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THE ROLE OF INFORMATION SIGNALS IN VENTURE INVESTMENTS AND PERFORMANCE

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The dissertation includes a collection of three studies:

I. (Page 4) New venture founding team reputation and investments in new ventures: the mediating role of new venture idea legitimacy. The case of film industry;

II. (Page 49) The dual role of intermediaries in the relationship among new venture founding team reputation, ultimate investors and market performance: The case of the film industry;

III. (Page 85) Acquiring Competitive Advantage through Reputation, Legitimacy and Status: A New Operational Model.

GENERAL ABSTRACT

This dissertation aims to provide theoretical and empirical evidence on which information signals can explain venture investments and performance. The first two studies are empirical, employing film industry as the ideal setting to support the theoretical framework. A film is considered a new venture (project-based), film producer and director are considered the core members of the new venture founding team (VFT), film's script represents the new venture's

business idea and the distributor represents an intermediary that legitimates the VFT in the market.

The first study explains how investors decrease new venture “liability of newness” through two main signals: the VFT reputation and the socio-political legitimacy of the new venture idea. I find that VFT reputation enhances the socio-political legitimacy of a new venture idea, which on its own decreases the effect of VFT reputation on attracting potential investors.

The second study, combining signaling and agency theories, explore signals that determine new venture performance. Results find that VFT reputation is an agent’s “value signal” for venture investors (principals respect to a VFT) that is mediated by the investment of an intermediary in the new venture, which represents an efficient “commitment signal” to maximize the new venture performance. The intermediary considered assumes a special “dual role” in the VFT-investors’ relationship: it is an agent with respect to investors and, at the same time, it is a principal to the VFT.

Finally, the third study is a literature review proposing a new operational model for established and new ventures that aim to acquire competitive advantage through three relevant signals: reputation, legitimacy and status. The model explains how managers and venture founders, through the acquisition of venture’s legitimacy and network status, could strategically affect the corporate reputation of their venture, leading it to higher societal status and greater competitive advantage.

New venture founding team reputation and investments in new ventures: the mediating role of new venture idea legitimacy. The case of film industry

ABSTRACT

This study examines the complex relation of new venture reputation and legitimacy on attracting investment capital. Many scholars infer legitimacy and reputation from past actions of new venture founding team (VFT) members. This study focuses on the sociopolitical legitimacy of a new venture's business idea, which is based on the quality evaluation by industry experts on behalf of a government institution. We find that the reputation of a VFT enhances the sociopolitical legitimacy of a new venture idea, which has the capacity to mediate the effect of VFT reputation on attracting private investment capital. However, this mediation is significant for the VFT member that is mostly responsible for new venture technical development (e.g. the Chief Technology Officer), but not for the VFT member who is in charge of the general management of the new venture (e.g. the Chief Executive Officer). We study this in the empirical setting of the Italian film industry, where we focus on the sociopolitical legitimacy assigned to a film script by a government commission of industry experts, and on the capacity of this type of legitimacy to mediate the relationship between the reputations of the two key VFT members – the director (the Chief Creative Officer) and producer (the Chief Executive Officer) – and investments.

Keywords: Legitimacy; reputation; investment; founding teams; film industry, CTO, CEO.

INTRODUCTION

Investors take their investment decisions in new ventures according to several criteria, besides the evaluation of industry conditions, they mostly rely on information signals (Busenitz, Fiet and Moesel, 2005; Deutsch and Ross, 2003), which can be represented by new venture's feature-based judgments, as sociopolitical legitimacy and reputation (Bitektine, 2011).

In this paper, we focus on the capacity of a new venture to attain and signal sociopolitical legitimacy and reputation in order to attract investment capital. On one hand, legitimacy can be considered as an assessment of whether an actor fits with normative values (Rindova, Pollock, and Hayward, 2006), adheres to norms of acceptable behavior (Dowling and Preffer, 1970), or is appropriate (Aldrich and Fiol, 1994; Foreman, Whetten, and Mackey, 2012). On the other hand, reputation is derived from an actor's perceived ability (Rindova et al., 2006), quality expectations (Benjamin and Podolny, 1999) or effectiveness based on past performance (Foreman, Whetten, and Mackey, 2012).

While most extant studies claim that legitimacy is an antecedent of reputation arguing that in order to build a reputation, organizations first need to acquire legitimacy (De Quevedo-Puente, de la Fuente-Sabaté and Delgado-García, 2007; Rao, 1994), only few suggest that reputation can be an antecedent of legitimacy (King and Whetten, 2008; Petkova, 2016).

At the early stage of a new venture's life, during its establishment, founders and managers are often represented by the same individuals, composing a new venture founding team (VFT) (Beckman, Burton and O'Reilly, 2007). Investors can derive a new venture's legitimacy (Packalen 2007; Zott and Huy, 2007) and reputation (Ebbers and Wijnberg, 2012; Fombrun and Shanley 1990; Heil and Robertson, 1991) by judging the track record of its VFT members, while in this study the socio-political legitimacy of a new venture (Bitektine, 2011) is innovatively derived from the judgment of the new venture's actual business idea by the assessment of industry experts (acting on behalf of a government institution), who have the task to evaluate if a new ventures idea is considered eligible for receiving government support.

When an idea is legitimate it has the capacity to resonate within a specific institutional context and the belief system of a particular field or industry (Boxenbaum, 2008). The VFT members of a new venture could leverage the degree of legitimacy of their business idea in order to demonstrate to new venture investors a concrete proof of their capacity to moderate market uncertainty (Petkova, 2016). In particular, within an institutionalized environment (Déjean, Gond and Leca, 2004; Fogarty, 1996), the socio-political legitimacy of a new venture might induce potential investors to invest in an uncertain business by conveying that the new venture idea conforms to industry norms. Therefore, through a mediation model we show that the effect of VFT reputation on attracting external investments (Deutsch and Ross, 2003) is significantly reduced by the socio-political legitimacy of the new venture idea.

Finally, this study argues that the mediating effect of new venture idea's socio-political legitimacy in the relationship between reputation and attracting investment capital is stronger for some VFT members than others, depending on the specific role they perform in the new venture founding team. The mediation effect of sociopolitical legitimacy of the new venture idea on the relation between the reputation of the VFT and the size of new venture investments, is stronger for new venture founding team members with a technical role - acting as chief technology officers (CTOs) and being responsible for the new venture development - than those with a managerial role - acting as chief executive officers (CEOs) and being responsible for the general management and completion of the new venture (Medcof, 2008).

This paper has a number of contributions. First, the core contribution is that, contrary to extant studies, in this study reputation is treated as an antecedent of new venture legitimacy instead of vice versa. This finding challenges the assumption of institutional scholars that judgments of legitimacy precede judgments of reputation (King and Whetten, 2008; Petkova, 2016).

Second, the emphasis on the legitimacy of a new venture's business idea allows this study to prove the mediating role of legitimacy on the relationship between the reputation of the VFT members of a new venture and the amount of external investment capital the new venture is able to attract. This finding establishes a sequence between legitimacy and reputation, showing the prevalence of sociopolitical legitimacy on reputation in determining investment decisions (Bitektine, 2011).

Third, by distinguishing between specific roles of VFT members in new ventures, this study shows that legitimacy mediates the relationship between reputation and investments more strongly for members responsible for the new venture development, having technical skills and whose role is predominantly linked to exploration but not to exploitation function (Ruef and Scott, 2008).

This paper is structured as follows: it starts with a comprehensive literature review to demonstrate that both the regulatory legitimacy of a new venture idea and the performance-based reputation of the founders or VFT members have a positive effect on the amount of investment capital received by a new venture. Next, it describes the empirical setting, methods, data and measures. The empirical setting is constituted of the Italian film industry, in which each film script represents a new venture idea. The legitimacy of the film script, the reputation of the film director and the film producer, as founders or VFT members, are considered as important signals for private investors' financing decisions. Finally, in the discussion section the theoretical contributions, managerial implications, limitations, and directions for future research are presented.

THEORETICAL BACKGROUND

New venture founding team reputation and new venture investments

Reputations are a strategic resource for established ventures, since firms and organizations with relatively good reputations have a greater probability to reach superior financial performance (Fombrun and Shanley, 1990; Roberts and Dowling, 2002). Fombrun (1996, p.72) defines corporate reputation as “a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all its key constituents when compared to other leading rivals”. Lange, Lee and Dai (2011) argue that observers’ cognitive and subjective evaluations of a particular actor’s past can build organizational reputation in three ways: “generalized favorability”, “being known” and “being known for something”. The first signifies that observers strictly judge an actor by a global “impression” without focusing on a particular reputational signal, the second refers to a general “awareness”, and the third to the judgment of an “exact quality”.

While reputation is an important resource that helps established firms to attract investment capital (Roberts and Dowling, 2002), new or nascent ventures that are in the process of being set up tend to have difficulties in getting access to investment capital because they lack a reputation based on past demonstrations of quality (Fischer and Reuber, 2007). Especially when the particular attributes of a product are difficult to ascertain ex ante, reputation derives from expectations about the quality of an organization’s product based on past demonstrations of quality (Shapiro, 1983). Although Shapiro’s (1983) study refers to the context of consumers purchasing decisions, it is also relevant in the context of investors investment decisions in new ventures. These can include straight equity stakeholders, such as business angels and venture capitalists, but also financial intermediaries investing in equity, such as banks (Dolvin, Mullineaux and Pyles, 2007; Hellmann, Lindsey and Puri, 2008). All these types of investors need to assess different pieces of information in order to understand the risk and the profitability of a new venture (Tyebjee and Bruno, 1984).

When there is a single founder, the overall performance of the founder throughout her/his career can increase the prominence and appeal of a new venture to possible investors (Burton, Sørensen and Beckman, 2002; Shepherd, Douglas and Shenley, 2000). This is easier to accomplish by serial entrepreneurs that can signal quality through the performance of their previous ventures (Zhang, 2011). In many cases, however, new ventures have several founders – the VFT - that leads the new venture. The VFT has a strong influence on the performance of the new venture because they exercise direction and control and assemble the rest of the team (Eisenhardt and Schoonhoven, 1990; Eisenhardt, Schoonhoven and Lyman, 2001). A VFT can convey reputation to a new venture by transmitting their individual human and social capital (Burton et al., 2002; Petkova, 2006; Shane and Cable, 2002). As a result, VFT members with favorable reputations based on past demonstrations of quality are more likely to attract investment capital for the current ventures in which they are involved (Ebbers and Wijnberg. 2012).

Legitimacy of the new venture idea and investments

New ventures suffer from a liability of newness (Stinchcombe, 1965). An important way for new ventures to overcome this challenge is to attain legitimacy. Legitimacy is "the process by which key stakeholders, the general public, key opinion leaders or government officials accept a venture as appropriate and right, given existing norms" (Aldrich and Fiol, 1994, p. 648). The concept of reputation is often confused with that of legitimacy because they are both multidimensional constructs (Ruef and Scott, 1998) and socially constructed based on the shared perception of knowledgeable constituents (Highhouse et al., 2009). On the one hand, reputation includes a social comparison among organizations (Deephouse and Carter, 2005) often on the basis of expectations about the quality of an organization's product based on past demonstrations of quality (Shapiro, 1983). On other hand, legitimacy is based on different dimensions, concerning organizations' adherence to the expectations of a social system's norms, values, rules and meanings. In short, legitimacy is an assessment of what every organization must do and it is based on the "appropriateness" of an organization's characteristics and conduct, while reputation focuses on the "effectiveness" of its performance (Foreman, Whetten, and Mackey, 2012).

Suchman (1995, p. 574) provides a comprehensive definition of legitimacy as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". At an organizational level, this general definition of legitimacy has been applied to established ventures, signaling their ability to survive in the market, and to new ventures, signaling their capacity to overcome the liability of newness (Singh, Tucker, and House, 1986). New ventures can use legitimacy as a mechanism to attract investments (Eisenhardt and Schoonhoven, 1996; Higgins and Gulati, 2006; Parsons and Jones, 1960; Terreberry, 1968; Rao, 1994). New venture legitimation and the consequent possibility to obtain more resources can depend on the actions of individual managers and new venture founders (Certo and Hodge, 2007; Packalen 2007; Zott and Huy, 2007). They can conform to, manipulate, select and create rules, norms, and values in their environment, satisfying the expectations of credentialing associations, professional bodies and other powerful organizations (Zimmerman and Zeitz, 2002).

Within a comprehensive view, legitimacy can be regarded as having three main dimensions: socio-political, cognitive and pragmatic (or instrumental). First, the sociopolitical dimension of legitimacy is about conforming to principles, rules and standards (Aldrich & Fiol, 1994). From a socio-political perspective, legitimacy can be regulatory or normative. Regulatory legitimacy incorporates government bodies' recognition but also that of other professional groups', while normative legitimacy implies the respect of social norms and values (Scott, 1995). Second, from a cognitive dimension, a venture is seen as being legitimate when its' activities and characteristics are generally accepted and taken for granted as public knowledge or being known by a wide audience, or a great majority of individuals (Aldrich & Fiol, 1994). Third, the pragmatic (or instrumental) dimension of legitimacy is founded on the evaluators' self-interest and can be considered a basic form of legitimacy since it is centered on the expected value that different stakeholders and constituents can attribute to an organization's activity (Suchman, 1995; Tost, 2011).

Contrary to extant studies that employ the legitimacy attributed to the single VFT members as proxy of the overall legitimacy of the new venture (Certo and Hodge, 2007; Packalen 2007; Zimmerman and Zeit, 2002; Zott and Huy, 2007), this study derives the legitimacy of a new venture directly from the legitimacy assigned to its "business idea" by a government institution. Indeed, a new venture is expected to conform to government regulations and a failure in this raises questions about the business idea originating the essence of the new venture, which is the first element that investors question and debate during their investment decisions (Tost, 2011).

New venture ideas are subjective, representing plans reflecting entrepreneurs' interpretations regarding the best way to combine resources in order to gain profit (Shane, 2012). The relevance of focusing on the business idea underlying a new venture is motived by the fact that the early-stage of capitalization is often on the basis of the business idea (Duchesneau and Gartner, 1990). The evaluation of a business idea is the fundamental step in the process that guarantees the possibility of being financed and surviving in the future (Aldrich and Martinez, 2001). Investors' expectations are satisfied if venture founders maintain a certain degree of legitimacy in their new ideas that do not deviate too much from the norms and regulations established by the actors constituting the institutional environment (Davidsson, Hunter and Klofsten, 2006).

The legitimacy of a new venture idea could have the greatest influence on investors' behavior if legitimate third parties concede it (Jepperson, 1991; Rao, 1994; Scott, 1995). Third parties' certification makes new ventures part of recognized cultural and social models more quickly. The “certification by a centralized body within a specific environment can signal to others that the organization is a legitimate member of that particular industry” (Suchman, 1995, p. 590). In particular, when venture founders achieve certification from central institutional actors, such as those with government authority, demonstrating that the proposed new venture idea meets specific standards, investors are more likely to invest in them (Sine, David and Mitsuhashi, 2007).

HYPOTHESIS DEVELOPMENT

New venture founding team reputation and new venture idea legitimacy

Most studies treat reputation as the outcome of legitimacy (eg. Rao, 1994), while few argue for a reverse causal link. A notable exemption is the conceptual paper by King and Whetten (2008), in which they argue that “intense pressures to compete among similar organizations can result in what was once an ideal standard becoming the norm… In this manner, the standards for garnering reputation at one point in time become the standards for being legitimate at a subsequent point in time” (King and Whetten, 2008 p. 202). Building on this perspective, the reputation that a new venture derives from the past performance of its VFT members could determine the capacity of the new venture to be considered as legitimate. Organizations with a favorable reputation could be more likely to attract the attention of actors and institutions that govern norms and standards, and as a result more likely to attain legitimacy for a new category of products (King and Whetten, 2008).

In constructing a legitimate identity for their new venture, founders strive for “optimal distinctiveness”, balancing the need for strategic singularity or differentiation versus that of normative isomorphism or appropriateness (Lounsbury and Glynn, 2002; Schultz, 2011). The foundation of new business schools can provide an example since new business schools gain legitimacy through their affiliations with famed traditional research universities (Alajoutsijärvi, Juusola and Siltaoja, 2015).

On one hand, a VFT with a low initial reputation could prefer to differentiate itself in order to gain competitive advantage, presenting an innovative idea conforming less with existing regulations (Alvarez, Young and Woolley, 2015). On the other hand, the capacity to behave in an isomorphic manner by generating a new venture idea with a high level of sociopolitical legitimacy (but perhaps low competitive advantage) could be easily found in reputable venture founders who achieved success in the past.

Nevertheless, VFTs do not create legitimacy in a vacuum, but they often act within “institutionalized environments” where “organizational survival is predicated upon some form of conformity to prevailing values or standards for appropriate behavior” (Fogarty, 1996, p 246). Therefore, VFTs that signal a reputation built by a positive track record, demonstrate their capacity to face market uncertainty (Petkova, 2016) and to fit with the mechanisms of external actors that recognize them as legitimate within a particular organizational field and economic market (Drori and Honig, 2013). Examples of institutionalized environments are ones constituted by private sector organizations, which are highly dependent on public financing (Rahaman, Lawrence and Roper 2004). We therefore hypothesize that:

Hypothesis 1: There is a positive relationship between the reputation of the new venture founding team and the sociopolitical legitimacy of the new venture idea.

The mediating role of new venture idea legitimacy on the relation between new venture founding team reputation and new venture investments

When external stakeholders can construct reputations of VFT members based on publicly available information there is less information asymmetry (Shane & Cable, 2002). When stakeholders cannot accurately assess the value of a new venture with the information available to them, investors rely on referrals (Shane & Cable, 2002) or quality signals originating from prestigious parties’ affiliations or certifications (Pollock, Chen, Jackson and

Hambrick, 2010). External certifications provide legitimacy to a new venture and they can have a great influence on investment decisions (Rao, 1994). When investors of a new venture aim to take investment decisions according to the venture's sociopolitical legitimacy and reputation, they face an important dilemma about which of these two dimensions are able to provide more efficient information than their own venture quality self-assessment. Indeed, sociopolitical legitimacy and reputation are both constructed through observable features of the new venture and thus they convey the same degree of information complexity to investors (Bitektine, 2011).

