Dependent variable

The dependent variable is the hazard rate of film production firms. For the purpose of the survival analysis, firms appear in the risk set at the date of signature of their first contract. Left-censoring should not be a major issue as the dataset includes the exhaustive set of contracts for the films produced between 1994 and 2008, including the contracts signed in prior period. Through the contracts, I trace firms' offers and affiliations throughout their lifetime. Consistent with prior studies of the industry (Cattani et al., 2008), I make the assumption that firms that are inactive for 3 consecutive years have exited the industry; as film companies are highly specialized and rarely engage in mergers and acquisitions, the main cause of exit is likely to be failure. Firms that are still active in the last 3 years of observations are assumed to have survived until the end of the period, and are coded as right-censored.

Independent variables: Institutional capital

²⁷ <http://www.art-et-essai.org>

²⁸ As a robustness check, the models were run on the subset of firms that were involved in two and more projects. Results are similar.

Lin (2002) suggests that actors can manifest their affinity for a set of institutions and skills at addressing institutional expectations in two ways. First, individual and organizations can *demonstrate* their knowledge and mastery of a given institutional logic through accreditations or credentials. At the firm level, the extent to which the products the firms offers in the market comply logic gatekeepers' expectations (e.g., analysts, critics, reviewers) may be an important component of a firm's institutional capital. Second, actors can *affiliate* with organizations that signal where they stand in the institutional structure. Likewise, a firm's stakeholders, competitors, and audience members may rely on affiliations to assess a firm's knowledge and mastery of institutional tasks, which may not be fully observable. As firms are constantly monitoring each other in the market (White, 1981), not only linkages with prominent organizations may affect survival chances (Baum & Oliver, 1991), but the full set of ties that are visible to other industry participants may be used as cues to assess logic purity. Accordingly, the extent to which a firm consistently partners with alters holding a similar level of purity, may also constitute a critical component of a firm's institutional capital. To test the proposed curvilinear effect of logic purity, I add the quadratic term *accreditation purity squared*.

Accreditation-based institutional capital. Consistent with the argument that institutional capital can be captured through accreditations, I use the Association of French Art House Theatres' (AFCAE) 'Art & Essai' accreditation to identify the position of firms in the institutional space of the industry. Dating back to the Nouvelle Vague movement, the AFCAE is the voice of the artistic logic gatekeepers in the industry (critics, directors, and art house exhibitors). The Art & Essai accreditation was established to distinguish films that are recognized as artistically ambitious and

contribute to cultural diversity. The AFCAE accreditation committee reviews all the films released in the market and selects films that are deemed to contribute to ‘research and novelty in cinematographic creation’. In the French context, and in contrast with Hollywood, such films do not belong to a niche market: more than half of the 2,495 French feature films released between 1994 and 2008, have the Art & Essai accreditation (1,362 titles, 54.6% of the films produced). Through their involvement in the production of Art & Essai films, production companies demonstrate their affinity for the artistic logic of the industry and their ability at complying with this logic. By contrast, firms involved in movies that fail to be accredited as Art & Essai are likely to appear in the eyes of the industry audience as ignoring the artistic logic and favor the market logic. Accordingly, I design *accreditation purity* in such a way that firms that are fully positioned in either of the two logics of the industry (i.e., logic-pure firms) have an purity score of 1, while firms that spread evenly their activity in the two logics have a score of 0. The accreditation purity of any firm i in the population is computed as follows:

$$\text{accreditation purity} = | (AE_i - 0.5) / 0.5 |$$

where AE is the number of Art & Essai films produced divided by the total number of films produced, i.e., the share of Art & Essai accredited films in a firm’s historical production slate.

Affiliation-based institutional capital. The second critical dimension of institutional capital relates to network affiliation. When selecting business partners, firms signal their affinity for one of the two industry logics, positioning themselves in the institutional structure. I capture *affiliation purity* by examining the network of ties formed by firm i during its lifetime. I examine the firm’s lifetime network, as I am

interested in ties as *prisms* (i.e., conveying a signal), and not as *pipes* that convey information and allow control over the network (Podolny, 2001): I assume that, in the context of film production, a ties' signaling effect will persist over time, even when the tie has disappeared²⁹. Accordingly, firm *i*'s affiliation purity value is equal to the average accreditation purity score of the alters it has been tied to:

$$\text{affiliation purity} = \frac{1}{k} \sum_{j=1}^k AP_j$$

where *k* is the number of ties firm *i* has established with other production firms *j*, and *AP_j* is the accreditation purity of firm *j*³⁰.

Similarly to accreditation purity, an *affiliation purity squared* variable is added to test the hypothesized U-shape relationship.

Control variables

In order to test the discriminant effect of institutional capital, I control for firm's resource capital and social capital. *Resource capital* is proxied by cumulating the box office results of firm *i*: the better *i* has done at the box office, the wealthier it should be. There is no agreement in the literature regarding how social capital should be measured (R. S. Burt, 2001). I retain two measures. First, I measure firm's centrality in the film production network, under the idea that central firms have a double visibility advantage over more peripheral players that could contribute to increasing their survival chances: they have a greater vision of what's happening in the network (information advantage), and they are also more visible and have thus a greater influence on other firms (influence advantage). *Social capital (centrality)* is measured

²⁹ As film production ties are limited in time, the removal of a tie does not carry any particular signal about the firms that are tied.

³⁰ Practically, I compute *affiliation purity* as follows: I divide a vector *ZP* (sum of *accreditation purity* scores across affiliated firms) by the vector *ZU* (count of affiliated firms), where *Z* is the unipartite projection of the firm-contract affiliation matrix *X* ($Z=X'X$) with diagonals set to zero, and *P* is a vector of accreditation purity values, and *U* is a vector of 1.

by examining the eigenvector centrality of firm *i* in the network of ties (Bonacich, 1987). In non-reported models, I also tested degree centrality and betweenness centrality as measures of social capital, and found very similar results. Social capital is estimated by the eigenvector centrality of the firm in the production network centrality. Second, I capture the extent to which firms are in position to bridge structural holes in the network, following Burt's (1992) definition of social capital. A number of works have demonstrated that brokers benefit from information and control advantages and may be in a better position to access novel ideas than other firms. *Social capital (structural holes)* is estimated by computing Burt's constraint measures³¹, reversed to account for social capital.

To account for density-dependence factors, which have been found as significant predictors of firm's mortality in numerous population studies, I control for *population density* (number of active firms in the industry) and *population density squared*. As larger firms may have greater chances to survive (Barnett, 1997), I also control for size, proxied by *average project size*, the natural log of the average production budget of the films a firm production has produced or coproduced – under the assumption that only sizeable firms may be able to produce big budget films. Finally, *mainstream* is a dummy variable equal to 1 if firm *i* produces over 50% of non Art & Essai films. While measures of logic purity capture the *relative* position firms occupy in the institutional space, the *absolute* position of the firm in the logic space (i.e., instantiating a market logic or reversely an artistic logic) may have a direct effect on mortality that *mainstream* is meant to parse out.

³¹ The two social capital variables were computed in UCINET 6.289, using a 3-year moving window approach.

5 RESULTS

Descriptive statistics are presented in **Table 14**. The two dimensions of institutional capital appear quite distinct: *accreditation purity* and *affiliation purity* are positively related, but the correlation is weak (.230). Besides, in the French film production industry, the distribution of institutional capital appears to be largely different than the distribution of resource capital and social capital. *Accreditation purity* has a weak negative correlation with resource capital (-.361), centrality (-.249) and structural holes (-.398). Social capital has some level of overlap with *resource capital* (.362 and .505 for *centrality* and *structural holes* respectively). Expectedly, *average project size* appears to be related to *resource capital* (.509): resourceful film companies are more likely to be involved in big budget production projects than firms with limited resources.

