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The dual role of intermediaries as a bridge among new venture founding teams, ordinary investors and new venture performance. The case of the film industry.

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Abstract

This study analyses how the investment of an intermediary -playing the "dual role" of principal respect to a new venture founding team (VFT) and agent respect to ordinary investors- can determine the new venture performance and its capacity to attract ordinary investments. Considering the intermediary as principal, our theoretical model sustains that its investment in the new venture represents a commitment signal mediating the ability of the VFT reputation -a value signal of new venture prospective quality- to enhance new venture's performance. The model also theorizes that the relationship between the VFT reputation and the new venture performance is positively moderated by the intensity of past collaborations between the VFT and the intermediary, as a signal of their reciprocal trust. Analysing the intermediary as agent, the model sustains that, although the intermediary's reputation is a value signal to determine new venture performance, ordinary investors take their investment decisions relying only on the commitment signal represented by the intermediary's investment. The ideal setting to prove the theoretical model is the film industry. New venture fundraising in film industry is a business characterized by a high uncertainty where distributors play the role of principals with respect to the film founding team (film's director and producer) and of agents with respect to ordinary investors. Directors and producers signal their reputation to ordinary investors and to distributors in order to attract resources. A distributor can employ its reputation, but also its investments in a film as important signals for ordinary investors

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Keywords: Commitment signal; value signal; film industry; founding team; new venture; performance; reputation; investment; intermediary; trust.

INTRODUCTION

New ventures' access to capital in conditions of high risk and financial constraint can be particularly difficult because investors have limited information in order to assess the new venture quality and the characteristics of its founding team. As signaling theory suggests, a new venture founding team (VFT) can mitigate the information asymmetry surrounding fundraising decisions by offering investors signals about their ability to maximize new venture performance (Eisenhardt, 1989).

While a "value signal" is an indicator of an object's unknown value (Meyer, 1998), communicating the prospective rents generated by the new venture (Kor, 2003), a "commitment signal" is an information more directly connected to a VFT's real intentions to maximize new venture performance, ascertaining how determined actions of the VFT can overcome obstacles and achieve venture's success (Busenitz, Fiet and Moesel, 2005).

Although a VFT can use its reputation as a value signal transmitting the new venture's potential quality (Beckman and Burton, 2008; Connelly, Certo, Hsu, 2007; Ireland and Reutzel, 2011), investors are aware that the VFT has more information about the prospects of the new venture and that they could not easily assess the level of commitment of the VFT in the new venture's promotion on the market (Burns, Barney, Angus and Herrick, 2015).

Within contexts 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 born 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). Therefore, a VFT often needs to rely on additional signals to convince investors about its real effort to improve the new venture enactment. Strong signals derive from the involvement of another player in the new venture establishment process, which can be an intermediary between the VFT and ordinary investors (Fitza, Matusik and Mosakowski, 2009; Higgins and Gulati, 2006). The signals emitted by an intermediary have the capacity to amplify the signals previously conveyed by a VFT to new venture investors. First, an intermediary can reduce uncertainty around the new venture by lending its reputation to VFT, as an additional value signal that has the capacity to increase VFT's initial reputation (Fitza, Matusik and Mosakowski, 2009). Second, an intermediary, who has the ability to influence and enhance the new venture's success, can provide a convincing commitment signal about the potential value of the new venture in the market (Sorenson and Stuart, 2001).

Within this perspective, our study addresses the following question: how important is the intermediary's commitment in the new venture relative to its reputation and to VFT reputation in order to predict new venture performance and to attract ordinary investors?

This study analyses the role of the investment of an intermediary - which plays the dual role of principal respect to a VFT and agent respect to ordinary investors - in order to explain new venture performance and the capacity of the new venture to obtain investment capital. Within the theoretical model of the study (Figure 1) the investment of an intermediary – as principal respect to the VFT - generates a "commitment" signal that mediates the positive effect of VFT reputation, as "value" signal of the new venture prospective quality, on the new venture performance. The model also sustains that the level of VFT-intermediary's past collaborations positively moderates the effect of VFT reputation on new venture performance.

Finally, moving the attention to the intermediary as agent respect to ordinary investors, the model maintains that, although the intermediary's reputation remains an important value signal to determine new venture performance, ordinary investors' decisions to fund a new venture are completely determined by the level of the intermediary's investment in the new venture, which has the capacity to eclipse the relevance of the intermediary reputation.

Results provide three contributions to entrepreneurship literature. First, the effect of VFT reputation on new venture performance occurs through the capacity to convince an intermediary to provide resources. This study proves that intermediary's investment during the new venture's financing is a commitment signal (Fitza et al., 2009) that is much more powerful than the value signal offered by VFT reputation in order to determine new venture performance.

Second, the positive effect of the VFT's reputation on new venture performance is greater for VFTs that have strong ties with an intermediary, which invests in the new venture. This finding demonstrates that repeated past collaborations between VFT and the intermediary increase the intermediary's commitment to the new venture, as signal of their mutual trust, enhancing the new venture's success (De Clercq and Sapienza, 2001, 2006; Kuckertz et al. 2015).