This study argues that the direct effect of VFT's reputation on attracting investment capital might be weaker when the business idea of the new venture subsequently also attains sociopolitical legitimacy. Investors tend to be more interested in ventures with a low level of reputation but legitimate, while they tend not to invest in ventures with positive reputation but considered illegitimate (Zyglidopoulos, 2003). Moreover, a VFT can induce stakeholders investments demonstrating that the characteristics of its business idea conform to the environment in which it is going to operate (Tornikoski and Newbert, 2007). For instance, the level of cognitive – as compared to sociopolitical – legitimacy attributed to a new business idea can mediate the positive relation between the entrepreneurs' ability to present a new business idea and the funds obtained for its implementation (Pollack, Rutherford and Nagy, 2012). Similarly, private investors tend to decrease their due diligence regarding the reputation of the VFT when they provide resources to a new venture that acts in an institutionalized environment (Aldrich and Martinez, 2001). We therefore hypothesize that:

Hypothesis 2: The positive relation between the reputation of the new venture founding team and the size of new venture investments is partially mediated by the sociopolitical legitimacy of the new venture idea.

The role of new venture founding team members within the mediating effect of new venture idea legitimacy on the relation between reputation and investments

Many new ventures are not founded by single individuals but by entrepreneurial teams, which need to be effectively assembled and maintained in order to make the new venture successful (Kamm, Shuman, Seeger and Nurick, 1990). Members composing a VFT often assume different roles and tasks because the venture needs different complementary skills and expertise. As a result, one might expect that the reputation of certain VFT members with particular roles are a stronger signal to investors about the future business potential of the new venture than others. On the other hand, one can make a distinction between managerial and technical legitimacy, whose effects on organizational performance – in the form of survival – can vary over time and between contexts (Ruef and Scott, 2008).

For those VFT members whose role is directly linked to the new venture development in which they have been involved, one might expect that the effect of their individual reputation on attracting investment capital is mediated by the legitimacy of the business idea of the new venture.

The roles of VFT members can be more prominently linked to the functions of exploration or exploitation during the establishment of a new venture (March, 1991). For instance, the chief technology officer (CTO) of a new venture is mostly responsible for exploration and plays an important role in leading the new venture's technical development (Medcof, 2008) by monitoring new technologies and coming up with new product ideas (Smith, 2003), while the chief executive officer (CEO) is mainly responsible for exploitation in the sense of value maximization and the ultimate financial performance (Medcof, 2008).

On one hand, a VFT member that assumes the role of CEO in a new venture – having the managerial control of the activities necessary the overall functioning of the new venture - could provide managerial legitimacy to the new venture. On the other hand, a VFT member that assumes the role of CTO in a new venture - which is related to technical aspects of the new venture creation – could provide technical legitimacy to the new venture (Ruef & Scott, 2008). Indeed, Peeters, Massini and Lewin (2014) provide an example (through a case study) that shows how a CTO is able to build the perception that a new practice is desirable, given the values and strategic objectives of the organization in order to foster the convintion that a new venture conforms to the socially constructed system of values, norms and beliefs of its environment. In this case the CTO represents an agent that reduces the uncertainties surrounding the implementation of a new venture, especially when the venture is based on a new business model.

Within this perspective, VFT members, acting as CTOs and being responsible for the new venture development, often build their credibility demonstrating their technical skills in the venture development and showing their ability to create a business idea that will encounter the favor of particular stakeholders (O'Neill and Bridenbaugh, 1992). On the contrary, the reputation of a VFT members with a managerial role, acting as CEOs and being responsible for gathering and overseeing the resources necessary to the new venture's completion, could represent a stronger quality signal to investors because their positive past track record is associated to a great probability that the venture will be accomplished (Deutsch and Ross, 2003). We therefore hypothesize:

Hypothesis 3: The mediation effect of sociopolitical legitimacy of the new venture idea, on the relation between the new venture founding team reputation and the size of new venture investments, is stronger for new venture founding team members with a technical role than those with a managerial role.

[INSERT FIGURE 1 HERE]

METHODS

Research Setting and data

The research setting of this study is the Italian film industry. Within this ideal setting, films represent project-based ventures, whose members temporarily combine their skills and efforts for a specific project-based venture (Jones, 1996). A film project often starts with a film producer securing the rights of a film idea and hiring a film director (Puttnam, 2004, p. 16). While the producer is responsible for the film's business side, the director is responsible for the creative side (Baker and Faulkner, 1991; Delmestri, Montanari, and Usai, 2005; Faulkner and Anderson, 1987).

Given their dual leadership position, the film producer and the director are considered as the main VFT members of a new project-based venture's founding team.

Producers are mostly responsible for the overall film implementation, which is selecting, gathering and managing resources. They can be regarded as chief executive officer (CEO) since they need to maintain a balance between time, cost and quality (Puttnam, 2004, p. 18). The director is the responsible for the film development, thus it can be regarded as the chief creative officer (CCO) (Catmull, 2008), which is a role closely linked to that of chief technology officer (CTO) because it is mostly responsible for the new venture development (Medcof, 2008).

Producer and director's reputation, measured in terms of box-office performance, can have a great appeal on investors because it signals the commercial potential of a film (Delmestri, Montanari, and Usai, 2005; Ebbers and Wijnberg, 2012; Kim and Jensen, 2013). In addition, films that receive sociopolitical legitimacy in the form of government support (certification and subsidies) might attract more subsequent private investors. Although a film's box-office success seems to depend more on the popularity of leading actors and directors rather than their capacity to obtain subsidies (Bagella and Becchetti, 1999), government subsidies may help to attract private investments in countries with a relatively small domestic film industry that want to stimulate the production of quality films with significant cultural content (eg. Kim, 2000).

The initial dataset of this study comprised of 309 investments in 145 films. In order to select films that have commercial appeal for investors, short films (that are not destined for theatrical release) were removed from the sample, thus 302 investments in 138 films remained. Finally, after controlling for which of these films received the script legitimacy certification from the Italian Directorate General for Cinema (DGC), which is a Directorate of the Italian Ministry of Cultural Heritage, Activities and Tourism (MIBACT), 235 investments in 114 films remained. The DGC was established in 2001 with the aim to promote and develop Italian cinema and the national film industry. The DGC expresses the degree of legitimacy of a film project through a legitimacy score of the film script (see the next section about description of the variables for more details). In order to generate the score the DGC selects a committee of film industry experts. The committee is composed of several experts that are active in the industry (they cannot be connected to the film evaluated), which include directors, script writers, producers, distributors, exhibitors, professional critics and legal and financial professionals in the film sector (Cinema.beniculturali.it, 2016).

In this study, private investors are external actors that are not directly active in the film industry – such as those in the DGC selection committee – and motivated by commercial objectives (Chisholm, 2014). These private investors place great attention to the value of the film idea, which is mostly reflected in the film script (Eliashberg, Hui and Zhang, 2007). In addition, they wish to determine if this idea conforms to norms, regulations and values of a specific market (Baker and Faulkner, 1991). In Italy, the 2008 Financial Law (no. 244/2007), which became fully operational on the 21st of January 2010, introduced the possibility for private companies to invest equity in national or co-produced films with a theatrical release in the national market. Within this study, all private investment data, from 2010 until the beginning of 2014, is collected through the online "Tax-credit section" of the DGC, which is in charge of the investments in Italian films and affiliated to the Italian Ministry of Cultural Heritage, Activities and Tourism (MIBACT).

Finally, the box-office data from 1992 to 2014 are collected through the database of CINETEL, which is the Italian agency monitoring national ticket sales (Cinetel.it, 2016) and the Internet Movie Database (IMDb, 2016), a popular and authoritative web-source for films (Hsu, 2006). To correct possible inflation effects the nominal values of box-office, as well as the film investments, have been deflated by the Italian consumer price index per year that is provided by the European Commission (CPI), choosing 2005 as the base year (Ferriani, Cattani and Baden-Fuller, 2009).

MEASURES

Dependent variable

Film investments. New venture investments are measured by the natural logarithm of the absolute size of the equity investments conceded by private companies in a single film production (Morawetz, Hardy, Haslam and Randle, 2007).

Explanatory variables

Producer and director market reputation. Reputation is operationalized as the logarithm of the mean value of the box-office revenues of the previous three films in which the producer and director were involved (Ebbers and Wijnberg, 2012). Since in most cases there is a period of one to two years between the investment decision and the film release, the reputation variables are measured two years before the release of the focal film. Box-office revenues, which are the total ticket sales in film theaters, are often used to measure market performance of films (Delmestri et al., 2005; Sorenson and Waguespack, 2006). Because box-office has a skewed distribution due to the uncertainty of the film industry, the logarithm of reputation is used (Ferriani et al. 2009). Producers and directors that are new entrants are coded as having an average reputation. Although new entrants do not have a track record in the film industry, some do have a track record in industries related to film, such as television or theatre (Ebbers and Wijnberg, 2012).

Script legitimacy. The legitimacy of the new venture idea is measured by the legitimacy of the film script before the investment decision. The DGC expresses the script legitimacy through a score from zero to hundred. In order to generate the score, the DGC selects a committee of film industry experts, which cannot be connected to any member of the film production being evaluated. The data of the total score of the script is publicly available online, as well as its' four main evaluation criteria: 1) quality of the script 2) value of its theme 3) value of the characters, dialogues and narrative structure 4) cinematic style. This score evaluates only the film idea (no other components or elements related to its proponents), reflecting its sociopolitical legitimacy (Aldrich & Fiol, 1994). Films with a favorable score receive government support, such as they are labeled as being of "cultural interest" for the government and the ones with the highest score are eligible for receiving government subsidies (Cinema.beniculturali.it, 2016)

Control variables

Director and producer artistic reputation. Besides market reputation, it can also be important to control for the artistic reputation of the director and the producer derived from critics' reviews (Basuroy et al., 2003; Ebbers and Wijnberg, 2012; Eliashberg and Shugan, 1997). Reviews act as indicators of quality and can influence performance (Eliashberg and Shugan, 1997). Negative reviews damage the film's performance more than positive reviews support it (Basuroy, Chatterjee and Ravid, 2003). For this study, reviews by Italian film critics are retrieved from the MYMOVIES database, the most popular Italian web-source for films. Similar to how it is done for market reputation; the director's and producer's artistic reputation is operationalized as the average review score of the previous three films before the focal film in which they were involved. It is on a scale from zero to hundred. Producers and directors that are new entrant into the industry, and as a result never received reviews, are coded as having an average artistic reputation.

Director and producer experience. Experience is often used as measure of team - in contrast to idea – legitimacy in a specific industry (Cohen and Dean, 2005). Film professionals that have been active in a specific industry for a longer time are more embedded in the industry network and as a result enjoy a greater level of legitimacy (Cattani, Ferriani, Negro, and Perretti, 2008). Moreover, VFT experience is strongly correlated with entrepreneurial growth (Kor, 2003). Therefore a control variable is included for the experience of the director and the producer, which is measured by the number of years since they entered the industry before the focal film. This data is collected through IMDb.

Director and producer first film. As mentioned earlier, some films are made by producers and directors that are new entrants, whose market and artistic reputation are coded as average. To control for the effect of these new entrants we included a dummy called first film, which assumes the value of one when it is the first theatrically released film of a director or producer.

Mainstream film. Mainstream films have a greater market appeal since they open on more screens and are more heavily advertised than art-house films (Gemser, Oostrum and Leenders, 2007). Mainstream films are identified with a dummy that assumes the value of one for films with a number of opening screens greater than the median value in our sample (Reinstein and Snyder, 2005).

Comedy genre. Audiences can have different film consumption preferences as a result of cultural differences (Kim and Jensen, 2014). Especially comedy films are often country specific and related to local culture (Friedman, 1992). Therefore, investors might be more interested in investing in comedies by local film makers because they are more likely to appeal to the local audience or domestic market.

Financial Intermediary. Financial intermediaries are economic entities who are in charge of managing the financial assets of other economic entities. Financial intermediaries can include: banks, finance companies, investment companies, credit unions, private equity funds, etc. (Gup, 2011). In this paper, we focus on private investors as the specific form of financial intermediaries. Private investors in the film industry all represent market players investing in the form of equity (Chisholm, 2014). However, they may have different objectives. Financial intermediaries are more concerned with a direct financial return on investment, while investing firms that are active in industries such as fashion, food, or consumer electronics might invest in films with the objective of promoting their products to consumers (Hofmann, 2012). Therefore, a dummy is included which assumes the value of one for investors that are financial intermediaries.

RESULTS

Descriptive statistics and correlations can be found in Table 1. Following the recommendations for testing the presence of mediators (Hayes, 2009; 2013), the causal step approach of Baron and Kenny (1986), based on ordinary least squares regressions, plus a subsequent bootstrap test is employed.

As a first condition, the mediation model requires the existence of a direct effect to be mediated, which shows that the predictors significantly affect the outcome when the mediator is not included. Therefore the size of new venture investments is regressed on the VFT's reputation (represented by the market reputation of the film director and producer) and the control variables. Controlling for goodness of fit ($R^2 = 0.48$; $p < 0.001$), significance of the model (F-test = 18.38, $p < 0.001$) and absence of multicolinearity problems (Mean VIF = 1.69), the results of Table 2 (model 2) show that the market reputation of the director ($\beta = 0.11$, $p < 0.01$) and producer ($\beta = 0.10$, $p < 0.05$) are indeed positively related to film investments.

As a second condition, the mediator must significantly affect the outcome. This means that legitimacy of a new venture idea needs to positively affect investments. Controlling for goodness of fit ($R^2 = 0.47$; $p < 0.001$), significance of the model (F-test = 20.23, $p < 0.001$) and absence of multicolinearity problems (Mean VIF = 1.51), the results of Table 2 (model 3) show that script legitimacy indeed is positively related to film investments ($\beta = 2.23$, p. < 0.001).

As a third condition, the predictor must significantly affect the mediator, thus the VFT's reputation needs to have a positive effect on legitimacy of a new venture idea. Controlling for goodness of fit ($R^2 = 0.41$; $p < 0.001$), significance of the model (F-test = 13.90, $p < 0.001$) and absence of multicolinearity problems (Mean VIF = 1.69), the results of Table 2 (model 4) demonstrate that the market reputation of the director ($\beta = 0.02$, $p < 0.001$) and producer ($\beta = 0.01$, $p < 0.01$) are positively related to the script legitimacy. This finding also supports hypothesis 1.

The fourth and last condition, the significant effect of the predictor on the outcome has to decrease when the mediator is added to the model. It is expected that the positive effect of the VFT's reputation on new venture investments is less significant when the legitimacy of a new venture idea is included in the model. Controlling for goodness of fit ($R^2 = 0.49$; $p < 0.001$), significance of the model (F-test = 17.75, $p < 0.001$) and absence of multicolinearity problems (Mean VIF = 1.73), the results of Table 2 (model 5) present a situation in which the script legitimacy, as mediator, remains significant and positive ($\beta = 1.6$, p. < 0.05), while there seems to be partial mediation of market reputation of the director ($\beta = 0.07$, $p < 0.1$) and producer ($\beta = 0.08$, $p < 0.1$), which have a positive but less significant relationship with film investments. Therefore, in order to complement the causal step approach Baron and Kenny (1986), a test about the significance of the mediation effect is performed. Because the sampling distribution of the indirect effect is not normal but asymmetric, with nonzero skewness and kurtosis (Bollen and Stine, 1990; Stone and Sobel, 1990), the procedure outlined by Preacher and Hayes (2004) with bootstrap resampling has been employed (with one thousand replications) as an alternative for the Sobel Test.

Since the VFT's reputation is composed of the market reputation of the director and the producer, the bootstrap test is implemented twice for each of these variables. During the test of the script legitimacy on the director market reputation, the producer market reputation is treated as control variable together with the other controls. The same procedure is used to test the mediation effect of the script legitimacy on producer market reputation, in which director market reputation is treated as a control variable with the other controls. The results confirming the mediating effect of script legitimacy with respect to director market reputation ($z = 2.12$, $p < 0.05$), but not with respect to the producer market reputation ($z = 1.36$, n.s.). These results partially support hypothesis 2 and fully support hypothesis 3.

[INSERT TABLE 1 HERE]

[INSERT TABLE 2 HERE]

ROBUSTNESS CHECK

A cluster-adjusted ordinary least squares (OLS) estimations was run for all models, clustering investments for each specific film (see table 3). Since more than one investment can refer to the same film, OLS estimates might be biased because investments might not be independent within film groups. Clustering data leads to robust standard errors. The results of the cluster regression support our conclusions with respect to hypothesis 1.

Differently from the OLS regression, the models based on cluster regressions suggest that producer market reputation is fully mediated because the coefficient becomes insignificant ($\beta = 0.08$, n.s) when script legitimacy is added to the model. Anyway, even with clustered data, the bootstrap resampling test for mediation (Preacher and Hayes, 2004) does not change its results, the partial mediating effect of script legitimacy with respect to director market reputation ($z = 2.12$, $p < 0.05$) is confirmed, but the mediation respect to the producer market reputation (z = 1.36, n.s.) is not confirmed. Thus, as in the case of OLS regressions, these results partially support hypothesis 2 and fully support hypothesis 3.