Table 14 – Chapter 4 Descriptive Statistics and Correlations (N=2,340)

variable	mean	s.d.	1	2	3	4	5	6	7	8	9	10
1 accreditation purity	0.812	0.335										
2 accreditation purity sq.	0.771	0.387	0.983									
3 affiliation purity	0.581	0.230	0.183	0.191								
4 affiliation purity sq.	0.391	0.281	0.230	0.242	0.968							
5 resource capital	10.585	4.101	-0.361	-0.397	-0.292	-0.357						
6 social capital (centrality)	1.493	3.545	-0.249	-0.286	-0.155	-0.192	0.362					
7 social capital (str. holes)	1.202	0.373	-0.398	-0.437	-0.060	-0.121	0.338	0.505				
8 population density	45.119	8.196	-0.072	-0.078	-0.010	-0.029	0.088	-0.045	0.042			
9 population density sq.	2102.9	674.0	-0.073	-0.080	-0.008	-0.029	0.098	-0.023	0.055	0.989		
10 average project size	14.992	0.976	-0.125	-0.135	-0.221	-0.271	0.509	0.204	0.271	0.082	0.090	
11 mainstream	0.432	0.495	0.175	0.154	0.020	0.037	-0.150	0.001	-0.001	-0.043	-0.042	0.279

Table 15 presents the results of Cox proportional hazard rates’ estimations. Model 1 shows the estimated effect of control variables on firm’s failure rates. Both *resource capital* and *social capital (centrality)* significantly decrease mortality. However, firms that occupy brokerage positions have a higher failure rate (although with weak statistical significance). This finding suggests that in the French film production

industry, a project-based industry, network closure may be a more critical survival determinant than the control and information benefits of structural holes. In line with population ecology findings, population density has an inverted U-shape relationship with exit rates: *population density* is positively related to failure, and the coefficient for *population density squared* is negative. *Average project size* is positively related to mortality. This result is likely due to the highly uncertain nature of film projects (Caves, 2000): as failure is the rule and success the exception, investing in big projects may increase risks of failures. Finally, the coefficient for *mainstream* is not significant, indicating that, in the French film production industry, firms that mainly produce mainstream films do not significantly do better or worse than firms that mostly produce Art & Essai films.

Table 15 – Estimation of Institutional Capital Effect on Film Production Firms’ Failure Rates (Cox proportional hazard models)

VARIABLES	(1) Controls	(2) Accreditation purity	(3) Affiliation purity	(4) Full model
<u>Control variables</u>				
resource capital	-0.106*** (0.007)	-0.080*** (0.008)	-0.096*** (0.008)	-0.074*** (0.008)
social capital (centrality)	-0.056*** (0.008)	-0.062*** (0.009)	-0.053*** (0.008)	-0.060*** (0.009)
social capital (structural holes)	-0.785*** (0.079)	-0.469*** (0.081)	-0.740*** (0.079)	-0.434*** (0.082)
population density	0.229*** (0.024)	0.242*** (0.026)	0.230*** (0.024)	0.242*** (0.027)
population density squared	-0.003*** (0.000)	-0.004*** (0.000)	-0.003*** (0.000)	-0.004*** (0.000)
average project size	0.147*** (0.034)	0.102** (0.034)	0.170*** (0.033)	0.120*** (0.033)
mainstream (dummy)	-0.013 (0.051)	-0.034 (0.052)	-0.045 (0.051)	-0.060 (0.052)
<u>Institutional capital</u>				
accreditation purity		-2.133*** (0.389)		-2.073*** (0.390)
accreditation purity squared		2.861*** (0.357)		2.785*** (0.357)
affiliation purity			-2.448*** (0.332)	-2.080*** (0.327)
affiliation purity squared			2.328*** (0.286)	1.884*** (0.284)
Observations	2288	2288	2287	2287

Robust standard errors in parentheses
 *** p<0.001, ** p<0.01, * p<0.05, + p<0.1

In Model 2, I introduce *accreditation purity* and *accreditation purity squared*. Supporting the theoretical proposition, *accreditation purity* has a negative and significant effect on mortality: firms that demonstrate a high level of purity in their offer are less likely to experience failure than firms that have more hybrid offers. However, and as predicted, the effect is curvilinear: the coefficient for *accreditation*

purity squared is positive and significant. **Figure 9** indicates that the marginal effect of *accreditation purity* on survival chances is maximum at values around 0.4 (i.e., about 70% of the offer accredited in one logic). Above 0.4, the survival advantage of *accreditation purity* recedes toward zero. Beyond 0.8, the marginal effect of accreditation purity on hazard rates becomes positive, indicating that hard-core purists have higher chances of failures than more moderately pure firms.

In Model 3, I test the effect of affiliation purity. In line with the theoretical prediction, *affiliation purity* has a U-shaped relationship with failure rates. The coefficient for *affiliation purity* is negative and significant, and the coefficient for the quadratic covariate is positive and significant. As indicated by **Figure 10**, the threshold for affiliation purity is about 0.6: beyond this point, survival chances regress.

Figure 9 – Marginal Effect of Accreditation Purity on Firms' Hazard Ratios

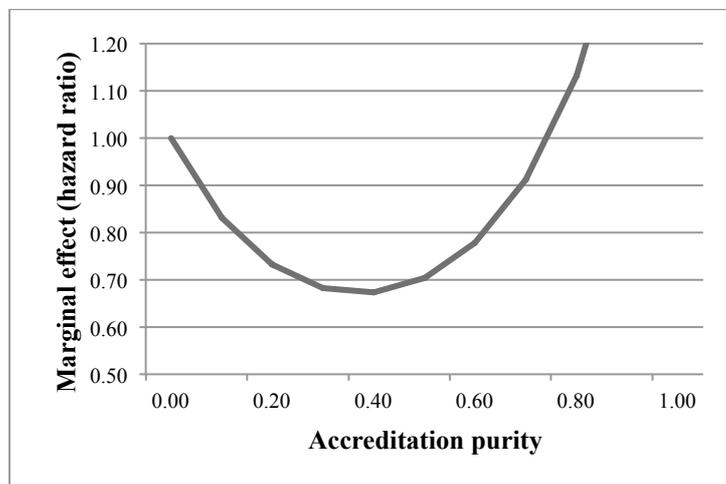
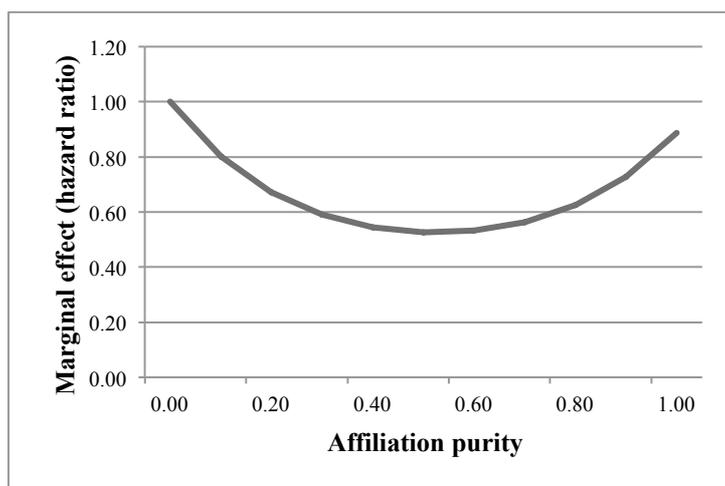


Figure 10 – Marginal Effect of Affiliation Purity on Firms' Hazard Ratios


Model 4 combines the effects of *accreditation purity* and *affiliation purity*. Results strongly support the theoretical model: after controlling for resource capital, social capital (centrality and structural holes), density dependence, and size, the position firms occupy in the institutional structure has a significant effect on survival chances. In this setting, we observe that both accreditation purity and affiliation purity have a U-shape significant effect ($p > 0.001$) on firm's hazard rate. Coefficient estimates remain in the same region as the estimates of Models 2 and 3, adding confidence to the results.

6 DISCUSSION AND CONCLUSION

I find evidence that, in the French film production industry, firm's survival chances are affected by the position they occupy in the institutional space, after controlling for resource capital and social capital. Results are consistent across two distinct dimensions of institutional capital: the extent to which the firm's offer has received accreditation by logic gatekeepers (*accreditation purity*), and the extent to which the firm has directed ties to alters clearly positioned in one logic (*affiliation purity*).

These results suggest that, in an industry where two logics coexist, purity has a significant U-shaped relationship with the likelihood of failure: an intermediary level of purity in one logic reduces hazard rates, but the advantage topples down at high levels of purity. In the case of accreditation purity, high levels of logic purity (above 0.8) appear to be detrimental to survival chances. Institutional capital thus appears to be the highest at intermediary levels of logic purity.

Explicitly considering heterogeneous institutional pressures allows me to escape the logical issue that affected Oliver's (1997) early formulation of the concept of institutional capital: if several institutional logics, presenting both constraints and opportunities, are available, the way firms are positioned with regards to these logics may have an effect on firm-level outcomes such as survival. In addition, advances in both strategic management research and institutional analysis have made possible a closer integration of the two theoretical streams. Shedding light on the relationship between institutional capital and survival is a step in this direction. By showing that firms' position in the logic space significantly affects survival chances, this study contributes to shedding light on an unexplored determinant of firm's ability to thrive in an industry where several logics are present. As an increasing number of empirical studies document plural logics settings (e.g., Dunn and Jones, 2010, Zietsma and Lawrence, 2010) – supporting Schneiberg's (2007) proposition that institutional plurality could be the rule rather than the exception – better understanding how logics affect firm's advantages is critical.

This work also contributes to institutional theory. It does so by highlighting a selection mechanism related to firms' position in the logic space, which may

contribute to explain how several logics can persist in an industry. According to new institutional theory arguments, industries and fields should evolve toward a unified overruling institutional order, as organizations experience “an inexorable push towards homogenization” (DiMaggio & Powell, 1983: 148). While institutional heterogeneity may be found (e.g., as a result of an exogenous shock), the theory does not explain how some industries can escape homogenization on the long run. The finding that hybridity is detrimental to survival may concur to explain persisting institutional plurality, as actors trying to combine logics have a higher likelihood to be selected out. Nonetheless, I find that full purity is not optimal neither, which may allow some room for hybridity and prevent logics from being fully cut-off from each other.

At this stage however, this study has several limitations. First, it is unclear how the two dimensions of institutional capital may be related. Intermediary levels of *accreditation purity* and *affiliation purity* appear to increase survival chances, independently of resource and social capital. But, what would be the best combination of the two institutional capital factors? Exploring this question may contribute to better understand how institutional capital produce its effects, and how firms could strategically develop their stock of institutional capital. Second, this study is based on large dataset, and does not allow uncovering the micro-mechanisms underlying institutional capital. More qualitative studies may help shedding light on the findings that position in the institutional structure affects survival chances. Third, additional empirical in other dual-logic settings would be needed to better understand boundary conditions that may affect the relationship between logic purity and firm-level outcomes. For instance, the level of institutional consolidation (Hsu & Hannan, 2005)

of the industry, that is the level of agreement between logic-informed audiences, or the level of institutional stability may moderate the influence of institutional capital on survival.

Building on the institutional logics framework, this study suggests a reformulation of institutional capital in a strategic management perspective. The exploration of the antecedents and consequences of institutional capital on firm outcomes could open fruitful avenues for the research on firm's heterogeneity.

CONCLUSION

I opened this dissertation by with two interrelated questions (p.22): how does logic duality affects firm strategic behaviors and how, in return, do firm strategic behaviors contribute (or not) to maintain logics segregated? To address this question, I examined the case of the French film industry from 1987 to 2008, and developed a thesis in three parts:

- In Chapter 2, I studied the liabilities firms face when entering industries governed by a different institutional logic. Transposing the concept of liability of foreignness (Zaheer, 1995) to the logic level, I suggested that firms are at a disadvantage when entering a novel institutional environment, and are compelled to express deference to the prevalent logic in order to overcome such liability. The case of investment funds in the film industry revealed that deference is positively related to institutional distance, newness and social status in the industry. The effect of deference on performance is negative in the short term, but decreasingly so as time passes.
- In Chapter 3, I reversed the lens, and investigated to what extent incumbent organizations conformed to the distinct logic-rooted conformity demands of a new audience. While both resource dependence and institutional perspectives emphasize that dominant external actors controlling critical resources can enforce conformity demands on organizations, I suggested that, under certain conditions, firms may engage in alternative conformity, that is concretely alter their offer or behavior to address the conformity demands of minority players. I examined how filmmaking organizations addressed the conformity expectations of investment funds, and found evidence of alternative

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conformity, moderated by the level of logic adherence of the organization, the structural position of the resource holder, the level of institutional credit garnered by the minority logic in the industry.

- In Chapter 4, I investigated whether the position firms occupy in a dual-logics institutional space affect their likelihood to survive, contributing to a form of institutional capital. After controlling for resource capital and social capital, I found that film production firms' entrenchment in one logic (either artistic or commercial) had a curvilinear relationship with chances to survive: purity in one logic appears beneficial, but only up to a certain extent.

I discuss in what follows how these findings contribute to new institutional theory, and to the research on strategic management. I then move to a review of the limitations of this work, and the potential avenues it opens for future research. I close this last section by considering the implications this study may have for practice.

1 CONTRIBUTIONS TO NEO-INSTITUTIONAL THEORY

At the heart of this study is a strategic issue faced by many firms: 'the problem of logic duality' (§3.1, p.20). Why and under what conditions may logics remain segregated, in contradiction with new institutional theory's prediction of "an inexorable push towards homogenization"? A number of recent studies document industries or fields durably organized around several institutional logics – and suggest that prior works may have mistaken institutional dominance (i.e., one prevailing logic among several) for hegemony (i.e., a unique dominant logic). For instance, the increasing dominance of a market logic found in many settings at the end of the 20th century may not be properly understood as the complete eradication of previously

prevalent logics: in many cases (and places), other logics (including the logics of the professions, the State, the family, or the religion) have remained alongside the logic of the market – see for example, the recently documented case of Spain (Greenwood et al., 2010). While we are theoretically well equipped to understand pressures towards institutional homogenization, we know little about inverse forces towards institutional heterogeneity. This work addresses this gap by highlighting mechanisms that contribute to the maintenance of institutional heterogeneity, and by revealing that segregating and blending forces interplay in shaping the institutional structure.

1.1 The Maintenance of Institutional Heterogeneity

This dissertation departs from and complements works in the new institutional perspective by explicitly focusing on the antecedents and consequences of institutional duality, as a special case of logic heterogeneity. Instead of considering institutional change as an outcome to be explained, I focus on how agents – as either candidates or audience members – address a structural overlap and how their action fuels further evolutions. Structural overlap occurs when individual roles and organizational structures and functions that were previously distinct are forced into association (Thornton, 2004; Thornton & Ocasio, 2008). The case of the French film industry allows me to examine the overlap of the market finance and film industry logics, and to study mechanisms that contributed to keep the two logics segregated. In other words, the emphasis here is on the maintenance (or dissipation) of institutional heterogeneity, rather than on the maintenance or disruption of the institutional *status quo* (Zietsma & Lawrence, 2010).

The distinction is not solely semantic: this perspective offers an opportunity to examine the interrelationship between institutions and organizations under a different

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light. As institutional analysis has become a key perspective in the field of organizational studies in the past thirty years (Davis, 2010; Greenwood, Oliver, Sahlin, & Suddaby, 2008), most of the critics have focused on the over-socialized view of action the theory relies on, and its lack of account for institutional change (Hirsch & Lounsbury, 1997). Essentially focused on isomorphism and decoupling (Boxenbaum & Jonsson, 2008), early works in the new institutional perspective emphasized persistence rather than change, and were mostly concerned with ‘the legitimacy imperative’ contributing to organizational inertia and institutional stability (DiMaggio & Powell, 1991; Kraatz & Zajac, 1996). To address these concerns, a significant share of recent years’ theoretical and empirical efforts has been devoted to the role of *institutional entrepreneurs* (DiMaggio, 1988): individuals or organizations attempting to initiate and implement changes in institutions (for a review, see Battilana et al., 2009). Although a theoretical path has been opened to reintroduce agency in institutional theory, works “treating organizations as independent variables” rather than treating them as dependent variables (Suddaby et al., 2010: 1236) have spawned considerable controversy among scholars on the question of *embedded agency*, that is the ability of agents to change the institutions they are embedded in. While some scholars argue that the paradox of embedded agency can be resolved by considering how actors may *work* on boundaries and practices to create, maintain or disrupt accepted practices (Zietsma & Lawrence, 2010), others have expressed skepticism about the role agents may play in institutional change. Powell and Colyvas (2008: 277), for instance, caution that “the celebration of entrepreneurs has perhaps gone too far, as not all change is led by entrepreneurs”. So far thus, the issue of institutional stability and change has attracted most of the research attention and has been the central point of debate in institutional theory.