[INSERT TABLE 3 HERE]

DISCUSSION

Legitimacy is often seen as something resembling reputation (Highhouse, Brooks and Gregarus, 2009), leading scholars to discuss the distinctions and correlations between these two concepts (e.g. Bitektine, 2011; Deephouse and Carter, 2005; Highhouse et al.; King and Whetten, 2008). Deephouse and Carter (2005) for example, argue that past performance increases reputation but not sociopolitical legitimacy. In the context of new ventures looking for investment capital scholars tend to infer both reputation and legitimacy from the members composing its founding team (Certo and Hodge, 2007) and claim that new ventures first need to acquire legitimacy before they can build a reputation (De Quevedo-Puente et al., 2007; Rao, 1994). To the best of our knowledge, although "it can be very legitimate to fund a 'B' level idea as long as it is being championed by an 'A' level entrepreneurial team" (Arthurs and Busenitz, 2003, p. 159), no previous study considered the possibility that the legitimacy of a new venture idea itself might be bolstered by the reputation of its VFT members.

Therefore, the first contribution of this paper emerges from the possibility to consider reputation as an antecedent of legitimacy (King and Whetten, 2008). In particular, with the theory developed in this study we challenge the assumption of institutional scholars that judgments of legitimacy precede judgments of reputation, offering the evidence that also reputation can precede legitimacy (Petkova, 2016) and contributing in an innovative way to the literature that sees legitimacy as stemming from an active involvement of the entrepreneurs who use this signal in order to acquire resources (Drori and Honig, 2013; Zimmerman and Zeit, 2002; Zott & Huy, 2007).

In this study the reputation of a new venture is derived from the past performance of the VFT, while sociopolitical legitimacy is based on the conformity of the new venture idea with the norms of a government body represented by industry experts. Considering reputation as an antecedent of legitimacy helps to explain who are the founders that are able create sociopolitical legitimacy within institutionalized environments marked by a high level of uncertainty. “These (institutionalized) environments dictate that organizational survival is predicated upon some form of conformity to prevailing values or standards for appropriate behavior” and new ventures that attempt to enter in this type of environments require an high degree of socio-political legitimacy (Fogarty, 1996, p. 246). Thus, only new venture founding teams that can signal their positive reputation could be effectively able to prove their external recognition to ordinary investors, such as to demonstrate that they can generate outputs considered appropriate by the agents of a particular organizational field, economic market, socio-historical space and geographical place (Drori and Honig, 2013).

This study provides also empirical support of King and Whetten’s (2008) and Petkova’s (2016) suggestions that reputation could be an antecedent of legitimacy. In particular, King and Whetten (2008) argue in their conceptual paper that competitive pressures among similar organizations can result in ideal standards becoming the norm. More precisely they state that “the standards for garnering reputation at one point in time [can] become the standards for being legitimate at a subsequent point in time” (King and Whetten, 2008, p. 202). In addition, they argue that organizations with favorable reputations are more likely to attract the attention of actors that actively police the norms and standards within a particular industry, as a result of which they are more likely to attain legitimacy for a new category of products.

The second contribution of this study is represented by the mediating effect of sociopolitical legitimacy of a new venture idea on the relation between founding or VFT’s reputation and the level of investment a new venture is able to attract. It argues that the legitimacy of a new venture idea can act as a signal that modifies the perceived quality, and as a result investment appeal, that a VFT is able to convey to a new venture through its past performance-based reputation. Bitektine (2011) argues that both reputation and sociopolitical legitimacy are based on observable external features and thus on the same level of complexity for a possible evaluator. This study, however, demonstrates the effect of a particular sequence of legitimacy and reputation by showing that sociopolitical legitimacy can decrease the direct effect of reputation on the attracting investment capital. Although reputation is still considered a symbol of an entrepreneur's trustworthiness (Mazzola, Ravasi and Gabbioneta, 2006; Maxwell and Lévesque, 2014), its importance is considerably decreased by the degree of sociopolitical legitimacy of the new business idea.

Finally, this study contributes to research about the relation between the composition of the VFT and its capacity to attract investments (Beckman, Burton and O'Reilly, 2007). The results show a mediation effect of the sociopolitical legitimacy of the new venture idea on the relation between the VFT reputation and investments in the new venture, but only with respect to the VFT member that is mostly responsible for new venture technical development (e.g. the Chief Technology Officer) and not for the VFT member who is in charge of the general management of the new venture, which supervises the resources necessary to assure the new venture's completion (e.g. the Chief Executive Officer).

This could be explained by the fact that the member responsible for new venture technical development, which can be represented by the CTO of a new venture (Medcof, 2008), might be more directly connected to the new venture sociopolitical legitimacy. Once a new idea achieves legitimacy this lowers the signaling value of the reputation connected to this member since investors perceive that there is lower uncertainty about the value of the idea on which the venture is founded.

However, since at that point in time the new venture idea still needs to be commercialized the reputation of the member that is the responsible of the overall new venture implementation - which can be represented by the CEO of a new venture - remains a powerful signal to investors. Where Ruef and Scott (2008) distinguish between technical and managerial legitimacy at the level of the organization, this study links legitimacy to the business idea, while it links reputation to the specific roles of its VFT. Moreover, within our model only the VFT founders that have the responsibility of the new venture development can be considered as “institutionalized entrepreneurs”, such as actors who give the new venture legitimacy and determine its patterns of behavior (Déjean, Gond and Leca, 2004).

Implications for Management

This study investigates the impact of new venture conformity to institutional norms on key organizational outcomes, emphasizing the role of VFT members in satisfying expectations (Philippe and Durand, 2011). The conformity of a new venture idea to industry norms and rules can be an expression of the founders’ intent to attract external resources. The mediation effect of legitimacy on reputation demonstrates that the achievement of a legitimate idea is a strategy that VFTs could employ to decrease the liability of newness for young ventures with low or no levels of reputation (Freeman, Carroll and Hannan, 1983; Stinchombe, 1965; Tornikoski and Newbert, 2007; Zimmerman and Zeitz, 2002; Zott and Huy, 2007).

In addition, within specific empirical context of this study, it is important to note that there is a weaker relation between the reputation of the film producer on attaining legitimacy for the film script compared to that of the director. Since obtaining legitimacy for the film script is very important for attracting investment capital, film producers need to carefully think about which film director they collaborate with. In more general, founders assuming the role of CEO, similar to producers in the case of film, need to be very careful in their choice of the CTO because they play an important role in legitimizing the business idea and subsequently attracting investment capital for the new venture.

Conclusions, Limitations and Future Directions

This study has a number of limitations. First, although the film industry offers the unique possibility to explain how a project-based venture's reputation is built on the reputation of its VFT members in the form of the director and producer, it would be useful to confirm these findings in other industries. Especially those that share some key characteristics such as the biotech industry with its high sunk costs, strong reliance on external investors, difficulty to predict consumer demand, and strong reliance of investors on the VFT as a signal of the new venture's potential (Higgins and Gulati, 2006).

Second, investors can receive fiscal benefits when they invest in Italian films. In order to be eligible for these fiscal benefits, the films in which they invest need to respect certain criteria prescribed by the Italian government through the Directorate General of Cinema. Therefore, the value of the sociopolitical legitimacy of a film script might not be predominantly related to the film script conforming to general industry norms, but because it makes investors eligible to benefit from fiscal benefits. Future comparison studies using data from other countries could be helpful to verify these results.

Finally, an interesting area for future research could be to investigate the effects of reputation and legitimacy on attracting new venture investments for VFT members performing roles other than those included in this study. For example, this study does not include the role of Chief Financial Officer. Future studies that include a larger variety of founding VFT roles could provide even more valuable insights into optimal design of VFTs with respect to their capacity to attain legitimacy and attract investment capital.

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FIGURES AND TABLES

Figure 1 – Mediation model

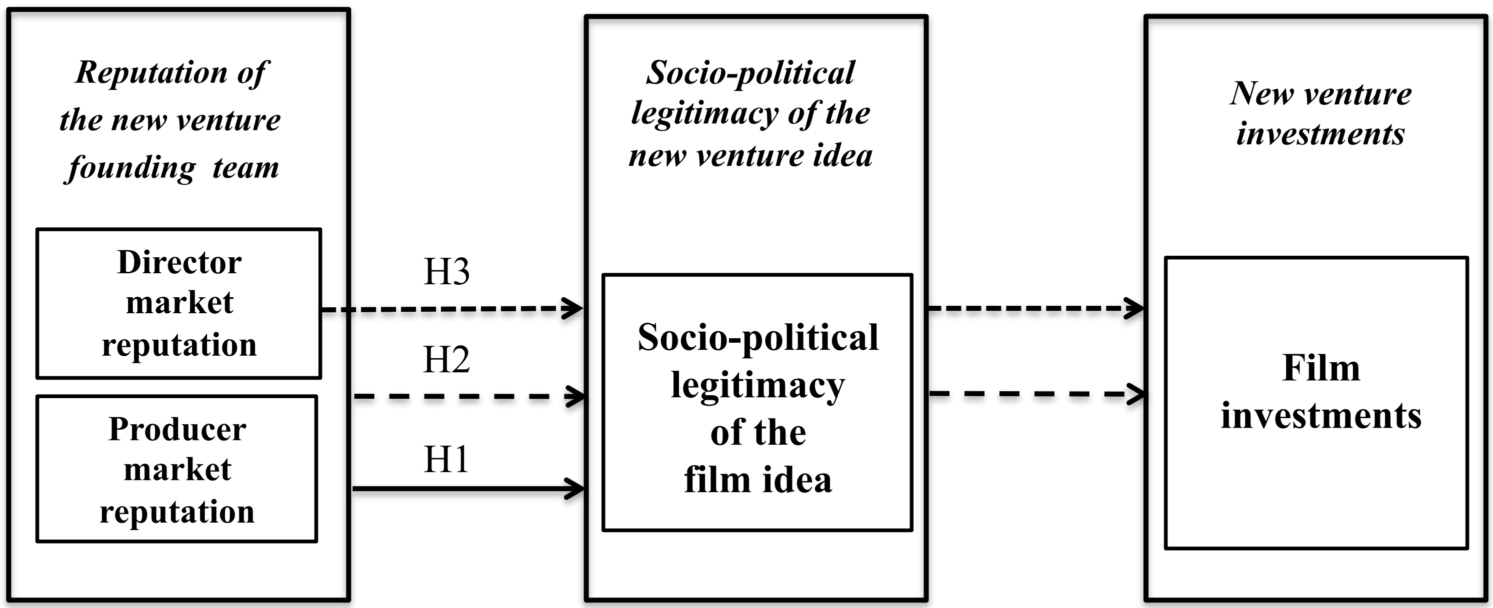

Table 1 – Mean, Standard Deviation and Correlations

		Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Film Investments	11.92	1.4	1.00												
2	Director Artistic Reputation	0.53	0.31	0.06	1.00											
3	Producer Artistic Reputation	0.54	0.08	-0.11	0.07	1.00										
4	Director First Film	0.37	0.48	-0.38***	-0.08	-0.06	1.00									
5	Producer First Film	0.16	0.36	-0.26***	-0.07	-0.08	0.30***	1.00								
6	Director Experience	10.64	12.82	0.33***	0.23***	0.09	-0.51***	-0.27***	1.00							
7	Producer Experience	9.22	7.46	0.44***	0.04	0.15*	-0.31***	-0.54***	0.30***	1.00						
8	Mainstream Film	0.43	0.5	0.52***	0.13*	0.08	-0.27***	-0.38***	0.29***	0.61***	1.00					
9	Comedy Genre	0.36	0.48	0.17**	-0.06	-0.27***	0.14*	0.16*	-0.21**	-0.02	0.08	1.00				
10	Financial Intermediary	0.49	0.5	0.47***	0.09	0.08	-0.40***	-0.36***	0.32***	0.46***	0.35***	0.11	1.00			
11	Director Market Reputation	13.48	2.13	0.39***	0.10	0.04	0.06	-0.32***	0.16*	0.38***	0.44***	0.23***	0.34***	1.00		
12	Producer Market Reputation	13.9	2.01	0.49***	0.04	0.03	-0.28***	0.00	0.32***	0.44***	0.51***	0.09	0.42***	0.35***	1.00	
13	Script Legitimacy	0.73	0.13	0.38***	0.15*	0.16*	-0.24***	-0.19**	0.44***	0.32***	0.35***	-0.23***	0.24***	0.38***	0.40***	1.00

N = 235; Significance: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Table 2 – OLS Regressions

	Model 1	Model 2	Model 3	Model 4	Model 5
	Film Investments	Film Investments	Film Investments	Script Legitimacy	Film Investments
Control Variables					
Director Artistic Reputation	-0.09	-0.09	-0.13	0.01	-0.11
	(0.23)	(0.23)	(0.23)	(0.02)	(0.22)
Producer Artistic Reputation	-2.46**	-2.47**	-2.62**	0.06	-2.58**
	(0.88)	(0.86)	(0.86)	(0.09)	(0.85)
Director First Film	-0.42*	-0.57**	-0.45**	-0.02	-0.54**
	(0.18)	(0.19)	(0.17)	(0.02)	(0.18)
Producer First Film	0.17	0.05	0.10	0.02	0.01
	(0.24)	(0.26)	(0.23)	(0.03)	(0.26)
Director Experience	0.01+	0.01	0.01	0.00***	0.00
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Producer Experience	0.02	0.01	0.01	0.00	0.01
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Mainstream Film	0.92***	0.64**	0.78***	0.02	0.61**
	(0.18)	(0.20)	(0.18)	(0.02)	(0.19)
Comedy Genre	0.35*	0.25	0.47**	-0.08***	0.37*
	(0.16)	(0.16)	(0.16)	(0.02)	(0.17)
Financial Intermediary	0.66***	0.46**	0.62***	-0.01	0.48**
	(0.17)	(0.18)	(0.17)	(0.02)	(0.17)
Explanatory Variables					
Director Market Reputation		0.11**		0.02***	0.07+
		(0.04)		(0.00)	(0.04)
Producer Market Reputation		0.10*		0.01**	0.08+
		(0.05)		(0.00)	(0.05)

Script Legitimacy			2.23***		1.60*
			(0.60)		(0.65)
Constant	12.27***	9.88***	10.91***	0.22**	9.52***
	(0.51)	(0.82)	(0.62)	(0.08)	(0.83)
N	235	235	235	235	235
r2	0.44***	0.48***	0.47***	0.41***	0.49***
r2_a	0.42***	0.45***	0.45***	0.38***	0.46***
F	19.83***	18.38***	20.23***	13.90***	17.75***
df_m	9	11	10	11	12
df_r	225	223	224	223	222
VIF	1.48	1.69	1.51	1.69	1.73

Standard errors in parentheses; Significance: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Table 3 – Regressions with clusters

	Model 1	Model 2	Model 3	Model 4	Model 5
	Film Investments	Film Investments	Film Investments	Script Legitimacy	Film Investments
Control Variables					
Director's Artistic Reputation	-0.09	-0.09	-0.13	0.01	-0.11
	(0.08)	(0.07)	(0.09)	(0.02)	(0.09)
Producer's Artistic Reputation	-2.46*	-2.47*	-2.62**	0.06	-2.58**
	(1.03)	(1.00)	(1.01)	(0.10)	(0.99)
Director's First Film	-0.42*	-0.57**	-0.45**	-0.02	-0.54**
	(0.17)	(0.17)	(0.17)	(0.02)	(0.18)
Producer's First Film	0.17	0.05	0.10	0.02	0.01
	(0.23)	(0.25)	(0.22)	(0.02)	(0.25)
Director's Experience	0.01+	0.01	0.01	0.00***	0.00
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Producer's Experience	0.02	0.01	0.01	0.00	0.01
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Mainstream Film	0.92***	0.64***	0.78***	0.02	0.61***
	(0.18)	(0.18)	(0.16)	(0.02)	(0.18)
Comedy Genre	0.35*	0.25	0.47**	-0.08***	0.37*
	(0.16)	(0.16)	(0.15)	(0.01)	(0.16)
Financial Intermediary	0.66***	0.46**	0.62***	-0.01	0.48**
	(0.16)	(0.17)	(0.16)	(0.02)	(0.17)
Explanatory Variables					
Director's Market Reputation		0.11**		0.02***	0.07*
		(0.03)		(0.00)	(0.04)
Producer's Market Reputation		0.10+		0.01*	0.08
		(0.06)		(0.01)	(0.05)

Script Legitimacy			2.23**		1.60*
			(0.67)		(0.70)
Constant	12.27***	9.88***	10.91***	0.22*	9.52***
	(0.61)	(1.00)	(0.78)	(0.11)	(0.97)
N	235	235	235	235	235.00
r2	0.44***	0.48***	0.47***	0.41***	0.49***
r2_a	0.42***	0.45***	0.45***	0.38***	0.46***
F	21.54***	23.20***	22.75***	25.93***	22.03***
df_m	9	11	10	11	12
df_r	234	234	234	234	234.00
VIF	1.48	1.69	1.51	1.69	1.73

Standard errors in parentheses; Significance: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

The dual role of intermediaries in the relationship among new venture founding team reputation, ultimate investors and market performance: The case of the film industry

ABSTRACT

This paper aims at understanding new venture fundraising in the film industry, a business characterized by a high level of uncertainty. Distributors play a dual role, as principal with respect to the new venture founding team (film's director and producer) and as agents with respect to ordinary investors, i.e. firms that are external to the film industry and financial institutions like banks. To comprehend the dual role of distributors in the new venture fundraising and commercial performance we develop a novel theoretical framework based on the agency and the signaling theory. These theories have proven to be useful to understand how venture capital firms (VC) affect new venture fundraising and performance in various empirical settings. We rely on the analogies between film distributors and VCs - as intermediaries between ordinary investors and new ventures – in order to develop our theoretical framework. We argue that the intermediary's investment in the new venture is a powerful commitment signal that provides the new venture founding team with organizational legitimacy, which attenuates the uncertainty and information asymmetry characterizing the founding team-ordinary investors relationship and makes ordinary investors more inclined to invest. Moreover, the relationship between the new venture founding team's reputation - a value signal - and new venture's performance is mediated by the intermediary's investment in the new venture. Finally, we argue that the effect of the founding team reputation on the new venture performance is positively moderated by the intensity of past collaborations between the team and the intermediary. We test our hypotheses in the Italian film industry.