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By contrast, focusing on institutional heterogeneity allows agency to be introduced without the (always problematic) assumption that agents are purposefully attempting to alter the institutional environment. In fact, I do not assume that organizations have an institutional change agenda. Rather, I argue that it is the structure of local constraints and opportunities created by the logic overlap at the industry level that guides agents' responses at the organizational level. Aggregated, these responses have side effects on the institutional order itself – at the industry level. Hence, should some actors actually have an institutional change agenda, actions at the organizational level may not produce the expected results on the broader institutional context.

Central to this work is an underlying assumption that deserves attention: institutions are not created *de novo*, but rather results from the combination of pre-existing institutional logics available to actors (Friedland & Alford, 1991; Schneiberg, 2007) and belonging to different institutional sectors: the family, the religion, the State, the market, the profession, the corporation (Thornton, 2004), and the community (Thornton et al., 2012). Institutions evolve when they come in contact with one another, i.e. when they overlap. Overlaps might result from the encounter of a local logic with models and templates originating in broader institutional contexts, such as the world polity (Meyer, Boli, G. M. Thomas, & Ramirez, 1997). Models may also be found in adjacent fields: for instance, the identity movement of the Nouvelle Vague might have inspired chefs involved in the Nouvelle Cuisine movement a decade later (Rao et al., 2003). Overlaps however do not appear in the 'ether', but are instantiated by agents, either peripheral ones (Leblebici et al., 1991) or more central ones (DiMaggio, 1988) – or both. In many cases, overlaps occur accidentally as agents try,

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for instance, to access new material or symbolic resources (e.g., chefs status in the culinary industry).

It is noteworthy that the creation of Soficas was not a purposeful attempt at introducing market finance institutions in the film industry. Rather, Soficas were set up to tackle a resource shortage. There were several potential options to address this issue, including resorting to traditional methods (e.g., direct State intervention). In the end, the market finance model was deemed appropriate by legislators, and a novel organizational form designed, which opened a structural overlap and prompted incumbent firms to react. Firm reactions affected the institutional structure of the industry – i.e. the relative prevalence of one logic over another. By showing deference, Soficas gained acceptance, and were allowed to import the market finance logic into an industry where it was not previously present (Chapter 2). As a result, Soficas were given a green light to actually participate in film production – creating the conditions for the market finance logic to coexist with the film industry logic. Some of the filmmaking organizations in contact with Soficas actually conformed to the minority logic of market finance, especially organizations that were not entrenched in the dominant logic and those dealing with peripheral audience members (Chapter 3). In doing so, they helped turn a previously foreign logic into an alternative to the dominant industry logic. In parallel, ongoing pressures for purity at the industry level were preventing firms from blending the two logics, keeping them relatively – although not fully – separated (Chapter 4). In sum, the case points to segregating and blending forces, which interplay in maintaining institutional plurality at the industry level.

1.2 *The Alteration of Institutional Orders*

In contrast with prior works depicting how one logic is overthrown by another (e.g., Lounsbury, 2007; Thornton & Ocasio, 1999), this study highlights how a logic gains prevalence without toppling down established logics and institutional orders. In this regard, this dissertation stands in contrast with the three theoretical perspectives described by Murray (2010). In the *hostile world* perspective, an established logic is invaded, progressively collapses and is replaced by another logic. In the *blended world* perspective, the distinction between the two overlapping logics tends to disappear as logics borrow from each other and boundaries gradually blur. In the *coexisting world*, two logics peacefully persist without sign of blending or collapse. She adds a fourth view – we may call the *tension world* view – in which actors seeking to reinforce boundaries between logics concur to maintain the two logics in ‘productive tension’: outraged by DuPont’s patenting of the OncoMouse, a genetically engineered mouse for use in cancer studies, scientists first resisted by ignoring the patent, but ended up engaging themselves in patenting. It is argued that the meaning scientists gave to patenting – as a tool for ‘protecting the scientific commons’ (Murray, 2010: 38) – reinforced the boundaries between the logics of public and private science, while changing the practice of patenting itself.

This study suggests that these ‘worlds’ may correspond to different realizations of logic overlaps, rather than constitute competing theoretical views. While in some cases one logic may take over another one (hostile world), in other cases the two logics may mix up (blended world), quietly seat side by side (coexisting world), or interact while remaining apart (tension world). The case of the French film industry sheds some light on the conditions and mechanisms that would yield a given ‘world’

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rather than another one. First, we learn that ‘worlds’ are not necessarily exclusive: I find evidence of both coexistence and blending of logics. Following the introduction of the market finance logic in the industry, both the logic of the Sofica and the prevalent logic of the industry incorporated elements of the other camp. I find that filmmaking organizations, or at least some of them, adopted elements of the market finance logic (see Chapter 3), while Soficas, through demonstrations of deference, integrated some of the goals of the film industry logic (see Chapter 2). But despite a gradual blending, there is no sign that the two logics actually merged – they rather remained clearly distinct. As a matter of fact, the findings of Chapter 4 suggest that blending and segregating forces may actually work in tandem: both logic-hybrid firms (strong blending) and logic-pure firms (strong segregation) had lower chances to survive. By contrast, firms that had the highest likelihood to survive were clearly positioned in one logic, but not fully entrenched. While some blending might be inevitable, these results point to intrinsic segregating forces at the logic level: close association to a logic provides firms with identity, status and attention advantages that may prevent defection to another logic. Overall, these findings call for a more nuanced appreciation of logic overlaps: the ‘world views’ listed by Murray may be specific cases of a larger palette of outcomes of segregating forces (forces that contribute to maintain boundaries between logics) and blending forces (forces that open logics to external influences).

Second, the case of the French film industry provides an illustration of a rather peaceful coexistence between two different logics. In Chapter 2, in particular, I find evidence that resistance had no significant effect on Soficas while social status in the industry was an important predictor of deference. This result stands in contrast with

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theoretical accounts emphasizing resistance or *refraction* to external logics (Bourdieu, 1991; Oliver, 1991), supported by recent empirical studies (e.g., Marquis & Lounsbury, 2007). As Oliver (1991) points out, the dependence of industry participants on the resources controlled by Soficas may have played a part in this peaceful cohabitation by reducing potential resistance. But it is noteworthy that Sofica brought relatively marginal resources to the industry (about 8.3% of production costs during the period 1994-2008).

At the field level, one may however argue that the marginality of Sofica resources may have facilitated acceptance in the industry – reversing the resource dependence argument: because Soficas were not in a position to threaten the industry logic, welcoming them may have been easier. A comparison between the case of Soficas and the case of national banks that entered communities in the U.S. (Marquis & Lounsbury, 2007) thus suggests that both resource criticality and the relative balance of resources may moderate the extent to which a minority logic encounters resistance: resistance would be the highest when minority logic holders control large but non critical resources (e.g., national banks entering communities in the U.S.), and reversely, a more peaceful coexistence would be observed when minority logic holders control relatively limited but critical resources (e.g., Soficas entering the film industry). Future research may test this hypothesis (see section 4 below).