Keywords: commitment signal; value signal; film industry; founding team; new venture; performance; reputation; intermediary.

INTRODUCTION

New ventures operating in conditions of high risk and financial constraint typically have to resort to ordinary investors to obtain capital. The access to capital, however, is particularly difficult because investors have limited information about the quality of a new venture founding team (VFT) and the prospects of the new venture, which gives rise to adverse selection problems (hidden information). Moreover, investors have limited information about the intent and behavior of the founding team, which gives rise to moral hazard problems (hidden action). The agency theory explains the negative consequences of information asymmetry between two parties with different risk propensity that pursue conflicting goals (Eisenhardt, 1989). As the signaling theory suggests, the VFT can mitigate the consequences of the information asymmetry and uncertainty surrounding fundraising decisions by offering their ordinary investors credible "value" signals about their ability and the value that the new venture can generate. A value signal is an indicator of an object's unknown value (Meyer, 1998). For instance, value signals can be represented by the VFT's performance-based reputation, previous founding experience and the quality composition of the founding team (Beckman and Burton, 2008; Connelly, Certo, Ireland and Reutzel, 2011; Hsu, 2007). Moreover, the VFT can use "commitment" signals to communicate the new venture's probability of success such as the percentage of individual wealth that is invested in a new venture (Busenitz, Fiet and Moesel, 2005).

While value signals communicate the prospective rents generated by the new venture (Kor, 2003), commitment signals entail "determined actions of VFTs to overcome obstacles and achieve venture success" (Busenitz et al 2005, p. 4). Commitment signals then are likely to have a stronger effect on adverse selection and moral hazard when compared with value signals because they are more directly connected to the real intentions about the agent's future behavior (Shepherd and Zacharakis, 2001). Nevertheless, entrepreneurs have more information about the prospects of their ventures and their commitment signals to ordinary investors could be biased or undetermined. This implies that contract design (e.g., allocation of control rights between the parties) cannot fully eliminate information asymmetry and the risk of ex-post opportunistic behavior by the VFT (Shane and Stuart, 2002).

Therefore, VFTs have to use additional signals to communicate with investors. Besides the possibility to employ value signals - represented by their reputation, previous founding experience, team composition (Beckman and Burton, 2008; Connelly, Certo, Ireland and Reutzel, 2011; Hsu, 2007) and legitimization through affiliation with other organizations (Higgins and Gulati, 2006) - very strong signals can be represented by the involvement of intermediaries, such as venture capitalists (VCs) in new ventures (Fitza, Matusik and Mosakowski, 2009).

VCs involved in these new ventures' financing can emit strong value signals, but also reliable commitment signals that can affect the investment behavior of other potential investors in the new ventures. Indeed, intermediaries reduce the uncertainty around the new venture, not only by lending their reputation as value signal to VFTs and thus facilitating the possibility to attract additional potential investors (Fitza, Matusik and Mosakowski, 2009), but also by providing a commitment signal aiming to convince investors that they will work to enhance the new venture's appeal in the market and really believe that the new venture has significant potential (Sorenson and Stuart, 2001).

We aim to understand the role of commitment signal by intermediary, exploiting the logics of the film industry, a business characterized by a high level of uncertainty. On one side, within this industry purely financial intermediaries, as banks, typically act as ordinary investors, by providing equity capital. On the other side, film distributors act as intermediaries between ordinary investors and the founding film team (Chisolm, 2014; Hofmann, 2012; Morawetz, Hardy, Haslam and Randle 2007). Indeed, film distributors play a dual role, as principals with respect to the film founding team (film's director and producer) and as agents with respect to ordinary (equity) investors, i.e. firms that are external to the film industry and purely financial intermediaries like banks. Therefore, we build on the analogies between film distributors and the role of intermediaries, as VCs, between ordinary investors and new ventures in order to develop a novel theoretical framework that draws on agency and signaling theories.

Our theoretical model attempts to explain in a generalizable way the dual role of the intermediary in attracting ordinary investment and contributing to the new venture market performance. More specifically, the model addresses the following questions. First, how important is the intermediary's commitment relative to its reputation in attracting ordinary investment? Second, how strong is the mediation effect of the intermediary's commitment relative to the direct effect of VFT's ability on the market performance of the new venture? Third, how past collaborative ties between VFT and the intermediary affect the association between VFT's reputation and the market performance of the new venture?

Our study makes two contributions to the entrepreneurship literature. First, we show the importance of intermediaries in fundraising (Fitza et al., 2009). More specifically, in order to increase the level of investment of ordinary investors in a new venture, an intermediary's commitment represents a stronger signal than the value signal represented by the intermediary's performance-based reputation.

Second, the effect of VFT ability on the new venture performance occurs through the capacity to convince a distributor to commit resources to the venture. The importance of distributors is due to the dual role played by these organizations as informed agents that offer reputational and commitment signals to attract ordinary investors (Kuckertz, Kollmann, Röhm and Middelberg, 2015; Cumming, Pandes and Robinson, 2013) and as principals who provide their agents (VFTs) with additional complementary resources that are very valuable for the commercialization of new business ideas.

Our empirical analysis is based on a sample of 580 Italian films (both domestic productions and co-productions with foreign partners). The value chain of a film contains two main activities: upstream research & development and production, carried out by the director and the producer, representing the VFT, and downstream distribution and marketing, carried out by a distributor (Delmestri, Montanari and Usai, 2005). In this context, new ventures are represented by new film projects while film distributors correspond to the notion of intermediary between the VFT and the ordinary investors. There are two possible sources of agency costs in the film industry. First, financial film investors suffer from information asymmetry since they cannot assess the VFT's ability to determine a film success in terms of cumulative box-office. Second, before deciding the level of investment in the promotion and commercialization of a new film, a distributor is not perfectly informed about the VFT's ability and the film's prospective value. Thus, a film director and producer (the VFT) signal their reputation to ordinary investors and distributors to attract key financial and nonfinancial resources while distributors, with their reputation and investment to the movie, provide the VFT with organizational legitimation in the eyes of ordinary investors.

This study is structured as follows. The theoretical background is presented in the next section, followed by the theoretical model and hypotheses section. Afterward the study describes the empirical setting section (methods, data and measures) and the results' section. Finally, the study ends with a discussion of contributions and managerial implications.

THEORETICAL BACKGROUND

New venture founding team reputation and new venture performance

New ventures need to cope with the liability of newness (Stinchcombe, 1965), which hampers the acquisition of resources that are necessary to guarantee a new venture's survival (Chrisman, Bauerschmidt and Hofer, 1998). Often, the lack of reputation and resources and the uncertainty about the value of the business idea make it difficult for the founding team of a new firm to convince potential investors to offer the capital necessary for the start-up stage.

The reputation attached to a VFT represents a "value" signal directly connected to the quality of the VFT (Podolny, 1993).[1] It also "serves as a signal of future performance based on perceptions of past performance" (Dimov, Shepherd and Sutcliffe, 2007, p.10). Thus, while established firms with a positive track record have an advantage in signaling their capacity to accomplish success (Fombrun and Shanley, 1990; Roberts and Dowling, 2002), new ventures cannot rely on past events to build their reputation. However, the reputational capital of a new venture founding team, accumulated with past achievements and success, represents an intangible asset that can be transmitted to the new venture (Burton, Sørensen and Beckman, 2002; Petkova, 2006; Shane and Cable, 2002).

The reputational capital of the VFT can be very important for the new venture's future performance (Brush, Greene and Hart, 2001). Typically, the VFT has a strong influence on the performance of the new venture because it exercises direction and control, assembling the rest of the team (Eisenhardt and Schoonhoven, 1990; Eisenhardt, Schoonhoven and Lyman, 2001). The reputation that VFTs accumulated in previous ventures then signals their ability to positively affect the future performance of the new venture, indicating that they have learned from past accomplishments and failures (Kor, 2003).

New venture founding team reputation and new venture intermediary's investment

Reputable VFTs have a great probability to obtain financial resources and complementary assets by intermediaries. Indeed, experienced founders can assist intermediaries to endorse the new venture's quality towards potential ordinary investors (Beckman and Burton, 2008; Hsu, 2007).

A new venture founding team needs resource providers that are able to guarantee additional resources, but also to increment the new venture's probability of success in the market (Bhidé, 2000). A positive reputation not only helps the VFT to obtain a better evaluation and resources from institutional investors (Higgins and Gulati, 2006); but it also

[1] Although the founding team of a new venture does not always play an active role in the management of a new company, we assume that this is the case. This assumption is reasonable in our empirical setting, wherein the

spurs the collaboration of informed intermediaries that can contribute to maximize the new venture performance (Ferris, Harris, Russell, Ellen III, Martinez and Blass, 2014; Fischer and Reuber, 2007).

Informed intermediaries are broker agents who possess specialized abilities, knowledge and technical expertise acquired in selecting and monitoring several entrepreneurial new ventures (Amit, Brander and Zott, 1998). Intermediaries like VCs evaluate many business ideas, paying attention to the characteristics of the new venture's lead entrepreneurs (Muzyka, Birley and Leleux, 1996) and VFT (Franke, Gruber, Harhoff and Henkel, 2006). They are especially interested in understanding if the new venture founding team is really able to establish a viable new venture that has the potential to generate value to key stakeholders (Busenitz, Fiet and Moesel, 2005; Higgins and Gulati, 2006).

The positive effect of the intermediary's investment - as signal of commitment - on new venture performance

The commitment of an intermediary has two implications for the market performance of the new venture. First, as mentioned before, informed intermediaries have a superior evaluation ability that helps selecting promising new business opportunities and VFTs. In all probability, a larger commitment reflects the intermediary expectations about the future rents that the new venture will generate. Second, the commitment of an informed intermediary may entail a treatment effect on the new venture that results in favorable market conditions for a new venture (Sorenson and Stuart, 2001). This effect is illustrated by the fact that "a deep commitment held by the venture capitalist vis-à-vis a particular investment can reflect itself in the venture capitalist spending more time in executing various value-adding roles, which may then increase the likelihood that the entrepreneur will benefit from the venture capitalist's assistance" (De Clerq and Manigart, 2007, p.210). Thus, intermediaries can provide new venture founding teams with more informed views about different business options, accelerate founders' capacity to find promising market opportunities, offer complementary assets useful to commercialize the business idea, and discipline the action of the VFT (Busenitz, Fiet and Moesel, 2004; Fitza et al. 2009; Park and Steensma, 2012). Moreover, new ventures' founders are more receptive to accept the intermediary's suggestions when it is highly committed in the new venture's board of directors (Busenitz, 2007).

Moreover, the investment of an intermediary in the new venture provides a commitment signal that demonstrates its intent to maximize the new venture performance. This signal is particularly important for high-risk new ventures that need to attract investors in financial markets. As intermediaries pay attention to the percentage of capital retained by founders as a signal of commitment to the new venture (Prasad, Bruton and Vozikis, 2000), ordinary investors most probably take in great consideration the commitment of an intermediary as an indicator of its intention and capacity to make up for a possible lack of commitment by the new venture founders (De Clerq and Manigart, 2007).

HYPOTHESES DEVELOPMENT

The intermediary's investment – as signal of commitment – and its effect on the ordinary investors' investment decision

Since the information asymmetry between an intermediary and a new venture founder is not as severe as that between ordinary investors and the founder (Klausner and Litvak, 2001), the intermediary's decision to collaborate with a VFT is particularly important to enhance the eminence of the future new venture performance in the eyes of potential investors (Plummer, Allison and Connelly, 2015).

The reputation of an intermediary offers a "value signal" to ordinary investors, conferring information about the quality of a new venture. Being associated with a highly reputable intermediary can enhance the new venture founders' capacity to induce ultimate investors to commit time and resources to new ventures (Fitza, Matusik and Mosakowski, 2009). “An entrepreneur may benefit from a venture capitalist’s reputation” (De Clercq and Sapienza, 2001, p. 116), which can be seen as the intermediary’s specialized knowledge to allow the entrepreneurs to incur lower costs in finding financial investors. The reputation that an intermediary earned by its positive past performance demonstrates that the new venture could be properly managed and likely to continue, following a high growth trajectory, and thus, it is a worthy business to invest (Dowling, 2006; Fombrun and Van Riel, 2004).

In order to convince ordinary investors to participate in the new venture funding, an intermediary needs to provide a commitment signal, which offers arguments that extend beyond its own track record as a signal of reputation (Kuckertz, Kollmann, Röhm and Middelberg, 2015). The investment of an intermediary increases the credibility of the reputation signals provided by the past experience of VFT (Davila, Foster and Gupta, 2003). By doing so the intermediary acts as a brokered agent vis-à-vis ordinary investors (Cumming et al. 2013).

A signal must be observable before an actual investment decision is taken by ordinary investors (Certo, Daily, & Dalton, 2001; Janney & Folta, 2003). The investment of an intermediary in a new venture is observable and thus it could effectively function as a commitment signal about the value of the new venture project and the intermediary’s strategic stake in the project (Chan, 1983; Klausner and Litvak, 2001).

Therefore, in the theoretical model of this study (Figure 1), the following hypothesis is outlined:

Hypothesis 1: The “commitment signal” generated by the investment of an intermediary in a new venture has a stronger effect on ordinary investors’ decision than the “value signal” provided by the intermediary’s reputation.

The mediating role of the intermediary's investment - as signal of commitment - on the relationship between the new venture founding team reputation and new venture performance

As mentioned before, intermediaries produce selection and treatment effects in their support of new ventures. These effects are crucial in a context of high uncertainty and information asymmetry: "relative to outside evaluators, entrepreneurs are privy to more information about the prospects of their ventures and the abilities and level of commitment of the founding team. This increases the risk borne by investors in new companies because entrepreneurs may exploit their superior knowledge of their company's position to gain concessions from investors" (Shane and Stuart, 2002, p.156).

Informed intermediaries are in the position to select promising entrepreneurial projects. Their level of commitment then reflects their expectations about the potential value of the project, which the intermediary can assess directly, by leveraging their past experience and screening capabilities, and indirectly, by interpreting the quality signal offered by the VFT (Beckman and Burton, 2008; Hsu, 2007). By selecting and committing resources in a new venture, the intermediary contributes to its success in two ways. First, it favors the access of the new firm to ordinary investors by providing an external organizational legitimation. The intermediary's pledge to invest resources in a specific new venture shows to ordinary investors that the intermediary's expectation about new venture's success is not only based on the VFTs' reputation but also on its effort, i.e. time and resources that will be dedicated to add value to the new venture (De Clercq and Manigart, 2007).

Second, an intermediary's investment can affect the performance of a new venture by contributing a "management" resource to the VFT (Fitza, Matusik, Mosakowski, 2009).

This discussion suggests that the effect of the VFT's ability (signaled by its reputation) on the new venture performance materializes through the action of the intermediary on two fronts: the financial market and the downstream market. Thus, we argue that it is through the dual role of the distributor that the VFT's ability to generate value materializes. (De Clerq and Manigart, 2007, p.202).

Therefore, in the theoretical model of this study (Figure 1), the following hypothesis is outlined:

Hypothesis 2: The positive effect of the new venture founding team's reputation on the new venture performance is positively mediated by the commitment signal of the intermediary in the new venture.

The moderating role of Intermediary-new venture founding team "collaborations" in the relationship between the new venture founding team reputation and the new venture performance

Past collaboration between VFT members and an intermediary are likely to affect the probability that the intermediary will support the new venture if the past collaboration has been successful. More generally, two parties that persist in a collaborative relationship are likely to develop a positive perception about each other's commitment, which in turn reinforces mutual trust. For instance, marketing studies have shown how manufacturers and distributors make acts of commitment in their relationships and increase their mutual dependence over time (Anderson and Weitz, 1992). By the same token, earlier entrepreneurship works have demonstrated that the performance of a new venture benefit from repeated collaboration between the intermediary and the founding team (Soh, 2003) and that frequent relation-specific investments and knowledge sharing routines developed during the collaboration give rise to relational rents (De Clercq and Sapienza, 2006).

Repeated interactions between an intermediary and one or more VFT members can help both parties to enhance their common understanding about possible success factors that can lead a new venture to better compete in the market (Cohen and Levinthal 1990). Previous interactions enhance coordination efforts by reducing conflicts between parties pursuing different, potentially conflicting goals. Thus, through long-lasting relationships VFTs and intermediaries can learn how to combine their respective complementary resources and develop trustworthiness. The perceived ability of the VFT is reinforced by trustworthiness developed by repeated interactions and this will increase the intermediary's willingness to commit resources to the new venture, with positive implications for the new venture success (De Clercq and Sapienza, 2001, Kuckertz et al. 2015).

Based on these arguments, our theoretical model (Figure 1) proposes that past collaborations between the VFT and the intermediary positively moderates the relationship between the VFT's reputation and the new venture performance.

Hypothesis 3: The positive effect of the new venture founding team's reputation on the new venture performance is positively moderated by past collaborations between the founding team and the intermediary in the new venture.

[INSERT FIGURE 1 HERE]

METHOD

Research setting

The empirical setting chosen to support the theoretical contribution of this study is the Italian film industry, wherein a new venture is represent by a film project.

The value chain of a film realization - from its' planning to the market - consists of two main activities: an upstream production that is carried out by the director and the producer, representing together the VFT of the new venture, and a downstream distribution, whose responsible is the film distributor. Within this context, there are two possible sources of agency costs. First, film financial investors are exposed to biased information if they cannot assess the ability of the film founding team (Borcherding and Filson, 2001; Hofmann, 2012). Second, in the absence of vertical integration between the founding team of the film and its distributor, it is possible that information asymmetry occurs between the two parties (Blackstone and Bowman, 1999). Agency costs can be reduced by the performance-based reputation of the film founding team, which signals the founding team's quality and the film's prospective success (Delmestri Montanari and Usai, 2005). Nevertheless, the film founding team reputation is only a partial predictor of the future film performance, thus it is important to consider the mediating role of the key complementary assets of an intermediary represented by a film distributor, which provides market visibility to the film in order to maximize its performance (Kuppuswamy, 2010).