2 CONTRIBUTIONS TO STRATEGIC MANAGEMENT

The other central question of this dissertation was how logic duality affects firm strategic behaviors. As the Weberian metaphor of the iron cage crudely expresses, early works in the institutional perspective have emphasized the set of constraints the

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institutional environment imposes on firms. Firms experience coercive, mimetic and normative pressures, which lead them to become more and more similar (DiMaggio & Powell, 1983). Pressured to conform to rationalized myths, firms adopt formal structures aimed at maximizing their legitimacy, but decoupled from technical activities (Meyer & Rowan, 1977). As a result, firms adopt practices because they have acquired ‘rule like status’, rather than for efficiency reasons (Tolbert & Zucker, 1983; Westphal, Gulati, & Shortell, 1997). When they fail to conform to institutionalized rules, firms may incur strong penalties in the form of, for instance, lower stock prices (Zuckerman, 1999), or negative external evaluations (Durand et al., 2007). Accordingly, the institutional environment has so far mainly be conceived as a land of socially constructed restrictions, which prevent firms from organizing and behaving efficiently: the less constraining are these restrictions, the better firms are (Oliver, 1997). By contrast, this work contributes to the strategic management literature by uncovering some of the opportunities the institutional structure may present to firms, and by suggesting strategies firms may follow to exploit those opportunities.

2.1 Strategy in the Institutional Structure

Despite its relevance to strategic management, research on how institutional contexts shape firm opportunities has been sparse so far – Jonsson and Regnér’s (2009) recent study of normative barriers to imitation in the mutual funds industry being a notable exception. As discussed in Chapter 4, ontological and logical issues have hindered the introduction of new institutional theory ideas into strategic management research. In particular, the question of agency has been a central point of disagreement: if one takes institutional theory seriously, conformity and deviance are not necessarily thoughtful processes in many cases, taken-for-granted institutions guide firm

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behaviors without further questioning. In other words, deviating might not be considered as an option because alternatives may not even be thinkable (Schneiberg & Clemens, 2006). Conceptualizing firms as facing a trade-off (Deepphouse, 1999) between the economic advantages of deviance and the socio-institutional benefits of conformity (lower competition for resources vs. legitimacy) might hence proceed of an ex-post rationalization – as conformity may not be a choice in the first place.

In an attempt to find a way around this issue, I propose to consider firms as positioned in an institutional structure shaped by several institutional logics (Chapter 4). Recognizing logic plurality opens space to reintroduce agency (and strategic management) in the theory without threatening its internal consistency: if firms are embedded in not one but several institutional logics, there may be room for them to position themselves in a strategic way since situations of logic plurality ‘afford considerable latitude for human agency’ (Powell & Colyvas, 2008: 277). For instance, firms may exploit contradictions and ambiguities across logics (Schneiberg & Lounsbury, 2008) to their own advantage. Not only the iron cage may not be as unified as one might think, but firms may have some ability to curb its bars. The critical assumption that institutions are constructed through a social process in which firms are themselves involved may not have received sufficient attention in strategic management – maybe because of the strength of the iron cage metaphor itself. Rather, studies typically conceived institutions as exogenously imposed on firms by an external audience (Hsu et al., 2009; Zuckerman, 1999). As Sewell (1992) pointed out, institutions only exist through their enactment: the institutional structure is continuously reproduced through interactions, and thus subject to change. Hence, by conforming to or deviating from institutionalized rules, firms not only respond to

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(external) constraints, but may also contribute to shape constraints – again allowing for some strategic considerations.

For instance, considering the position firms occupy in the institutional structure may have important implications for the research on strategic groups. Strategic groups have been defined as sets of firms within an industry that are similar to one another and different from outsiders on one or more key dimensions (Caves & Porter, 1977). If logics provide collective identities (Haveman & Rao, 1997; Lounsbury, 2002; Thornton & Ocasio, 2008) and if strategic groups are socially defined (Durand et al., 2007; McNamara, Deephouse, & Luce, 2003; Peteraf & Shanley, 1997), strategic groups may form on the basis of logic adherence criteria. For instance, in the film industry, firms that are ‘pure’ in the artistic logic can be viewed as belonging to a specific strategic group, distinct from the group composed of market logic-driven firms. I find that logic purity affects performance, which would be in line with the definition of Dranove, Peteraf and Shanley (1998): a strategic group exists if the performance of a firm in the group is a function of group characteristics, controlling for firm and industry characteristics. Also the mix of positive and negative consequences of a strong strategic group identity (Peteraf & Shanley, 1997) may contribute to explain why purity has a curvilinear relationship with survival chances. By taking position in the institutional structure, firms may contribute to reinforce their ties to existing strategic groups, and at the same time alter the way strategic groups are composed in the industry. If more and more firms adopt logic-hybrid strategies, for instance, the strength of logic-pure strategic groups may erode, altering the benefits competitors may enjoy as strategic group members.

2.2 *A Definition of Strategy*

These considerations have important implications for the way we think about strategy. In the organizational evolution and strategy model (OES), Durand (2006) defines strategy as a firm-level theory about competitiveness that guides the selection of resources and exchange modes. As they translate their theory (strategy) into actual choices, firms contribute to alter the very structure and nature of the selection criteria³² that apply to industry members. A central argument is that firm choices affect the selection pressures competitors experience: whereas selection-preserving choices (SPC) reinforce the established rules of actions and increase pressures to conform to the current model of competition, selection-transforming choices (STC) prompt competitors to react to new rules

In this context, I emphasize that the ‘choices’ firms make are embedded into an established institutional structure. In other words, firm-level theories of competitiveness (strategies) can be conceived as rooted in wider paradigms (logics) nested in broader social contexts (e.g., industries, fields). Logics set the very limits of what firms can consider as appropriate options and what they can eventually implement (Ocasio 1997). As an illustration, let’s consider the case of release strategies in the French film industry (Chapter 3). Under the established logic of the industry, competitiveness is achieved by designing theatrical releases that maximizes the fit between a given film and its potential (pre-existing) audience. Accordingly, flooding the theatrical market with prints (blitz release) is viewed as ineffective, i.e., it is a waste of resources. Blitz releases are also inappropriate in that they prevent other films to connect with their own audience, go against the ideal of cultural diversity

³² Along with variation and retention, selection is one of the mechanisms guiding organizational evolution (variation-selection-retention model).

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underlying the logic of the industry, and eventually undermine the very social justification of the industry itself.

Under the market finance logic, by contrast, film audiences are not given but shaped by marketing techniques. The audience of moviegoers is constructed through advertising campaign and media publicity. Blitz-release strategies are techniques designed at maximizing revenues independently of the appeal the movie may have, and eventually gaining competitiveness. According to the market logic, the industry does not need any further justification (i.e., cultural diversity or artistic creation) than its own economic sustainability: if there is a market for films, then firms will coalesce to serve the market and create an industry. In sum, logics offer default assumptions about films (creative pieces vs. products), audiences (given vs. constructed by firms' actions), and goals (contribute to cultural diversity vs. generate returns)³³; strategies, as theories of competitiveness, build upon and are limited by such assumptions. Logics also include rules that delineate the spectrum of firms' competing behaviors, by focusing attention to certain issues and solutions, and away from others (Ocasio, 1997; Thornton & Ocasio, 1999).

Under this view, the institutional structure set boundaries on the repertoire of possible strategies at the industry level. When an industry is dominated by a homogenous institutional logic, the range of thinkable and acceptable choices is likely to be limited. Under the dominance of the established film industry logic, resorting to blitz releases is not only illegitimate, but it is not in the range of options filmmaking

³³ Examples in parentheses are exaggeratedly antagonistic: they should be understood as ideal types provided for didactic purposes rather illustrations of actual industry members' assumptions (see discussion in the method section of Chapter 2).