Within the film industry, the film distributor is considered an intermediary that has information about the product it decides to release (Hirsch, 1972,). As intermediaries, distributors have the power to legitimate the VFT in the eyes of key stakeholders (Currid, 2007). External investors like banks etc. are likely to be affected by distributors' reputation and commitment to a film project. The latter is measured by the number of screens dedicated to the film theatrical release in the opening weekend, which can be an important determinant of the film market performance (Sanders, 1955). At the same time, it is also true that the distributor's decision about the specific number of screens for a film release depends on the VFT's reputation (Ebbers and Wijnberg, 2012). "Distributors and audience members take reputations into account when they decide what to support emotionally and financially, and that affects the resources available to artists to continue their work" (Becker, 1982, p. 131).

DATA AND MEASURES

In our study we use the "total population sampling" among purposive sampling techniques, which is particularly useful when the population size is relatively small and it can be treated as a sample (Seyal, 2012). The dataset of this study is composed of the population of the national and co-produced (at least one foreign co-producer) Italian films released from 2010 to 2013, for a total of 580 films (unit of analysis).

Dependent variable

Private investments. This variable is the dependent variable employed for HP1 and also it is an important control variable for the HP2 and HP3 (see control variables' section below). New venture private investments are measured by the natural logarithm of the absolute size of the equity investments conceded by external companies in a single film production, which are strongly motivated by commercial objectives (Hofmann, 2012). Private investors in the film industry all represent market players investing in the form of equity (Chisholm, 2014). These players are mostly represented by financial intermediaries, which are economic entities who are in charge of managing the financial assets of other economic entities. Financial intermediaries can include: banks, finance companies, investment companies, credit unions, private equity funds, etc. (Gup, 2011).

Market Performance. This variable is the dependent variable employed for HP2 and HP3. The new venture market performance is expressed by the logarithm of cumulative box office tickets for the film. Box-office revenues, in terms of ticket sales in the theatres, are often used to measure market performance of films (Delmestri et al., 2005). Data was collected through CINETEL, which is the Italian agency monitoring national ticket sale. The nominal values of box-office have been deflated by the Italian annual consumer price index with 2005 as the base year. The annual consumer price index has been consulted on the website of the European Commission, within the section of Economic and Financial affairs (Ec.europa.eu, 2016).

Explanatory variables

Producer, director and distributor market reputation. The reputation variables are performance-based and evaluated before the investment decision using the logarithm of the mean value of the total box-office revenues that the film producer and director reached in their past three films, while we considered the last 4 films for the distributor (Ebbers and Wjinberg, 2012).

Intermediary's commitment. The number of opening screens is a measure of the distributor's commitment to increase film's market visibility. Films with more opening screens in their first weekend have a greater market appeal and they are more advertised (Gemser, Oostrum & Leenders, 2007).

Producer and director's previous collaborations with the distributor. Two variables are introduced to account for past collaboration: the number of previous collaborations between the distributor and the producer in the last 3 films, as well as the number of previous collaborations between the distributor and the director in the last 3 films. We focused on the last three collaborations to be consistent with the way we measure the reputation of the director and the producer (Ebbers and Wijnberg, 2012).

Control variables

Budget. We include film budget as a proxy for total costs of production.

Co-production, vertical-integration and high-season release (dummies). Co-produced films could have a positive effect due to the higher budget (Hofmann, 2012). While vertical integration between production and distribution companies could have a positive or negative effect, films released in the winter period (especially during holidays) have also a greater probability to reach high box-office (Sorenson and Waguespack, 2006).

Director, producer and distributor experience. Experience is often used as measure of team legitimacy in a specific industry and it measured as the number of years in the industry

(Cohen and Dean, 2005). The variable experience measures the number of years a player (director, a producers or a distributor) is active in the industry. The value is equal to zero for a player who is new to the industry (i.e., when the focal film is the debut of her career).

Private investments. New venture private investments are measured by the natural logarithm of the absolute size of the equity investments granted by business enterprise external to the film industry and financial institutions to a film production (Hofmann, 2012).

Public investments. New venture public investments are measured by the natural logarithm of the absolute size of the subsidies conceded by public investors, in our case by the Italian Ministry of Cultural Heritage and Activities and Tourism (MiBACT) in a single film production. Public investors are mainly motived by artistic objectives (Bagella and Becchetti, 1999).

Director, producer and distributor artistic reputation. Besides the market reputation, it can also be important to control the artistic reputation derived from critics' reviews (Eliashberg and Shugan, 1997). Artistic reputation is measured by the mean value of the critics' score (of film experts) that the film producer and director reached in their past three films, while we considered the last 4 films for the distributor (Ebbers and Wjinberg, 2012). The score is retrieved from the Mymovies database (MYmovies.it, 2016), the most popular Italian web-source for films.

RESULTS

Descriptive statistics and correlations are reported in Table 1 (A and B). We clustered observations to obtain OLS estimates robust to correlation between residuals within groups (distributors).

First of all, results show that the market reputation of the new venture founding team has a positive effect on the size of the investments conceded by ultimate investors in a specific new venture. Controlling for goodness of fit (R^2), significance of the model (F-test) and absence of multicollinearity problems (Mean VIF < 10), the Table 2 (Model 1) shows that the commitment of an intermediary has a greater capacity to determine ultimate investments with respect to its market reputation. Indeed, the effect of the distributor's investment commitment on private investments is positive and significant ($\beta = 0.29$, $p < 0.05$), while the distributor's market reputation is not significant ($\beta = -0.11$, n.s)[2]. These findings support the first hypothesis of this study.

Moreover, since this study focuses on private investors as ultimate investors that aim to profit from the new ventures' market performance, in the Table 2 (Model 2), we control that the market reputation of the new venture founding team, as well as the reputation and the commitment of the intermediary, do not have a positive effect on ultimate public investors, which are not business-oriented and they are driven by cultural logics in their investments' decisions. Indeed, the results show that the director ($\beta = -0.42$, $p < 0.01$) and producer ($\beta = -0.34$, $p < 0.05$) market reputation have a significant but negative effect on the public investments. At the same time the distributor's market reputation ($\beta = 0.03$, n.s) and its commitment ($\beta = 0.14$, n.s) are not significant for public investments, which tend to rely on films distributed in art-house theatres (Bagella and Becchetti, 1999).

About the mediation hypothesis, following the recommendations for testing the presence of mediators (Hayes, 2009; 2013), the causal step approach of Baron and Kenny (1986), based on ordinary least squares regressions (clustering data according to distributor's identity), plus a subsequent bootstrap test is employed.

As a first condition, the mediation model requires the existence of a direct effect to be mediated, which shows that the predictors significantly affect the outcome when the mediator is not included. Therefore, the new venture market performance is regressed on the VFT's reputation and the control variables. Controlling for goodness of fit (R^2), significance of the model (F-test) and absence of multi-collinearity problems (Mean VIF < 10), the results of

[2] We acknowledge that it is possible to control in the correlation matrix (Table 1) that there is high correlation between distributor's market reputation and distributor's commitment (0.68, $p < 0.001$).

Table 2 (Model 5) show that the market reputation of the director ($\beta = 0.14$, $p < 0.01$) and producer ($\beta = 0.25$, $p < 0.001$) are indeed positively related to film box-office.

As a second condition, the predictor must significantly affect the mediator, thus the VFT's reputation needs to have a positive effect on distributor's commitment. The results in Table 2 (Model 6) demonstrate that the market reputation of the director ($\beta = 0.12$, $p < 0.01$) and producer ($\beta = 0.21$, $p < 0.001$) are positively related to the number of opening screens.

As a third condition, the mediator must significantly affect the outcome. This means that distributor's commitment, expressed by the number of opening screens, needs to positively affect the new venture performance. The results of Table 2 (Model 7) show that opening screens indeed are positively related to film box-office ($\beta = 1.12$, p. < 0.001).

The fourth and last condition implies that the significant effect of the predictor on the outcome has to decrease when the mediator is added to the model. It is expected that the positive effect of the VFT's reputation on new venture market performance is less significant when the distributor's commitment is included in the model. The results of Table 2 (Model 8) show that opening screens, the mediator, remain positive and significant ($\beta = 1.08$, p. < 0.001), while the positive effect of reputation of the director ($\beta = 0.04$, $p < 0.1$) and producer ($\beta = 0.09$, $p < 0.01$) on box-office is attenuated, which supports the hypothesis of partial mediation.

In order to complement the causal step approach of Baron and Kenny (1986), we performed a test about the significance of the mediation effect. Because the sampling distribution of the indirect effect is not normal but asymmetric, with nonzero skewness and kurtosis, the procedure outlined by Preacher and Hayes (2004) with bootstrap resampling has been employed (with one thousand replications) as an alternative to the Sobel Test, which is based on the normality assumption. Since the VFT's reputation is composed of the market reputation of the director and the producer, the bootstrap test is implemented twice for each of these variables. During the test of the opening screens on the director market reputation, the producer market reputation is treated as a control variable together with the other controls. The same procedure is used to test the mediation effect of the opening screens on producer market reputation, in which director market reputation is treated as a control variable. The results reject the null hypothesis that the indirect effect is not different from zero ($z = 2.87$, $p < 0.004$), and also with respect to the producer market reputation ($z = 3.46$, $p < 0.001$). This evidence supports the second hypothesis of this study.

Concluding, this study uses a hierarchical moderated regression analysis to test the moderation hypotheses. The hierarchical approach allows for a comparison between different models with and without interaction terms (Jaccard & Turrisi, 2003). As recommended by Aiken, West and Reno (1991), the independent variables were mean-centered prior to the formation of interaction terms. In Table 2 (Model 5) it is possible to ascertain that the interaction between the director's market reputation and the number of its previous collaborations with the distributor has a positive and significant effect on the new venture market performance ($\beta = 0.09$, $p < 0.05$). In the same way the moderation effect between the producer's market reputation and its number of previous collaborations with the distributor has a positive and significant effect on the new venture market performance ($\beta = 0.11$, $p < 0.01$). We also control that the introduction of the interaction variables slightly increases the variance explained in the dependent variable from the Model 4 to Model 5 ($\Delta R^2 = 0.0088$, $p < 0.001$). This last evidence supports the third hypothesis of this study.

[INSERT TABLE 1 HERE]

[INSERT TABLE 2 HERE]

DISCUSSION, CONTRIBUTIONS AND LIMITATIONS

This paper contributes to the literature on new venture fundraising and market performance on various grounds. First, we explain how film distributors contribute to the market performance of a film project by playing a dual role between the new venture founding team and the ordinary investors. We argue that the action of distributors as intermediaries is especially valuable in our empirical setting, characterized by information asymmetry problems and the risk of opportunistic behavior by the film project founding team (the director and the producer) vis-à-vis the ordinary investors (Rosenbusch, Brinckmann and Müller, 2013). The study finds that the level of investment committed by this intermediary, who participates in the new venture's profit sharing, has a mediation effect on the relationship between the VFT's reputation and the new venture performance (box office). This finding highlights the benefits of shifting the focus of entrepreneurship research beyond the relationship between team characteristics and team outcomes to further explore the mechanisms through which the ability of a new venture's founding team of attracting external resources and establishing relationships with other organizations that are crucial to the new venture performance (Klotz, Hmieleski, Bradley and Busenitz, 2014).

Second, we contribute to the literature by showing that the distributor's commitment to a film project has significant effects on the decision investment of private investors, whereas the effect of the distributor's reputation is not significant. These findings support the theory that commitment signals are much more powerful than an agent track record, a value signal, in a new venture fundraising. While earlier works have examined these signaling mechanisms in the VFT-investors relationships, only few studies have examined this issue in the context of intermediaries-ordinary investors relationships (Kuckertz, Kollmann, Röhm and Middelberg, 2015).

Third, our findings point out that the positive effect of the VFT's performance-based reputation on the new venture performance is greater for VFTs that have strong ties with an intermediary that invests in the new venture. The perceived ability of the VFT can be reinforced by trustworthiness developed by repeated interactions and this will increase the intermediary's willingness to commit resources to the new venture, with positive implications for the new venture success (De Clercq and Sapienza, 2001, Kuckertz et al. 2015).

Besides its contributions, this study has a number of limitations. First, although the film industry offers the unique possibility to explain how a project-based venture's reputation is built on the reputation of the VFT's members – ideally represented by the director and producer - and although the film industry gives the opportunity to rely on film distributors as ideal intermediaries between the VFT and ordinary investors, it would be useful to extend our analysis to other industries. Especially those that share some key characteristics with film industry, as other creative industries, which could have knowledge-based activities, high sunk costs, strong reliance on external investors, difficulty to predict consumer demand, and strong reliance of investors on the VFT as a signal of the new venture's potential (Higgins and Gulati, 2006).

Second, future research could investigate the effects of reputation on new venture performance, considering also other minor VFTs' members that are involved in the film production, e.g., film script writers and film stars.

Third, in our study we consider the opening screens to measure the distributor's commitment since films with more opening screens in their first weekend have a greater market appeal and they are more advertised (Gemser, Oostrum & Leenders, 2007). Future studies could consider also other measures, which are usually not publicly available, as the distributor's print and advertising expenses, probably highly correlated with the number of opening screens.

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FIGURES AND TABLES

Figure 1 – Theoretical Model

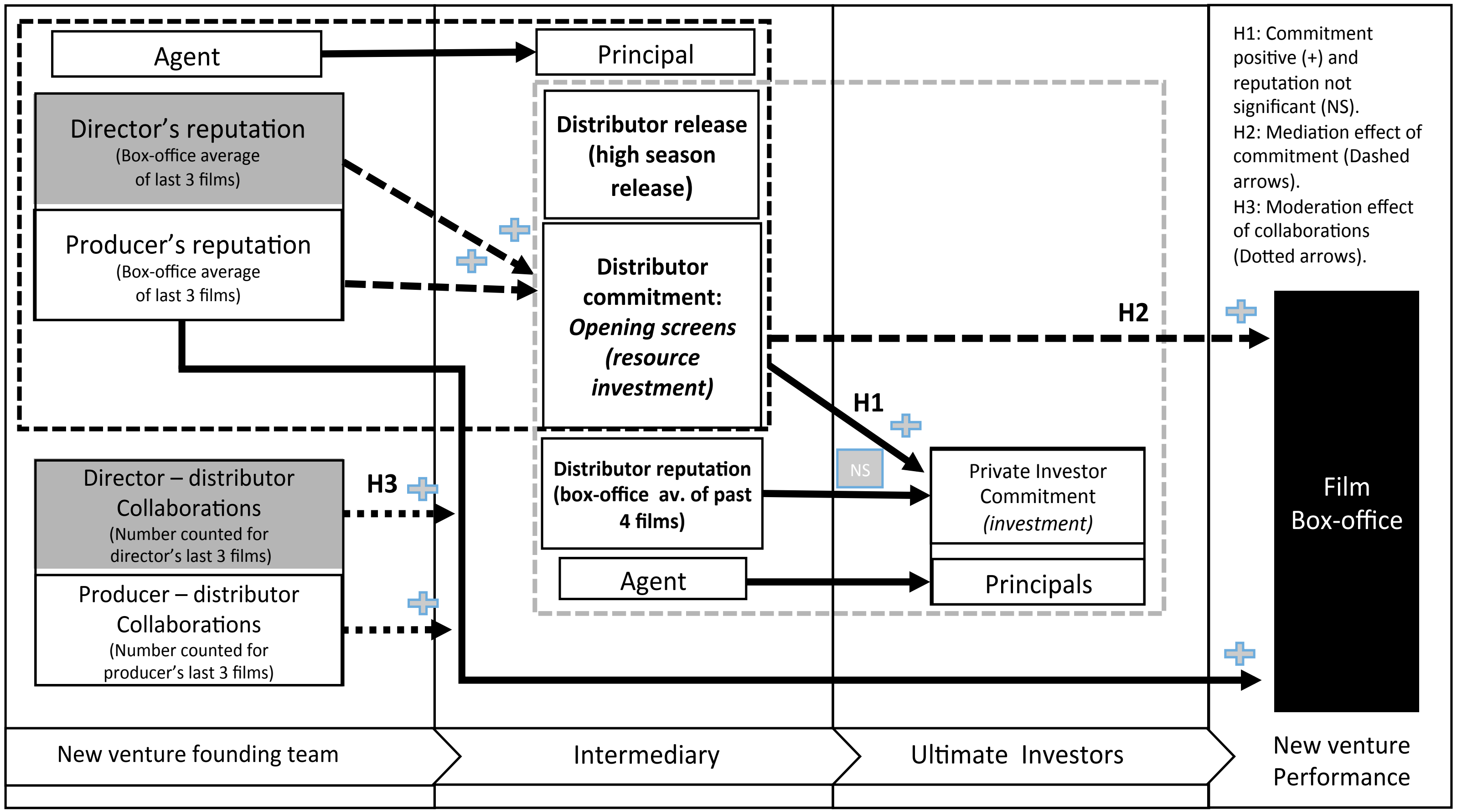

Table 1 A – Mean, Standard Deviation and Correlations (Variables 1 to 11)

		Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1	Market Performance	10.9	3.0	1.00										
2	Budget	14.8	2.0	0.19***	1.00									
3	Budget (missing)	0.3	0.4	-0.34***	0.66***	1.00								
4	High Season	0.4	0.5	0.17***	0.09*	-0.00	1.00							
5	Vertical Integration	0.2	0.4	-0.02	0.06	0.09*	0.03	1.00						
6	Public Investments	0.1	0.2	0.07+	-0.16***	-0.30***	-0.14***	-0.09*	1.00					
7	Private Investments	0.0	0.1	0.26***	-0.01	-0.23***	0.11**	0.00	-0.05	1.00				
8	Distributor experience	18.5	22.9	0.13**	0.05	0.02	0.13**	-0.11**	-0.06	0.01	1.00			
9	Producer experience	8.4	12.9	0.40***	0.15***	-0.16***	0.03	0.10*	0.02	0.10*	0.10*	1.00		
10	Director experience	8.6	12.0	0.35***	0.17***	-0.09*	0.04	-0.00	0.08*	0.10*	0.07	0.25***	1.00	
11	Coproduction	0.1	0.3	0.04	0.12**	0.01	-0.03	-0.02	0.01	-0.11**	-0.08*	0.08+	0.12**	1.00
12	Distributor Artistic Reputation	2.0	1.0	0.28***	0.10*	-0.11**	0.09*	-0.28***	0.08+	0.00	0.31***	0.22***	0.16***	0.06
13	Producer Artistic Reputation	1.5	1.3	0.47***	0.12**	-0.27***	0.04	-0.01	0.16***	0.18***	0.05	0.45***	0.29***	0.13**
14	Director Artistic Reputation	1.3	1.3	0.43***	0.18***	-0.12**	0.05	-0.02	0.07+	0.14***	0.04	0.23***	0.61***	0.07+
15	Distr. Artistic Reputation (miss.)	0.0	0.1	-0.04	0.09*	0.17***	0.09*	0.03	0.01	-0.05	-0.01	-0.05	-0.07+	-0.05
16	Prod. Artistic Reputation (miss.)	0.0	0.1	-0.08+	-0.00	0.06	-0.01	-0.04	-0.04	-0.03	0.08+	-0.04	-0.04	-0.03
17	Dir. Artistic Reputation (miss.)	0.0	0.1	-0.11**	0.02	0.09*	-0.02	0.04	0.00	-0.04	-0.01	-0.05	-0.04	-0.04
18	Distributor Market Reputation	11.0	3.4	0.68***	0.20***	-0.26***	0.18***	-0.13**	0.10*	0.20***	0.31***	0.41***	0.34***	0.02
19	Producer Market Reputation	10.1	3.9	0.66***	0.19***	-0.28***	0.10*	0.07	0.07	0.28***	0.15***	0.60***	0.34***	0.06
20	Prod.&Dist. previous collaborations	0.5	0.9	0.48***	0.17***	-0.11**	0.13**	0.30***	-0.01	0.19***	0.22***	0.38***	0.23***	-0.05
21	Director Market Reputation	8.7	4.7	0.57***	0.22***	-0.17***	0.09*	0.05	0.02	0.22***	0.11**	0.32***	0.68***	-0.00
22	Dir.&Dist. previous collaborations	0.3	0.7	0.40***	0.18***	-0.01	0.09*	0.13**	-0.04	0.15***	0.14***	0.27***	0.39***	-0.02
23	Commitment	3.0	2.1	0.90***	0.16***	-0.40***	0.10*	-0.03	0.11**	0.29***	0.15***	0.41***	0.36***	0.02

Significance: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Table 1 B – Mean, Standard Deviation and Correlations (Variables 12 to 23)

		Mean	S.D.	12	13	14	15	16	17	18	19	20	21	22	23
1	Market Performance	10.9	3.0												
2	Budget	14.8	2.0												
3	Budget (missing)	0.3	0.4												
4	High Season	0.4	0.5												
5	Vertical Integration	0.2	0.4												
6	Public Investments	0.1	0.2												
7	Private Investments	0.0	0.1												
8	Distributor experience	18.5	22.9												
9	Producer experience	8.4	12.9												
10	Director experience	8.6	12.0												
11	Coproduction	0.1	0.3												
12	Distributor Artistic Reputation	2.0	1.0	1.00											
13	Producer Artistic Reputation	1.5	1.3	0.30***	1.00										
14	Director Artistic Reputation	1.3	1.3	0.22***	0.45***	1.00									
15	Distr. Artistic Reputation (miss.)	0.0	0.1	0.06	-0.02	-0.03	1.00								
16	Prod. Artistic Reputation (miss.)	0.0	0.1	0.01	0.06	-0.03	-0.01	1.00							
17	Dir. Artistic Reputation (miss.)	0.0	0.1	0.01	0.01	0.09*	0.11**	0.23***	1.00						
18	Distributor Market Reputation	11.0	3.4	0.66***	0.45***	0.34***	-0.05	-0.05	-0.05	1.00					
19	Producer Market Reputation	10.1	3.9	0.28***	0.84***	0.44***	-0.02	-0.04	-0.07	0.60***	1.00				
20	Prod.&Dist. previous collaborations	0.5	0.9	0.16***	0.35***	0.22***	-0.02	-0.04	0.00	0.48***	0.57***	1.00			
21	Director Market Reputation	8.7	4.7	0.22***	0.45***	0.88***	-0.05	-0.05	-0.01	0.48***	0.56***	0.40***	1.00		
22	Dir.&Dist. previous collaborations	0.3	0.7	0.11**	0.21***	0.33***	-0.02	-0.03	0.01	0.37***	0.37***	0.49***	0.50***	1.00	
23	Commitment	3.0	2.1	0.25***	0.46***	0.40***	-0.15***	-0.08+	-0.09*	0.68***	0.65***	0.49***	0.56***	0.40***	1.00

Significance: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Table 2 – Regressions with cluster

	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
	Private Investments	Public Investments	Market Performance	Market Performance	Market Performance	Intermediary Commitment	Market Performance	Market Performance
Control Variables								
Budget	0.71***	1.24***	0.44***	0.37***	0.35***	0.44***	0.03	0.01
	(0.12)	(0.19)	(0.08)	(0.07)	(0.07)	(0.06)	(0.05)	(0.05)
Budget (missing)	-4.83***	-8.91***	-2.55***	-2.28***	-2.13***	-2.63***	-0.17	-0.06
	(0.76)	(1.10)	(0.47)	(0.44)	(0.43)	(0.36)	(0.23)	(0.22)
High Season	0.79*	-0.90*	0.25	0.27*	0.21	-0.05	0.38***	0.33***
	(0.38)	(0.40)	(0.16)	(0.13)	(0.13)	(0.11)	(0.10)	(0.10)
Vertical Integration	-0.37	-0.15	-0.02	-0.32+	-0.35+	-0.46**	0.06	-0.02
	(0.63)	(0.83)	(0.20)	(0.19)	(0.18)	(0.14)	(0.13)	(0.14)
Public Investments			-0.96*	-0.38	-0.27		-0.67**	-0.43
			(0.40)	(0.38)	(0.38)		(0.25)	(0.27)
Private Investments			0.48	-0.27	0.01		-0.39	-0.42
			(0.83)	(0.85)	(0.77)		(0.44)	(0.41)
Distributor experience	0.01	-0.02**	-0.00	-0.00	-0.01	0.00	-0.00	-0.01*
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)
Producer experience	-0.03	-0.04*	0.01	-0.00	-0.00	0.00	0.00	-0.01
	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)
Director experience	-0.02	0.07**	-0.00	-0.01*	-0.01*	-0.00	-0.01	-0.01
	(0.02)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Coproduction	-2.27***	-1.63*	-0.04	0.23	0.25	-0.05	0.19	0.26+
	(0.65)	(0.79)	(0.25)	(0.23)	(0.22)	(0.17)	(0.15)	(0.14)
Distributor Artistic Reputation	-0.13	0.46	-0.66***	-0.43***	-0.40***		-0.06	0.02
	(0.30)	(0.29)	(0.12)	(0.10)	(0.10)		(0.08)	(0.07)
Producer Artistic Reputation	-0.77*	0.71	0.15+	-0.30**	-0.07	-0.18+	0.06	0.06
	(0.38)	(0.48)	(0.09)	(0.10)	(0.12)	(0.11)	(0.05)	(0.08)

Director Artistic Reputation	0.18	0.84*	0.37***	0.05	0.09	-0.21*	0.20***	0.20**
	(0.43)	(0.42)	(0.08)	(0.15)	(0.14)	(0.10)	(0.05)	(0.08)
Distributor Artistic Reputation (miss.)	-0.89	0.28	1.14+	0.80	0.81		1.85*	1.72+
	(0.57)	(0.64)	(0.58)	(0.56)	(0.58)		(0.92)	(0.91)
Producer Artistic Reputation (miss.)	0.12	-1.83*	-0.50	0.12	-0.24	-0.28	0.11	0.01
	(0.72)	(0.91)	(1.39)	(1.39)	(1.38)	(0.39)	(1.15)	(1.14)
Director Artistic Reputation (miss.)	0.13	-0.63	-1.80**	-1.26*	-0.87*	0.01	-1.40*	-0.92+
	(1.08)	(1.13)	(0.54)	(0.53)	(0.42)	(0.19)	(0.65)	(0.53)
Explanatory Variables								
Distributor Market Reputation	-0.11	0.03		0.37***	0.36***		0.10**	0.08*
	(0.11)	(0.12)		(0.04)	(0.05)		(0.04)	(0.03)
Producer Market Reputation	0.26+	-0.34*		0.24***	0.25***	0.21***		0.09**
	(0.14)	(0.14)		(0.04)	(0.04)	(0.04)		(0.03)
Prod. & Dist. previous collaborations	2.00	1.21		0.11	-0.58+	-0.01		-0.47**
	(1.24)	(1.17)		(0.12)	(0.29)	(0.19)		(0.18)
Director Market Reputation	0.23+	-0.42**		0.12*	0.14**	0.12**		0.04+
	(0.12)	(0.15)		(0.05)	(0.05)	(0.04)		(0.02)
Dir. & Dist. previous collaborations	-2.64+	-0.10		0.20	-0.52+	0.29		-0.75**
	(1.48)	(1.12)		(0.14)	(0.30)	(0.20)		(0.22)
Dir. Mark. Rep. X Dir. & Dist. Prev. Collaborations	0.47*	0.02			0.09*	-0.01		0.10***
	(0.20)	(0.15)			(0.04)	(0.03)		(0.03)
Pro. Mark. Rep. X Pro. & Dist. Prev. Collaborations	-0.44**	-0.18			0.11**	0.04		0.07**
	(0.16)	(0.15)			(0.04)	(0.03)		(0.02)
Intermediary Commitment	0.29*	0.14					1.12***	1.08***
	(0.13)	(0.20)					(0.06)	(0.06)
Constant	-9.00***	-7.97**	0.17	-0.12	-0.43	-5.46***	5.69***	5.06***
	(1.51)	(2.56)	(0.86)	(0.84)	(0.79)	(0.61)	(0.60)	(0.60)
N	580.00	580.00	580.00	580.00	580.00	580.00	580.00	580.00

r2	0.31***	0.31***	0.63***	0.67***	0.67***	0.65***	0.84***	0.85***
r2_a	0.29***	0.29***	0.62***	0.65***	0.66***	0.64***	0.83***	0.84***
F	27.98***	30.31***	119.59***	147.99***	133.19***	258.40***	251.96***	369.88***
df_m	22.00	22.00	17.00	21.00	23.00	18.00	18.00	24.00
df_r	154.00	154.00	154.00	154.00	154.00	154.00	154.00	154.00
vif	5.26	5.26	1.67	2.72	5	5.62	1.87	5.02
vce	cluster	cluster	cluster	cluster	cluster	cluster	cluster	cluster

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

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Acquiring Competitive Advantage through Reputation, Legitimacy and Status: A New Operational Model

ABSTRACT

This study proposes a new operational model that introduces legitimacy and status as information signals that are able to complement the role of reputation as an intangible asset to lead established and new ventures to an advantageous position respect to their competitors. First, the operational model sustains that managers and new venture founders can create and enhance corporate reputation through corporate legitimacy, their own individual legitimacy and the affiliation of their venture with external parties that have a high network status. Second, in a complementary way, the model sustains that managers and new venture founders can create corporate legitimacy through corporate reputation, their own individual reputation and again by the affiliation of their venture with external parties that have a high network status. Third, the model sustains that through the acquisition and the maintenance of corporate legitimacy and corporate reputation, managers and founders have the opportunity to strategically lead their ventures to a higher societal status and consequently a greater competitive advantage.

Key words: individual reputation; corporate reputation; individual legitimacy; corporate legitimacy; societal status; network status; competitive advantage.

INTRODUCTION

While previous scholars proposed that managers can use corporate identity, through corporate communication, in order to strategically create corporate reputation and to provide competitive advantage to their ventures (Gray and Balmer, 1998), this study proposes a new operational model that introduces legitimacy and status as information signals that are able to complement the role of reputation as an intangible asset to lead established and new ventures to an advantageous position respect to their competitors.

The model aims to give contributions to management and organizational studies, sustaining that reputation, legitimacy and status are interrelated signals that managers and new venture founders can manage within three important paths that are able to lead their ventures to reach competitive advantage. First, managers and new venture founders can create and enhance corporate reputation through corporate legitimacy, as conformity to specific industry standards (King and Whetten, 2008; Patterson, et al., 2014; Rao, 1994), by their own individual legitimacy (Cohen and Dean, 2005; Kaufmann and Basile, 2014) and by enhancing the affiliation of their venture with other parties that have a high network status (Lin, et al., 2009).

Second, managers and new venture founders can create corporate legitimacy through corporate reputation as achievement of ideal standards that the venture already acquired in its industry (King and Whetten, 2008), by the their own individual reputation (Aldrich and Fiol, 1994) and again by enhancing the venture's affiliation with other parties that have a high network status (Higgins and Gulati, 2006).

Third, through the acquisition and the maintenance of corporate legitimacy (Patterson, et al., 2014) and corporate reputation (Fombrun and Shanley, 1990) founders and managers have the opportunity to strategically lead their ventures to a higher societal status and consequently a greater competitive advantage respect to competitors.

The structure of this study is as follows: the first section – entitled theoretical background - discusses the concepts of legitimacy, reputation and status, highlighting their levels (corporate and/or individual for legitimacy and reputation), dimensions (pragmatic, socio-political and cognitive dimensions for the concept of legitimacy), types (network and societal types for the concept of status) and general differences.

The second section – entitled new operational model – reports the findings of previous scholars, which focused on the various interrelations among legitimacy, reputation and status, in order to create the new model. It is explained how corporate legitimacy is created and enhanced by the individual reputation of managers and venture founders, by the overall level of corporate reputation that the venture is able to demonstrate within its industry and by the venture's affiliation with parties that have a high network status. In a complementary way, it is also explained how corporate reputation is created and enhanced by the individual legitimacy of managers and venture founders, by the overall level of corporate legitimacy that the venture is able to display within its industry and by the venture's affiliation with parties that have a high network status. Within this second section it is also explained how the societal status of a venture can be created through corporate legitimacy and corporate reputation in order to lead the venture to reach competitive advantage respect to its competitors.

Finally, in the third and last section, the study presents its conclusions, contributions, managerial implications and limitations.

THEORETICAL BACKGROUND

Before to present a new operation model (within the next section), this study discusses the information signals that compose it: reputation, legitimacy and status. Each of these signals can have a particular level (corporate and/or individual), dimension (pragmatic, socio-political and cognitive dimensions for the concept of legitimacy) or type (societal and network type for the concept of status). It is also important to consider their differences in order to relate them in a unique model.

Corporate and individual reputation

Reputation is a socially constructed reality (Thomas, 2007) and several scholars have carried out research on the concept of reputation, proposing different definitions. Within a comprehensive view, Lange, Lee and Dai (2011) sustain that there are three main different conceptualizations in defining corporate reputation: being known - (generalized awareness of the firm, its'; prominence in the collective perception), being known for something (perceived predictability of organizational outcomes and reputation related to a specific field) and generalized favourability (positive perceptions and judgments of the organization as a whole).

Rindova, Williamson, Petkova and Sever (2005) indicate two main perspectives in order to define reputation: economic perspective and institutional theory perspective. According to the economic perspective, ventures signal their true attributes to stakeholders with their past actions and thus reputation forms on the basis of past actions. In this case reputation refers to the assessment of relevant attributes that convey the venture's ability to produce quality (Rindova et. al., 2005: 1133).

Within the institutional theory perspective, reputation is characterized as the perceptions of various actors – stakeholders, and it is formed as a result of information exchanges and social influence in the organizational field. While the economic perspective emphasizes the perceived quality dimension, the institutional perspective is concerned about the collective awareness and recognition of a specific venture and therefore represents its' prominence.

Integrating these two distinct perspectives, Rindova et al. (2005) suggest that both perceived quality and prominence dimensions of reputation influence the venture's economic payoffs, thus corporate reputation may serve as a source of competitive advantage for ventures that aim to survive and to come forward in the highly competitive environment. "Corporate reputation of a firm should be considered as an asset and wealth that gives that firm a competitive advantage because the firm will be regarded as reliable, credible, trustworthy and responsible for employees, customers, shareholders and financial markets" (Awang and Jusoff, 2009: 174).

Within this paper, reputation is an element of the venture's business strategy, which enables it to signal its' competitive intentions and ability to perform high quality standards during past activities (Dollinger, Golden and Saxton, 1997), thus it is considered as a critical asset that leads a venture to obtain competitive advantage within its industry. The concept of reputation is evaluated at corporate and individual levels: corporate reputation indicates the set of attributes ascribed to a venture from its past actions (Weigelt and Camerer, 1988; Rindova et. al., 2005) and the reputation at individual level refers to the reputation of the single members that found a new venture or manage an established one.

Corporate and individual legitimacy

Established and new ventures interact with their environment in order to receive recognitions, indeed "organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimated or successful" (Di Maggio and Powell, 1983: 152).

Corporate legitimacy is a social construct that represents external stakeholders' perception of an organization (Foreman, Whetten and Mackey, 2012). Suchman (1995), provides an institutional and a strategic perspective on legitimacy, through a comprehensive definition of corporate legitimacy: "A generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”.

Moreover, legitimacy is a multidimensional construct (Ruef and Scott, 1998) that can be evaluated according to different meanings and dimensions. The basis for legitimacy dimensions includes the questions of “who the evaluators are”, “features evaluated of the organization”, “how do the evaluators cognitively process the features they perceive about the organization”, “how diffuse is the benefit associated with the organization” and “through which mechanism the compliance of the organization is achieved” (Bitektine, 2011).