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organizations would even consider. Firms' competition is then concentrated on other areas. For instance, production firms' stock of strategic resources includes technical skills, reputation for quality, status in the industry prestige order, and ties to talented individuals. But when two logics come to overlap, the scope of possible choices broadens, assumptions lose their taken-for-granted status, and new theories of competitiveness emerge at the industry level, allowing for a wider diversity of strategies available to firms. The findings of Chapter 3 suggest that the overlap with the market finance logic contributed to reveal to filmmaking organizations that blitz strategies were a conceivable *choice*. Through expressions of conformity to the market finance logic, filmmaking organizations contributed to the emergence of blitz strategies illustrated in Figure 6 (p.72), a trend that technical evolutions cannot explain. As blitz releases gained prevalence, selection criteria gradually shifted, confronting all firms and organizations in the industry: release strategies became an increasingly critical area of competition among firms. In this context, the range of potential strategic resources widened to include marketing skills, ties to influent mass media (e.g., producers of popular television shows), and privileged relationships with theatre chains. One consequence was that marketing and release considerations, once secondary in this business, became central in theories of competitiveness. It is illustrative that CNC statistics, which cover an extensive array of topics about the industry, only began to track print and advertising information in 2006 (statistics report that P&A costs have more than tripled over the decade 1999-2008 (Centre National de la Cinématographie, 2010)).

At the firm level, the extent to which firms engage in selection-transforming choices appears dependent on where they have stood in the institutional structure so far (logic

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purity) and on the structural position of audience members (centrality). Although STCs may be valuable, as they for instance prevent imitation by competitors (Jonsson & Regnér, 2009), firms may not thus be equally likely to engage in such transforming choices – allowing for some heterogeneity across firms. The concept of institutional structure also offers a guide to refine the concepts of SPC and STC. When there are two logics in one setting, the meaning of selection preservation and selection transformation depends on the relative prevalence of each logic. If one logic is largely dominant, then conforming to this logic is likely to be a SPC – and reversely, endorsing of a minority logic would be a STC, figuring a “quarrel of moderns against ancients” (Durand, 2006: 149). For instance, alternative conformity to the market finance logic of Soficas can be seen as a STC: filmmaking organizations promote a minority logic, which will change the selection rules competitor organizations will face (Chapter 3). But when two logics are competing on a more equal foot, as for instance the artistic and market logics described in Chapter 4, then SPC and STC may take a different form: it may not then be a matter of choosing one camp rather than the other, but to choose between endorsing one logic (logic-pure firms), or not (logic hybrids). While logic-pure firms concur to maintain the feature of the logic they endorse (SPC), logic hybrids mix and match elements of two logics (STC). Results of Chapter 4 suggest that, in this case, excess in both directions (SPC or STC) are detrimental to firms, which are more likely to fail than firms composing a mixture of SPC and STC.

In combination, these findings provide leads to reflect on the definition of strategy. In doing so, I build notably on the conceptualization of strategy as a theory of how to compete proposed by Barney (2001) and elaborated by Durand (2006). I propose to

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define strategy as a performative theory about competitiveness, embedded in socially constructed and historically rooted paradigms – called institutional logics – that define default assumptions and rules about how to compete. Logics are paradigms in that they provide, for a time, models and solutions for a community of firms (Kuhn, 1970), and form the bedrock upon which firm strategies as theories about competitiveness develop. Strategies as theories are performative in that they contribute to create the phenomena they describe (Callon, 1998; MacKenzie & Millo, 2003): when implementing strategies (theories about competitiveness), firms contribute to alter institutionalized rules of competition. For instance, organizations conforming to Soficas' demands, confer legitimacy to the market finance logic, and increase pressures in the industry to conform to the market finance logic (Chapter 2).

The variety of logics available at the industry level determines the diversity of strategies available to individual firms. In particular, the coexistence of several logics opens opportunities for firms to take position in the institutional structure (Chapter 4) and, in doing so, to contribute to shift the prevalence of logics in the industry in a way that is favorable to the firm and unfavorable to competitors (Chapter 3). In this view, strategic management is about selecting theories of competitiveness, using a set of limited available assumptions and rules, that both maximize the focal firm's fitness, combining technical and socio-institutional elements, and minimize competitors' fitness. The idea of socio-institutional fitness alludes to what Barnett (1997) calls "compensatory fitness" – that is the fitness relating to the non-economic advantages or privileges (Washington & Zajac, 2005) firms enjoy as a result of their positions in the social structure and the institutional structure.

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Table 16 – Some Definitions of Strategy³⁴

Strategy is concerned with drafting the plan of war and shaping the individual campaigns, and within these, deciding on the individual engagements. (Von Clausewitz, 1976: 177)
Strategy is the determination of basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation necessary for carrying out these goals. (Chandler, 1962)
Objectives represent the ends that the firm is seeking to attain, while the strategy is the means to these ends. (Ansoff, 1987: 104)
Strategy is the creation of a unique and valuable position, involving a different set of activities (...) making trade-offs in competing. (...) creating fit among a company's activities. (Porter, 1996)
A firm's strategy is its theory of how to compete successfully. Some theories of how to compete successfully are better than others, and the study of strategy is the study of alternative theories of how to compete in different competitive contexts. (Barney, 2001: 22)
A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. (Hitt, Ireland, & Hoskisson, 2007: 144)
Strategy is a theory about competitiveness that helps organizational members select among available resource utilization and exchange modes. (...) an effective proposition that orients and transform a set of dispersed resources into a combination of resources that adhere to a logic of action. (Durand, 2006: 30–31).
Proposition: Strategy is a performative theory about competitiveness, embedded in socially constructed and historically rooted paradigms – called institutional logics – that define default assumptions and rules about how to compete.

Compared to prior definitions of strategy (see **Table 16**), the proposed view emphasizes institutional boundaries to competition: there are cognitive and normative limits to the array of choices firms can make in drafting the plan of war, setting means to reach objectives, and coordinating commitments and actions. In line with the OES model, I also highlight the intrinsic endogenous nature of strategic choices: the choices a focal firm makes do not only affect its own fitness, but also competition rules that eventually affect its competitors' fitness.

In this dissertation, I describe three strategies firms deployed in a dual-logic setting. *Institutional deference* was a strategy for investment funds, in that it was constrained

³⁴ Adapted from Durand (2006: 30).

by the established institutional logic of the film industry, and at the same time allowed Soficas to introduce the market finance logic into this novel setting, shifting competition rules (Chapter 2). The introduction of the market logic made *alternative conformity* a conceivable strategy for filmmaking organizations, a strategy which helped pull the minority logic of the financial market inside the industry (Chapter 3). Finally, the pursuit of *logic purity* is a conceivable strategy to the extent that two logics are competing (e.g., artistic and market logics) and has direct consequences on firms' fitness (Chapter 4).

3 LIMITATIONS

I discuss in hereafter two important limitations of this dissertation.

3.1 *Logics and Levels of Analysis*

Thornton, Ocasio and Lounsbury (2012) develop the idea that logics are representations of the inter-institutional system, which can be analytically approached by a typology of ideal types. Central to the construction of theory is the identification of institutional logics (the horizontal X-axis), characterized by elemental categories of the institutional order (the vertical Y-axis). Ideal types are not descriptive, but are rather an “abstract model used to gauge the relative distance of the observations from the pure form or ideal type”. For the purpose of this dissertation, the abstract model presented in **Table 4** (p.51) was built using historical analysis and interview data. The table presents ideal types characterizing the two logics studied: the logic of the industry, and the logic of market finance.

This method, as any method, has limitations that need to be highlighted. In particular, it is important to keep in mind that ideal types are ‘exaggerations’. In my view, this

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has two critical implications. First, no individual organization or firm actually embody the described ideal types; it is not possible to operate a dichotomous segregation between organizations that fit a set of ideal types and those that do not. Rather, organizations can be compared to the ideal type typology in terms of *relative proximity* (or distance). In other words, organization A can be said to be closer to the ideal form of a given logic than organization B, but neither A nor B are expected to actually embody the pure form of such logic (although it remains a conceptual possibility).