One of the most well known typologies of legitimacy is that of Scott, (1995) suggesting three types of legitimacy: “regulatory”, “normative” and “cognitive”. Regulatory and normative legitimacy are derived from socio-political legitimacy that consists of the endorsement by legal authorities, governmental bodies, and other powerful organizations (Aldrich and Fiol, 1994). Socio-political legitimacy occurs when government institutions legitimate new ventures whose behavior is consistent with laws, rules and norms. Regulatory legitimacy indicates the recognition by government bodies, but also specific professional groups. Normative legitimacy regards the respect of social norms, values, ethics and beliefs (Scott, 1995).

Cognitive legitimacy implies that legitimate ventures must have actions or features that are comprehensible and taken for granted by a vast majority of individuals and cognitive legitimacy transpires when ventures’ activities or characteristics are generally accepted and taken for granted as public knowledge or being known to a wide audience (Aldrich and Fiol, 1994).

Throughout the literature, many authors suggested various other legitimacy types. For instance, Suchman (1995) proposes “pragmatic legitimacy”, based on evaluators’ self interest that may emerge as a function of exchange relationships between an organization and its immediate stakeholders. Stakeholders attribute pragmatic legitimacy according to the expected value that they receive from an organization’s activity. Kostova and Zaheer (1999) make a differentiation of legitimacy as “internal legitimacy" reflecting the legitimacy in the organization and "external legitimacy" indicating the legitimacy with organization's external environment. Ruef and Scott (1998) bring forward "managerial legitimacy" that is based on efficiency of managerial processes and "technical legitimacy" that is based on technical elements, quality and qualifications. Deephouse (1996) mentions legitimacy based on "media endorsement" (using media to measure legitimacy) and legitimacy based on "regulatory endorsement" (with government regulators).

As for the concept of corporate reputation, also corporate legitimacy is important for ventures that aim to acquire competitive advantage respect to competitors, indeed legitimacy is a fundamental asset to receive resources that guarantee the venture's survival in a competitive industry (Lin, Yang and Arya, 2009). Within this paper, legitimacy is evaluated at corporate and individual levels: legitimacy at corporate level indicates "the acceptance of the organization by its environment" (Kostova and Zaheer, 1999: 64); legitimacy at individual level refers to the acceptance of the members managing an established venture or founding a new one. Further, this paper uses four legitimacy dimensions – regulatory, normative, cognitive (Scott, 1995) and pragmatic (Suchman, 1995) - in order to explain the relational framework of legitimacy with reputation, status and the concept of venture's competitive advantage.

Societal and network status

The concept of status often stems from the venture's social position in a particular context (Sorenson, 2014), but Lin, Yang and Arya (2009) suggest two main types of status: "societal" and "network" status.

Societal status is based on a ranking of social esteem given by society based on various criteria (such as social responsibility, innovation and financial soundness). This type of status can be related to scholars that consider status as the venture's social standing. In this case status provides a comparison of particular associations between ventures, it is the result from differences in social rank that creates hierarchies among competitors and influence consumer perception about the quality of a specific venture (Patterson, Cavazos and Washington, 2014). In other words, societal status is seen as the signal of the venture's quality in the market, it is the perceived quality of the producer's products compared to its' competitors' products (Jourdan, Perkmann and Fini, 2013; Podolny, 1993).

Network status indicates the status' position that the venture achieves from its connections and inter-relations with other ventures. In this case the concept of status indicates a venture being connected with a certain group of other ventures, having similar performance on dimensions (e.g. quality, price), but differentiating from the performance of the ventures that belong to other status groups (Bitektine, 2011; Dimov, Shepard and Sutcliffe, 2007). The network status deriving by specific affiliations could be seen as a signal of privilege since it generates social esteem and unearned benefits, which are granted to and enjoyed by high-status actors in a social system (Washington and Zajac, 2005).

With network status, ventures may be considered as being credible and trustworthy, degrading the effects of robust competition. Regarding organizations' network, high status ventures can choose from a larger number of business associates (Jensen and Roy, 2008) and they have the ability to demand more from their partners (Castellucci and Ertug, 2010). This advantage is critical in building successful strategic alliances and wider range of partner selection opportunities (Lin, Yang and Arya, 2009; Stern, Dukerich and Zajac, 2014). Also, the affiliation with external parties that have a high network status may help new ventures to have the possibility to get greater initial public valuations and faster initial public offerings then others (Stuart, Hoang and Hybels, 1999).

As Lin, Yang and Arya (2009), also this study considers status at corporate level (rather then the status of the single individuals within a venture), distinguishing it in "network status" (within a particular industry) and "societal status". In both cases, ventures, which obtain high status due to their network affiliation with relevant external parties (Simcoe and Waguespack, 2011) or by their social standing for products' quality (Podolny, 1993), are able to acquire competitive advantage respect to their competitors.

How legitimacy, reputation and status are similar but different concepts

In order to discuss the relations of corporate legitimacy, reputation and status, it is first necessary to briefly clarify how these concepts differentiate and what they have in common. Indeed, all of them are all multidimensional constructs and their dimensions can partially overlap (Bitektine, 2011).

In the existing literature reputation, status and legitimacy have been used interchangeably (Thomas, 2007), but even if all these concepts are socially constructed and they have many similar properties, each one of them indicates a different abstract element that represents a strategic asset for a venture. The comparison of legitimacy, reputation and status can be summarized with the words of Bitektine (2011: 151): "Legitimacy ultimately exists in the eye of the beholder (Zimmerman and Zeitz, 2002), reputation consists of outsiders' beliefs (Dutton, Dukerich, and Harquail, 1994), and status is inter-subjectively agreed-upon" (Washington and Zajac, 2005).

Legitimacy and reputation are similar but diverse constructs that have been compared throughout the research in the organizational field (e.g. Bitektine, 2011; Deephouse and Carter, 2005; Deephouse and Suchman, 2008; Washington and Zajac, 2005). Legitimacy concerns organization's observance to the expectations of a social system's norms, values, rules and meanings, thus this concept is based on regulative, normative or cognitive dimensions, while reputation is a social comparison among organizations on a variety of attributes (Deephouse and Carter, 2005). Bitektine notes the resemblance of cognitive legitimacy with reputation since they both include attributes ascribed to the firm, based on its past actions. However, cognitive legitimacy is focused on similarity but reputation is based on differentiation. Meaning that, being similar to other groups of organizations increases cognitive legitimacy while being different increases reputation.

Just like the confusion between reputation and legitimacy, there has always been confusion in differentiating and relating reputation and status. “Reputation has been linked with a history of quality, and status has been identified as an externally assigned measure of social position” (Patterson, Cavazos and Washington, 2014: 74). While reputation is based on firm’s past performance, status is the result of a firm’s social relationships and quality of network partners (Dimov, Shepard and Sutcliffe, 2007).

Finally, it is necessary to undertake legitimacy and status. Legitimacy and status both come from a social logic (Patterson, et al., 2014) and they are sociological concepts (Washington and Zajac, 2005). They are both forms of social judgment and they both infer to social acceptance (Bitektine, 2011). However, there are important issues that diversify these two concepts. Legitimacy refers to the fit with normative values while status refers to a relative position in the network of actors as a proxy for quality (Rindova et al., 2005). In line with this, an organization with a high social legitimacy may have a low social status (Washington and Zajac, 2005). Such as, an activity or an organization can be highly socially legitimate, but also may have a low social status (Patterson, et al., 2014).

NEW OPERATIONAL MODEL

Previous scholars stress that, in order to understand corporate reputation and image, it is first necessary to understand the corporate identity and corporate communication process and the interrelationships of them. Along with corporate reputation, these scholars consider corporate image, identity and communication as essential elements to lead new and established ventures towards competitive advantage. Within their view corporate identity consists of the distinct characteristics of the venture and its management involves the interaction among corporate image, reputation and communication. In particular, managers have the responsibility to manage the venture’s identity and communication system in order to develop and to maintain a recognizable image and a favourable reputation, which is necessary for the venture' growth and survival (Gray and Balmer, 1998, Figure 1).

[INSERT FIGURE 1 HERE]

Although image and reputation are very important corporate assets, they are not the only resources that managers and new venture founders can employ in order to gain competitive advantage. The signals of legitimacy and status can be regarded as key complementary resources of corporate reputation (Bitektine, 2011), which together may lead a venture to reach competitive advantage within a specific industry. Moreover, despite the model of Gray and Balmer (1998), corporate image and reputation could be evaluated separately, as different intangible assets that could be connected by a causal relation, for instance sustaining that corporate image creates corporate reputation (Brown and Cox, 1997; Grunig, 1993; Marconi, 2001).

The new operation model of this study (Figure 2) proposes how legitimacy, reputation and status are being created through various levels: the corporate level indicates that a signal (reputation, legitimacy or status) refer to the overall venture, while the individual level indicates that a signal refers just to the members managing an established venture or founding a new one.

On the one hand, the new operational model claims that although corporate legitimacy is mainly conveyed by the individual legitimacy of the members founding a new venture or managing an established one, the new model proposed in this study sustains that corporate legitimacy is also created and enhanced by the individual reputation of the aforementioned venture members, by the overall level of corporate reputation that the venture is able to demonstrate within its industry and by the venture's affiliation with external parties that have a high network status.

On the other hand, in a symmetrical and complementary way, although corporate reputation is mainly conveyed by the individual reputation of the members founding a new venture or managing an established venture, the new model sustains that corporate reputation is also created and enhanced by the individual legitimacy of the venture members, by the overall level of corporate legitimacy that the venture is able to display within its industry and by the venture's affiliation with external parties that have a high network status.

Finally, the model explains also how societal status can be created through corporate legitimacy and corporate reputation and how both may lead a venture to reach competitive advantage in a specific industry.

[INSERT FIGURE 2 HERE]

How (corporate and individual) reputation and network status creates corporate legitimacy

Reputation, at both individual and corporate levels, can create corporate legitimacy. At corporate level, reputation can affect legitimacy because reputations are taken into consideration when legitimacy sources make decisions (Deephouse and Suchman, 2008). Indeed, corporate reputation may affect corporate legitimacy on cognitive dimension when competitive behaviour is performed due to contextual standards, values and beliefs. Czinkota, Kaufmann and Basile (2014) provide an example with the case of the Italian company Parmalat that, due to delegitimized financial behaviour did not reflect contextual consonance, but the firm managed to maintain its legitimacy due to its strong corporate reputation.

King and Whetten (2005: 204) also present a complementary view on corporate reputation and corporate legitimacy. On one hand, departing from the minimum standards a venture must have to prove its legitimacy. Authors' vision indicates that cognitive legitimacy may be necessary to acquire corporate reputation. Indeed, authors sustain that "any action, whether material or symbolic, intended to enhance reputation must also be grounded in the minimum standards of the organization's social identity, especially when the strategy is novel". On the other hand, organizations that prove superior competence create fundamental "minimum standards", which form the legitimacy requirements within a specific industry and that have to be respected by the organizations that want to acquire "ideal standards", such as corporate reputation in a specific industry. Hereby, it seems more probable that legitimacy that represents minimum standards may contribute to reputation. Indeed, authors propose this direction in the relationship of legitimacy and reputation (e.g. Kaufmann and Basile, 2014; Patterson, et al., 2014; Rao, 1994). However, King and Whetten also suggest that past ideal standards may turn into future minimum standards, thereby corporate reputation can create corporate legitimacy as well.

Other scholars focus on reputation at an individual level. Suchman (1995) proposes that an organization may occasionally create pragmatic legitimacy through individual reputation of its key personnel. Aldrich and Fiol (1994) indicate that reputation at an individual/entrepreneurial level can lead to gain a better cognitive and socio-political legitimacy at corporate level. They propose that individual reputation of entrepreneurial founders can have the ability to enhance corporate legitimacy and to lead the new venture to have a greater competitive advantage. Indeed, reputable founders could have the ability to convince third parties about the legitimacy of a new venture, convincing them to provide important resources for the venture' survival.

About the possibility to create corporate legitimacy through the venture's affiliation with external parties that have a high network status, Higgins and Gulati (2006) mention that new ventures' founding team can influence investors' decisions by using not only their ability to fulfil key roles in the establishment and management of a new venture, but also by the endorsement or connections with prestigious partners in their industry network. This affiliation provides legitimacy to a new venture, increasing its competitive advantage in terms of a better access to important resources. Indeed, also Deephouse and Suchman (2008) reinforce this perspective, sustaining that memberships in a high-status group may enable privileges to cushion minor rule violations.

How (corporate and individual) legitimacy and network status creates corporate reputation

Legitimacy at both individual and corporate levels has the capacity to create corporate reputation. At a corporate level, the findings of Rao (1994) set an example of corporate legitimation leading to corporate reputation. The sequence of achievements that organizations achieve in certification contests can represent a legitimation process that confers legitimacy to them and that can increase organizations' reputation and life chances. Thus, the findings of this scholar provide an example of regulatory legitimacy (as certification) leading to reputation at corporate level and leading to the possibility to create competitive advantage.

Similar to Rao (1994), also Patterson et al. (2014) show that victories in certification contexts result in enhanced corporate reputation, designating another example where regulatory legitimacy creates corporate reputation. Authors also underline the importance of legitimacy, reputation and status as organizational outcomes that may lead to competitive advantage. In particular, certification contests can be used to increase corporate reputation and to increase the societal status of a venture as symbol of its good resources and social standing.

Kaufmann and Basile (2014) also designate how corporate legitimacy can lead to corporate reputation, giving the examples of European horsemeat scandal and Nike's child labour in underdeveloped countries. Nike implemented a control process to evaluate job agreements and the occupational safety conditions, in order to prove that their behaviour was legitimate. Hence, the brand acquired regulatory legitimacy, which helped to create its corporate reputation. In other words, corporate legitimacy can affect corporate reputation because legitimate actors are often more visible and credible in their self-presentations (Deephouse and Suchman, 2008).

Other scholars, considering legitimacy at an individual level, argue that the legitimacy of a team managing a venture may serve as a valid signal of value to potential investors. Legitimate managers within a team tend to increase their venture's reputation because they are careful about not damaging their reputation by not making wrong collaboration decisions. Indeed, they tend to collaborate with firms with viable strategies. In this case, pragmatic legitimacy at individual level creates reputation at corporate level (Cohen and Dean, 2005).

On the importance of enhancing a corporate reputation by the venture's affiliation with external parties that have a high network status, Lin, et al., (2009: 924) underline that "to some extent, a legitimized status may generate a favorable reputation through endorsement and cognitive validation". Thus, although reputation influences societal status (as sustained in the next paragraph), "status ordering helps to determine which firms will develop reputations for quality and which will not" (Benjamin and Podolny, 1999: 585). Status could affect reputation by increasing the returns to past achievements (Deephoue and Suchman, 2008). Indeed, ventures that can rely on the affiliation with parties that have a high network status are more appealing for potential partners because of the possible contributions that these parties would make in advancing the ventures' reputation (Lin, et al., 2009). In other words, being associated with high status parties may enable ventures to produce at a higher level of quality, increasing their subsequent reputation (Malter, 2014).

How corporate legitimacy and corporate reputation creates societal status

Societal status can be seen as the manifestation of ventures' reputation and legitimacy. Corporate legitimacy has the ability to create societal status, Patterson, et al. (2014) show that regulatory legitimacy also creates societal status. Indeed, they prove that tournament rituals reinforce the legitimacy of participants and serve as mechanisms to distribute status among those actors that are judged as worthy of participation. An example of such tournaments includes the Oscars, Grammy Awards' participation since these events are reserved only for those social actors believed to be influential. Within this perspective is possible that the level of legitimacy that a venture can demonstrate is an important criterion to determine its societal status (Deephouse and Suchman, 2008).

As corporate legitimacy can create societal status, also reputation might affect status by determining an actor's standing within a specific group and by conditioning its mobility of status within different status groups (Deephouse and Suchman, 2008).

A venture may be motivated to maintain a high level of quality to avoid the risk of losing status (Malter, 2014), within this perspective corporate reputation can be considered as the outcome of a competitive process in which ventures signal their key quality characteristics to constituents in order to maximize their societal status. Indeed, according to the study of Fombrun and Shanley (1990), ventures operate in a competitive environment in order to achieve a better status through which they signal their key characteristics and past positive reputation to their constituents. In this sense, corporate reputation creates societal status, which helps firms to lead to competitive advantage.

Pollock, Lee, Jin and Lashley (2015) prove the effect of reputation on societal status. Authors find that reputation and status positively influence each other, in particular, reputation has a greater effect on status. Reputation precedes status both for young and established firms, however the effect of organizations' reputation on status is greater for experienced firms.

Deephouse and Carter (2005) concentrate on the differences of legitimacy and reputation focusing on cognitive (public) and pragmatic (financial) legitimacy and reputation. Authors "contrast legitimacy's social acceptance resulting from adherence to regulative, normative and cognitive expectations with reputation's comparisons among organizations on various attributes" (Deephouse and Carter, 2005: 353). Projecting empirical evidence from commercial banks, the paper suggests that reputation affects status, that is organizations with the highest reputation are able to maintain or improve their status. Authors also suggest that the consequences of a lower reputation are less dire as long as the organization's legitimacy remains unchallenged. Finally, they mention the validity of their results for high competitive industries, which relates with the outcome of competitive advantage.

Though not proposing a sequential effect, Stern, Dukerich and Zajac (2014) provide interesting findings for the relation of reputation and status. Authors evaluate reputation and status as two distinct concepts that may affect a company's perceived quality and expected performance. Authors discuss the perspective of reputation-status congruity and evaluate how status and reputation signals may influence each other's effects. They suggest that when reputation and status are congruent, their effects are enlarged. What authors mean by congruence is that "the notion that the effects of status and reputation are contingent on the receiver's interpretation process" (Stern, Dukerich and Zajac, 2014: 514). The effect is stronger when the effect of congruence is negative, meaning when reputation and status are both low.

[Insert Table 1 here]

CONCLUSIONS AND CONTRIBUTIONS

Mostly, starting by the middle of 90's with the pioneer works of Aldrich and Fiol (1994), Rao (1994), Scott (1995) and Suchman (1995), many research have been directed to understand the concepts of legitimacy, reputation, and status and how they influence each other. While there are few papers focusing on all three concepts at the same time (e.g. Bitektine, 2011; Deephouse and Carter, 2005; Deephouse and Suchman 2008; Washington and Zajac, 2005), to the best of our knowledge, there is no paper combining all the relational findings of legitimacy, reputation and status in order to explain how ventures can gain competitive advantage in their industry.

While previous scholars proposed that venture managers can use corporate identity, through corporate communication, in order to strategically create corporate reputation, which provides competitive advantage to ventures (Gray and Balmer, 1998), the main contribution of this review is to introduce a new operational model - employing legitimacy and status' signals together with reputation -

that represents an effective and essential tool for managers and new venture founders that aim to lead their venture to an advantageous position respect to their industry competitors.

Highlighting the relationships among reputation, legitimacy and status (at corporate and individual levels), the operational model gives contributions to management and organizational studies, outlining three important paths that allow new and established ventures to obtain competitive advantage.

As the first contribution this study suggests that, managers and new venture founders can create corporate reputation through corporate legitimacy (King and Whetten, 2008; Patterson, et al., 2014; Rao, 1994), by their individual legitimacy (Cohen and Dean, 2005;Kaufmann and Basile, 2014;) and enhancing the venture' status by the affiliation with high-status parities (Lin, et al., 2009).

As the second contribution the study asserts that corporate legitimacy can be determined by the corporate reputation that the venture already acquired in its industry (King and Whetten, 2008), by the individual reputation of its managers and founders (Aldrich and Fiol, 1994) and by the venture's previous affiliation with high-status parties (Higgins and Gulati, 2006).

As the third contribution, the model explains how new venture founders and managers have the opportunity to strategically lead their ventures to a higher status, and consequently a greater competitive advantage respect to industry competitors, through the acquisition and the maintenance of corporate legitimacy (Patterson, et al., 2014) and corporate reputation (Fombrun and Shanley, 1990).

Managerial Implications

The model presented in this study provides implications for managers and venture founders that aim to significantly improve the competitive strength of their ventures in terms of financial resources and business performance. According to the institutional theories, many dynamics in the organizational environment stem from cultural norms, symbols, beliefs, and rituals, rather than technological or material imperatives (Powell and DiMaggio, 1991).

The operational model suggests that competitive advantage can be achieved through reputation, legitimacy and status. It is outlined how a favourable legitimacy can be seen as an intangible asset that can enable organizations to progress, increasing their corporate reputation and consequently their societal status. Managers and venture founders that pay attention only to corporate reputation tend to crystallize the status of their ventures within an industrial social system, while organizations need to evolve, proving that there is no gap between how they are legitimated in their environment and how they are perceived in terms of reputation and status.

Therefore, managers and founders could better manage their ventures' corporate reputation through the acquisition and the maintenance of corporate legitimacy. They could also strategically enhance the corporate reputation of their ventures, leading them to a higher status and a consequent higher competitive advantage.

Limitations and implications for future research

This paper attempts to theoretically evaluate the relations of legitimacy, reputation and status on each other and how they lead to creating each other at corporate level and lead to competitive advantage. However, it doesn't provide any empirical evidence. The framework presented within the conceptual model may be useful for future empirical research, which can test the relationship among the concepts and provide empirical evidence.

The first limitation of this study can be the exclusion of corporate image within the relational system. Future research may be directed to including also corporate image within the whole picture, mainly focusing on its sequential relation with corporate reputation.

The second limitation is that this paper does not evaluate individual legitimacy, reputation and status as an output but concentrate on the creation of these constructs at corporate levels. Future research can be directed to understanding how these concepts are achieved in individual levels within the same relational framework.

The third limitation is that this paper does not further analyse other exogenous factors. As it can be seen in the operational model (Figure 2), there are exogenous factors different from legitimacy, reputation and status that affect a firm's competitive advantage. This study does not detail these factors but just specify their existence. Future research may direct their interest in order to discover and analyse these factors in addition to legitimacy, reputation and status.

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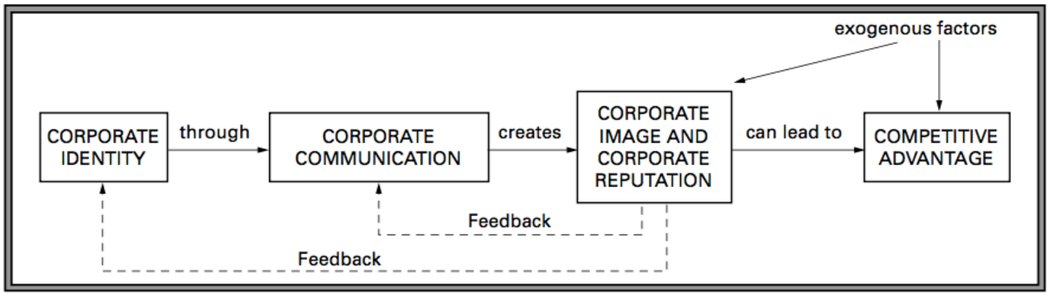
Figures and Tables

Figure 1 - Operational model for managing corporate reputation and image.



Source: Gray, E. R., and Balmer, J. M. (1998). Managing corporate image and corporate reputation. Long Range Planning, 31, p. 696.

Figure 2 – The new operational model

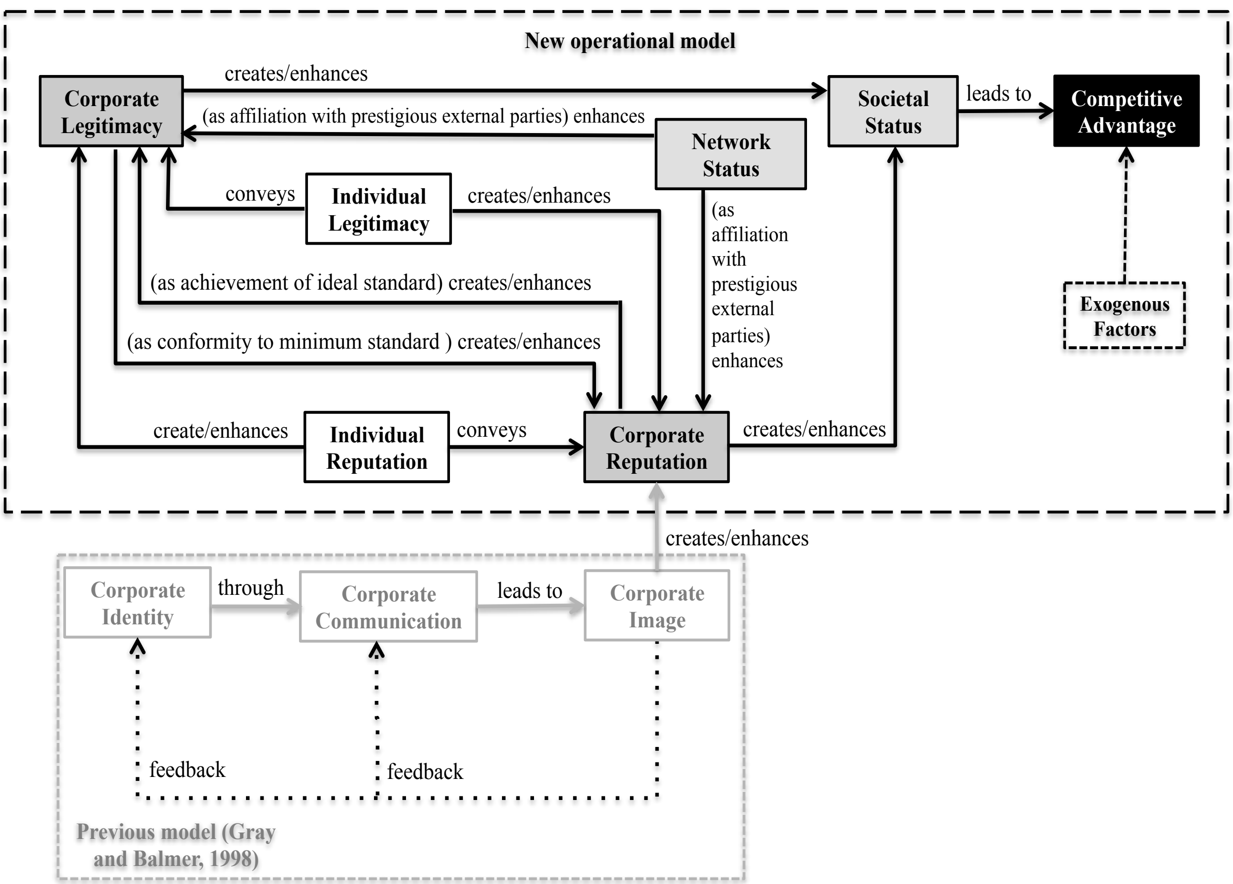


Table 1 - The relation of legitimacy, reputation and status

References	Type of study and main Findings	Dimension & Level of Legitimacy	Level of Reputation	Type of Status	Type of venture and possible relation among reputation, legitimacy and status	Possible impact on Competitive Advantage
Aldrich and Fiol (1994)	Theoretical paper. / Entrepreneurs can build trust relationships in order to increase their reliability within a specific industry, which will lead to gain a better cognitive and sociopolitical legitimacy.	Cognitive and sociopolitical legitimacy / Corporate level	Individual and corporate level	-	New ventures / Reputation → Legitimacy	New venture's gain competitive advantage by its uniqueness during its initial development. Besides uniqueness, venture's members could have the ability to influence the new venture's legitimacy interacting with third party in order to build the venture's reputation.
Bitektine (2011)	Theoretical papers. / Evaluators have the intention of choosing among judgment forms. This paper offers a view and a sequence about how evaluators proceed from the most efficient, category-based judgments (cognitive legitimacy and status) to more complex, feature-based judgments (sociopolitical legitimacy and reputation).	Cognitive and sociopolitical / Corporate level	Corporate level	Societal Status	Established ventures / (Cognitive) legitimacy → Status → (Sociopolitical) Legitimacy and Reputation	Earning competitive advantage through a better understating of partners' selection: a firm starts with the application of cognitive legitimacy judgment to identify the broadest category (an organizational population or industry) with which it wants to transact (this choice eliminates unsuitable populations or industries). Once the organizational form of the potential partner is identified, the firm uses status judgment as a more fine-grained filter to leave out actors of unsuitable social rank. Finally, the firm uses sociopolitical legitimacy and reputation judgments to make the final selection of the partner.
Cohen and Dean (2005)	Empirical paper on IPOs. / The condition of information asymmetry between current owners and potential IPO investors creates a context wherein the legitimacy of the top management team (TMT) may serve as a valid signal of value to potential investors.	Pragmatic Legitimacy / Individual level	Corporate level	-	New ventures / Legitimacy → Reputation	TMT legitimacy represents a credible indicator of value for a venture's performance. Most legitimate managers increase a new venture reputation because they tend to not damage their own reputation, avoiding collaborations with firms that do not have viable strategies and substantial economic potential. Thus, legitimacy enhances the venture's competitive advantage in terms of a better performance and access to resources.
Czinkota, Kaufmann and Basile (2014)	Theoretical paper in conjunction with case studies. / Recognizing the mutual relationship existing between reputation and legitimacy gives companies greater visibility and credibility,	Cognitive Legitimacy / Corporate level	Corporate level	Societal Status	Established ventures / Reputation→Legitimacy Legitimacy →Reputation	When competitive advantage is carried out according to contextual standards, values and beliefs. Legitimacy and reputation can become mutually supportive and useful to acquire social status and competitive advantage.

	when it behaves according to social expectations.				Reputation and legitimacy→ Status	
Deephouse and Suchman (2008)	Theoretical model. / Legitimacy, reputation and status all stem from different sources but they all have influence on each other. The authors emphasize that all these concepts are related to ventures' success.	Sociopolitical (normative) legitimacy / Corporate level	Corporate level	Societal Status and Network Status	Established ventures / Network status→ Legitimacy→ Societal Status Legitimacy → Reputation Reputation → Legitimacy Network status → Reputation → Societal Status	Legitimacy affects status since avoiding illegitimate activities may be a criterion to get a higher status. Status affects legitimacy because memberships in a high-status group may enable privileges to cushion minor rule violations. Legitimacy affects reputation because legitimate actors are often more visible and credible in their self-presentations. Reputation affects legitimacy because reputations are taken into consideration when legitimacy sources make decisions. Status affects reputation by increasing the returns to past achievements. Finally, reputation affects status by determining an actor's standing within a particular group and by conditioning the mobility of status within different status groups.
Fombrun and Shanley, (1990)	Empirical study on Fortune 500 firms' ranking. / Publics appear to construct reputations from a mix of signals derived from accounting and market information, media reports, and other noneconomic cues.	-	Corporate level	Societal status	Established ventures / Reputation → Status	Under informational asymmetries, firms are involved in a competitive market to achieve a particular type of societal status through which firms signal their key characteristics and past positive reputation to their constituents.
Higgins and Gulati (2006)	Empirical paper on IPOs. / New ventures' Top management teams can influence investors' decisions by providing legitimacy along three key dimensions: venture's access to resources, venture's ability to fulfill key roles and endorsement of prestigious partners.	Pragmatic Legitimacy / Individual level	-	Network status	New ventures / Status→Legitimacy	The endorsement and affiliation with a high status' party can provide legitimacy to a new venture, thus increasing its competitive advantage in terms of a better access to important resources.

King and Whetten (2008)	Theoretical paper. / Reputation and legitimacy are complementary. Organizations have legitimacy when they comply with the minimum standards of a particular social identity prototype of organization. Organizations have good reputations when they are viewed favorably relative to the ideal standard for a particular social identity of organization.	Cognitive legitimacy / Corporate level	Corporate level	-	Established ventures / Reputation → Legitimacy Legitimacy → Reputation	Reputation complements legitimacy: intense pressures to compete among similar organizations can result in what was once an ideal standard becoming the norm, such as an ideal level of performance becomes the norm. In this manner, the standards for garnering reputation at one point in time become the standards for being legitimate at a subsequent point in time. Legitimacy complements reputation: organizations face competition from peers, thus they seek to elevate themselves in novel ways. But for an organization to be able to distinguish itself in an innovative way, the organization must be able to justify its activities according to the minimum standards of the prototypical organization.
Lin, Yang and Arya (2009)	Empirical paper (U.S. industries, as computer, steel, pharmaceutics, crude petroleum and natural gas). / Status is the manifestation of firms' reputation and legitimacy, but high status firms are more appealing for potential partners because of the possible contributions that their high status would make in advancing the partner firm's reputation and legitimacy.	Cognitive Legitimacy / Individual level	Corporate level	Societal status and network status	Established ventures / Legitimacy and reputation → Societal Status Network status → Legitimacy and reputation	The authors view status as not only the manifestation of firms' reputation and legitimacy but also the means for firms to further enhance reputation and legitimacy for resource and economic gains, in particular in alliance relationships.
Patterson, Cavazos and Washington (2014)	Empirical paper. / Victories in certification contests result in enhanced corporate reputation. Victories in tournament rituals result in organizational status. Reputation and legitimacy are both achieved through similar, but distinct methods.	Sociopolitical (Regulatory) legitimacy / Corporate level	Corporate level	Societal Status	Established Ventures / Legitimacy → Reputation Legitimacy → Status	Status and reputation are key concepts in achieving competitive advantage. Certification contests can be used to increase corporate reputation and tournament rituals can increase organizational societal status as symbol of good resources and social standing.
Pollock, Lee, Jin and Lashley (2015).	Private Equity and venture capital firms. / Status and reputation positively influence each other as they coevolve; their influence is not	-	Corporate level	Societal Status	New ventures Reputation → Status / Established ventures Reputation→ Status	Understanding the nature of the relationship between reputation and status and how it evolves over time is important because reputation and status are built in different ways and create different kinds of value. For young firms, understanding this relationship can

	equivalent and changes over time. The effect of organizations' reputation on status is greater for experienced firms.					provide crucial guidance for investing their scarce resources and attention to effectively build their status and reputation.
Rao (1994)	Empirical paper about certification context in automobile industry. / Organizations/entrepreneurs use publicized reliability contests to legitimate the new mode of transportation.	Sociopolitical (Regulatory legitimacy) / Corporate level	Corporate level	-	New ventures / Legitimacy → Reputation	Legitimation achieved through successes in certification contests increase organizations' reputation and life chances. Legitimacy (conceded by legitimated third parties) determines the future reputation of ventures.
Stern, Dukerich and Zajac (2014)	Strategic alliances of newly emerging firms - between pharma and biotech firms. / When status and reputation are congruent, they amplify each other's impact (positively and negatively), rendering their cumulative effect more powerful than the sum of their separate effects on alliance formation.	-	Individual and corporate level	Societal status	New venture / Reputation X Status (Interaction effect) → alliance's formation	The influence of status and reputation is not a simple linear function, but rather that status and reputation interact in complex yet predictable ways. When reputation and status are congruent, their combined effect on ventures' alliance's formation and expected performance is enlarged. Enlarging the effects of reputation and status under reputation-status congruity draws attention to managing both concepts strategically in order to benefit from their positive outputs and avoid negative congruence.
Suchman (1995)	Theoretical model. / Through legitimation strategies firms gain strength in their environment and gain specific outcomes through pragmatic, moral and cognitive legitimacy.	Pragmatic, legitimacy / Corporate level	Individual and corporate level	-	New ventures / Reputation → Legitimacy	Entrepreneurs could attempt to build reputation in order to gain pragmatic legitimacy. Sector leaders find themselves caught between, on the one hand, wishing to encourage isomorphism in order to establish moral and cognitive hegemony, and, on the other hand, wishing to restrain isomorphism in order to monopolize competitive pragmatic advantages.