Second, as an exaggeration, the abstract model is appropriate for a given *analytical level* adopted by the researcher. Whereas I consider the overlap of the finance world with the film industry and focus on the two related logics of the film industry and market finance in Chapter 2 and 3, I adopt a narrower focus on the film production sector and study the contrast between the artistic and market logics within this context in Chapter 4. The two views can be reconciled if one considers two complementary observations: i) there is a large consensus within the film industry around its specific logic at the time Soficas were introduced (Demil & Leca, 2003), and ii) although the consensus was large, it was not complete so that there still existed variations in ‘relative distance’ to the ideal types within the industry, as argued in Chapter 4. This raises a conceptual question about how researchers should consider logics in a given setting. If there are variations within the film industry logic, for instance, should one look deeper and not consider two logics, but three, four or n logics? One might argue that the artistic logic of French cinema actually encompasses the patrimonial logic of the *Cinémathèque* (the influent Paris film library), the intellectual logic of *Les Cahiers du Cinéma* (a critics’ journal), and the experimental logic of the GNCR (an

organization of specialized art houses). By looking even closer, an ethnographic study might reveal that the GNCR is composed of several groups, advocating different schools of thought about what a film as an art piece should be, and may even distinguish more nuances in logics across small groups. As Royston Greenwood recently remarked³⁵: for institutional logics researchers ‘multiple’ essentially means ‘two’, that is the theory is about multiple logics, but empirical studies typically consider two logics. In this regard, this study is of no exception – with the nuance that I distinguish three logics but examine them in pairs: the artistic vs. the market logic, nested within the film industry logic facing the market finance logic. However, although the methodological approach I adopt rests for a large part on contrasts across logics for a given outcome (e.g., conformity to a logic, survival), I try to account for nuances in positions within the institutional structure. In Chapter 2, I examine the institutional distance of Soficas with the film industry logic. In Chapter 3, I study variations in responses to logic-conformity pressures. And Chapter 4 is dedicated to the study of producer firms’ position within the institutional structure of the industry.

3.2 *External Validity*

The empirical setting of this study also deserves some attention. While there are important papers in the management and strategy literatures examining the film industry, they typically focus on the U.S. industry – for a recent example, see Cattani et al. (2008). Although this dissertation speaks to Scott’s (2005: 478)³⁶ regret that an “an embarrassingly large proportion of our theoretical conceptions and empirical findings has been constructed by U.S. scholars based on data collected from U.S.

³⁵ Discussion of the Institutional Logics track at the 2011 EGOS Colloquium (Gothenburg, July 2011).

³⁶ Cited by Greenwood et al. (2010).

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organizations”, its emphasis on the French film industry prompts a discussion about boundary conditions that may delineate the validity of the proposed theory³⁷.

Each institutional context being unique, it is illuminating to gauge the French industry in comparison with its (more studied) U.S. counterpart. Although the French and the U.S. film industries were born in rather similar conditions – a technical innovation spurring an entrepreneurial boom in the wake of the 20th century (Jones, 2001) – the two industries developed markedly different institutional logics. First, whereas both industries were affected by the institutionalization of film as an art form (Baumann, 2001), the movement began earlier in France (in the 1920s) and was pushed farther. It is beyond the scope of this study to elaborate on the causes of such discrepancy, but one may speculate that the broader cultural context provided a more favorable terrain to this kind of theorization in France, where the idea of cultural legacy is more central in the national identity and public debate. As noted in Chapter 2, the claim for recognition of *auteurs* during the Nouvelle Vague movement resonated with the legal doctrine of moral rights, which stands in stark contrast with the copyright doctrine enforced in Anglo-Saxon countries: by law, French directors have the ‘final cut’ on films they supervise, not producers. Second, the strong involvement of the State in the French industry contrasts with the *laissez faire* ethos of Hollywood, where competitive forces were unleashed following the Paramount antitrust case of 1948 and the demise of the studio system (Miller & Shamsie, 1996). The perceived threat of a cultural invasion coming from North America cemented a strong consensus within the French industry about norms and values conflicting with the logic of the market, as

³⁷ It may be useful to remind that that the media and entertainment industry is a critical sector of the economy in France, as it is in the U.S. The industry generated about \$1,348b in revenues worldwide in 2010, including \$70.2b in France (PriceWaterhouseCoopers, 2011).

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illustrated by the industry regulator's pledge to "correct the effects of the market" (see Chapter 2). As a result, the divide found in the U.S between major studios producing mainstream commercially driven products and smaller independent companies involved in more content-oriented films (Zuckerman & Kim, 2003) is not replicated in France. Rather, the logic of the French film industry is largely consensual (Demil & Leca, 2003), combining market and cultural elements, although the emphasis is on the latter. It is noteworthy that there is no such thing as an independent film sector in France (i.e., non-commercial films are not segregated in a niche), nor is there an equivalent to the Sundance Independent Film festival. So far (at least), the concept of blockbuster, forged in the US in the 1970s (Baker & Faulkner, 1991), has not acquired meaning in the French environment. In such a context, the entry of Sofica investment funds is remarkable in that the market finance of these funds logics was genuinely foreign to the industry. By contrast, hedge funds that massively invested in film production in the U.S. in the mid-2000s³⁸ were much closer to the market logic of Hollywood. As a result, while hedge funds' money fueled an unprecedented inflation in production and advertising budgets, they are unlikely to have contributed to affect the U.S. film industry institutional order in a way comparable to what happened in France with Soficas.

The empirical setting of this study has three important characteristics: i) a local consensus about norms, values and rules (i.e., an established institutional logic), ii) challenged by a minority logic instantiated by organizations controlling critical resources, but iii) relatively marginal resources in volume. These items appear as

³⁸ Hedge funds reportedly invested \$13b into 150 U.S. major films in the period 2005-2008 before the 2008 financial crisis abruptly ended the movement (L.A. Times 2008, February 16, 2008).

important conditions to the theory developed in Chapters 2 and 3. In particular, the last point may be critical: if organizations carrying the minority logic were in control of overwhelming resources, one may expect a more radical shift in institutions than the one depicted in this study, and neither alternative conformity nor deference may be relevant.

4 IDEAS FOR A RESEARCH AGENDA

4.1 Explore Boundary Conditions

One obvious extension of this work would be to explore its boundary conditions. Logic overlaps are likely to be pervasive – one may argue that every agent (individual, organization or firm) entering an industry with a foreign logic creates a structural overlap – in most cases, however, there is no significant alteration of the institutional structure. A first avenue for future research is thus to understand the conditions under which structural overlaps may trigger an actual change in the institutional context. This dissertation suggests that resources are important in two respects: the alternative to a dominant logic must be supported by an audience controlling significant resource, but this audience must not present an immediate threat to the dominant audience. This points to both a lower and an upper bound to the relative level of resources supporting the alternative logic. Future works may explore these bounds.

The content of the foreign logic and its broader acceptability may also matter. The case of the French industry presents a rather crisp contrast between a logic grounded in non-market institutions and the market finance logic. However, whereas the market finance logic of the Soficas may not have been well understood and may have been

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perceived as poorly legitimate within the film industry, it was rather well accepted in the broader French society (Fourcade-Gourinchas & Babb, 2002) – and also increasingly diffused in the Western world. Future works may investigate contexts where more contested logics enter an industry – e.g., the logic of a stigmatized industry such as the weapon industry (Vergne, 2010).

Another boundary condition relates to the pre-existing institutional structure of the industry. Whereas the film industry logic was largely prevalent and consensual when Soficas entered the industry, future studies may consider cases where there are several logics competing before the structural overlap – resulting in cases where three logics, for instance, compete (Durand & Szostak, 2010). For instance, would organizations conform to a minority logic in settings where there are two other strong logics engaged in competition for dominance? In such a context, would logic foreigners be selective in choosing whom they defer to depending on, for instance, the distance between their logic and the two dominant ones? And to what extent the sources of institutional capital may be different when three logics are competing?

More generally, future research may replicate and extend this study in other contexts. For instance, one may test whether alternative conformity and deference would to apply to, for instance, IT companies entering the open-source world, pharmaceutical firms entering the biotech sector, or government and supranational agencies (e.g., IMF, World bank) entering private industries during the current economic crisis.

4.2 *Examine the Effects of Logic Overlap*

This study examines longitudinal how organizational populations (investment funds, filmmaking organizations, film production firms) deal with logic duality, using econometrical analysis techniques. The findings raise intriguing questions about how organizations, may apprehend the ambiguities and contradiction across logics triggered by a logic overlap. While institutional theory emphasizes the taken-for-granted characteristics of institutions, which confront agents as external facts, this dissertation – in line with the institutional logic framework – suggests that individuals have some autonomy when facing several logics. Future research may investigate why this may occur, and under what conditions.

One may speculate that the availability of a new logic might provide a contrast space, revealing that an alternative exists to existing institutionalized rules and eventually shaking up the taken-for-grantedness of such rules. When one logic dominates an industry, conformity or deviance is hardly a question – “institutions are [...] experienced as possessing a reality of their own, a reality that confronts the individuals as an external and coercive fact” (Berger & Luckmann, 1966: 505–506). The structural overlap with another logic may create the conditions for agents to realize the exteriority of institutionalized rules, by showing that an alternative logic is possible. Works in other disciplines may enrich our understanding of such mechanisms, and may serve as bases to explore their underpinnings. The long-standing line of research in social psychology about cognitive dissonance and cognitive balance may be useful to understand how agents perceive, comprehend and attend to a foreign logic entering their industry, shedding light on some of the ideas proposed in this study about alternative conformity, deference or institutional capital.

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In another field, works in game theory (Bicchieri, 2005) suggest that conformity to norms is conditional on empirical expectations (i.e., ego believes that a sufficiently large subset of the population conforms to a given norm in a situation) and normative expectations (i.e., ego believes that a sufficiently large subset of the population expects ego to conform to a given norm in a situation, or expects a sanction if he or she does not conform). Building on this line of work may contribute to our understanding of the way minority logics are endorsed, or not. On this wide range of questions, alternative research designs (including qualitative and experimental methods) may yield complementary insights.

More generally, explicitly recognizing institutional plurality opens opportunities to better understand how firms navigate institutionally diverse environments, and will contribute to shed light on how firms derive competitive advantages from their position on the institutional map. This study is a first step in this direction.

5 IMPLICATIONS FOR PRACTICE

5.1 *Managerial Implications*

What have we learned that may be relevant for practice? I opened this dissertation by a set of practical questions relating to strategic decisions in dual-logic settings (see Introduction, p.15), which I now consider in the light of the findings of this study.

As a financial investor entering a 'closed', culturally specific industry, what can you do to be accepted as an appropriate business partner? Should you behave as usual? Or do you need to show incumbent organizations that you fit in?

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One simple implication of this dissertation is that institutional logics matter. It is a critical point because institutions are, by definition, largely taken-for-granted by managers. Explicitly analyzing the institutional environment in which the firm is embedded, as well as the institutional context that governs an industry a firm considers entering may be a good way to start. This could be done through an ideal types analysis for instance, identifying logics in the X-axis and elemental categories in the Y-axis. Table 4 (p.51) offers an illustration of an ideal typology (for a lengthy description see Thornton et al., 2012 Chapter 3). The objective is to map the institutional structure – that is to identify logics in the industry and assess how the firm stands with respect to these logics. When entering industries governed by a foreign logic, identifying salient cultural discrepancies may help avoiding some of the disadvantages the firm is likely to incur. Simple precautions may make things easier (and hopefully less costly). First, bringing industry members on board (e.g., as board members or maybe as staff) could contribute to reduce institutional distance, and avoid cultural traps. Second, firms should be careful not to actively pursue social status in a culturally distinct industry: status tokens are likely to come with strings attached, and in particular greater pressures to ‘defer’ to local cultural rules – which may prove expensive. The third advice is to be patient! Time seems to be an effective cure for cultural foreignness.

As a film director, should you accept the money of publically traded investment funds? Is it a no-brainer (after all, money has no smell)? Or may this decision affect what you're trying to achieve?

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What's true for a Roman emperor devising new taxes³⁹ does not hold for firms raising money. Film directors who accepted money from publically traded funds moved toward a more market-oriented practice of filmmaking – and the more financing they received the more they did so. But deviating from established rules to conform to new ones may not always be a bad thing. Some firms may actually see advantages in supporting alternative rules of the game that could provide them with advantages, and at the same time hinder competition. In such case, firms may engage in ‘alternative-conformity’, that is actively support marginal rules of the game, and contribute to make them more accepted in the industry.

As a film producer, should you be ‘pure’ – that is only produce art house films and deal with arty film companies only? Or alternatively should you focus on mainstream movies and associate with commercially driven firms? Or, on the contrary, should your slate include both artistic and commercial films and your network span the arty/mainstream boundary?

Once firms have mapped their position in the institutional structure, they may start thinking about it from a strategic standpoint. Is it better to occupy a logic-pure position and deal with pure players, or is an hybrid position a better place? This study suggests that a balanced position maximizes success chances. That is firms need to cultivate a clear position (e.g., do mostly artistic films), but to remain open to other cultural perspectives. Although logic purity tends to increase chances to survive in an industry where two logics coexist, results indicate that it should not be pushed too far.

³⁹ The Roman historians Suetonius and Dio Cassius report than when Vespasian's son Titus complained about the disgusting nature of a tax on public urinals, the emperor held up a gold coin and told him: “Non olet !” (“it doesn't stink !”). (Wikipedia)

5.2 Policy Implications

This study also suggests some implications for policy makers. Similar to managers, policy makers should be aware of the institutional landscape of the industry they are working on, and assess the potential institutional effects of the policies implemented. In particular, when new resources are sought, examining the institutional logic of those controlling resources may help assessing the institutional effects of the policy. The example of Soficas shows that opening an industry to resourceful logic foreigners had material consequences for the industry, which were not foreseen when the reform was initially implemented. Under the same token, involving resource providers with a novel logic may be a way to induce a desired shift in logic. Such projects must however be handled with care as changes in institutional logics involve complex social processes, which may not be controllable and could in some cases backfire.

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Logic Duality, Conformity, and Survival in the French Film Industry, 1987-2008

Abstract. This dissertation explores how logic duality, that is the coexistence of two institutional logics in an industry, affects firm strategic behaviors, and how in return firm strategic behaviors contribute (or not) to maintain logics segregated. Theoretically, I investigate the liability firms face when entering industries governed by a different logic, the way incumbent organizations respond to the conformity demands of logic foreigners, and the determinants of firm-level institutional capital. Empirically, I study investment funds, film-making organizations and production firms in the French film industry (1987-2008), and find strong support for the proposed theory. By revealing strategies available to firms in dual-logic settings and highlighting sources of institutional capital, this study contributes to the strategic management literature. The result is also a contribution to our understanding of why industries resist the “inexorable push towards homogenization” predicted by new institutional theory. By shedding light on the positive and negative effects of logic duality for firms, this work has also implications for practice.

Keywords. Strategic Management, Industry Evolution, Institutional Logics, Institutional Plurality, Organizational Conformity, Firm survival.

Dualité de logiques, conformité et survie dans l'industrie cinématographique française, 1987-2008

Résumé. Cette thèse explore l'effet de la coexistence de deux logiques institutionnelles au sein d'une industrie sur le comportement stratégique des entreprises et, en retour, l'impact du comportement stratégique des entreprises sur la persistance (ou non) de deux logiques distinctes. Un cadre théorique est proposé pour expliquer les désavantages dont souffrent les entreprises qui pénètrent une industrie gouvernée par une logique différente, la manière dont les organisations en place répondent aux demandes de ces entreprises porteuses d'une logique étrangère et enfin les facteurs influençant la formation du capital institutionnel des entreprises. Une analyse empirique des fonds d'investissements, des organisations en charge de la production et des entreprises de production dans l'industrie cinématographique française (1987-2008) vient conforter les prédictions théoriques proposées. Cette thèse contribue à la littérature en management stratégique en dévoilant un ensemble de stratégies à la disposition des entreprises dans une industrie où deux logiques s'affrontent. Elle contribue également à expliquer pourquoi certaines industries résistent à l'inexorable homogénéisation prédite par la théorie néo-institutionnelle. En dévoilant les effets positifs et négatifs de la dualité de logiques sur les entreprises, cette étude offre également des enseignements pour la pratique managériale.

Mots clés. Management stratégique, Evolution des industries, Logiques institutionnelles, Pluralité institutionnelle, Conformité Organisationnelle, Survie des entreprises.