Third, earlier works have examined signaling mechanisms in the VFT-ordinary investors relationship (Kuckertz, Kollmann, Röhm and Middelberg, 2015), while only few studies have suggested examining the role of signals in the context of intermediaries-ordinary investors relationships (Klotz, Hmieleski, Bradley and Busenitz, 2014). This study evidences the limit of intermediary's reputation in order to attract ordinary investors. Although the intermediary reputation plays an important function to determine new venture performance, its effect on ordinary investors' decisions is obscured by the commitment signal represented by the investment conceded by the intermediary participating in the new venture development (Busenitz, Fiet and Moesel, 2005).

Film industry is employed as the ideal setting to prove the theoretical framework. 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 production 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 (Ebbers and Wjinberg, 2012) and film distributors correspond to the notion of intermediaries between the VFT and the ordinary investors (Hofmann, 2012; Morawetz, Hardy, Haslam and Randle 2007; Kim and Jensen, 2014). While financial film investors, e.g. private companies and financial intermediaries, suffer from information asymmetry since they cannot assess the film director and producer's ability to determine a film success in terms of cumulative box-office, film distributors can better evaluate their ability before to decide the level of investment in the promotion and commercialization of a new film. Thus, a film director and producer signal their reputation to ordinary investors and to distributors in order to attract key financial and nonfinancial resources (Kim and Jensen, 2014). Moreover, film distributors can employ their reputation and their investments in the film in order to provide the VFT with organizational legitimation in the eyes of ordinary investors, influencing their investment decisions (La Torre, 2014).

This study is structured as follows. The theoretical background is presented in the next section, followed by the theoretical model and hypotheses section (the first two hypotheses consider the intermediary according to its role of "principal", while the third hypothesis according to its role of "agent"). Afterwards, the study describes the empirical setting section, the research model, the data, the measures and the results. Finally, the study ends with a discussion of contributions, managerial implications and limitations.

[INSERT FIGURE 1 HERE]

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).

The uncertainty about the value of the business idea often makes difficult for a VFT to convince potential investors to offer the capital necessary for the start-up stage. The reputation attached to a VFT could represent a "value" signal directly connected to the quality of the VFT (Podolny, 1993). Reputation "serves as a signal of future performance based on perceptions of past performance" (Dimov, Shepherd and Sutcliffe, 2007, p.10). While established firms rely on past performance in order to signal their capacity to accomplish success (Fombrun and Shanley, 1990; Roberts and Dowling, 2002), the reputation of a new venture is represented by the reputational capital of the VFT, an intangible asset that transmits the VFT past achievements and success (Burton, Sørensen and Beckman, 2002; Petkova, 2006; Shane and Cable, 2002).

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 of the VFT is fundamental for the new venture's future performance (Brush, Greene and Hart, 2001), it signals the VFT ability to positively affect the future performance of the new venture, indicating that the team has learned from past accomplishments and failures (Kor, 2003).

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

A VFT 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). Reputable VFTs have a great probability to obtain financial resources and complementary assets by intermediaries acting between the VFT and ordinary investors.

Indeed, experienced and reputable founders can assist intermediaries to endorse the new venture's quality towards potential ordinary investors (Beckman and Burton, 2008; Hsu, 2007). 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 spurs the collaboration of intermediaries that can contribute to maximize the new venture performance (Ferris, Harris, Russell, Ellen III, Martinez and Blass, 2014; Fischer and Reuber, 2007).

Intermediaries possess specialized abilities, knowledge and technical expertise acquired in selecting and monitoring several entrepreneurial new ventures (Amit, Brander and Zott, 1998). 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). For instance, intermediaries like venture capitalists evaluate many business ideas, paying attention to the characteristics of leading entrepreneurs constituting a new venture (Muzyka, Birley and Leleux, 1996) and VFT (Franke, Gruber, Harhoff and Henkel, 2006).

The positive effect of the intermediary's investment on new venture performance

The investment of an intermediary has a positive implication to enhance the market performance of the new venture. An intermediary provides an external organizational legitimation to the VFT. The intermediary certifies the entrepreneurs' reliability during the creation of a new venture, thus new ventures that are financed by particular intermediaries could reach a high level of performance (Shane and Stuart, 2002; Shepherd and Zacharakis, 2002; Tyebjee and Bruno, 1984). Respect to ordinary investors an intermediary has a superior evaluation ability to select promising new business opportunities (Amit, Brander and Zott, 1998). In particular, a larger investment in a new venture reflects the intermediary expectations about the future rents that the new venture will generate (De Clercq and

Sapienza, 2006). For instance, considering VCs as intermediaries, they do not invest randomly; rather they select firms by continuously screening the market in order to find good investment opportunities (Croce, Martí and Murtinu, 2013). In all probability, the intermediary's decision to increase the performance of a new venture occurs through its screening capability in interpreting the quality signals offered by the VFT characteristics (Beckman and Burton, 2008; Hsu, 2007).

HYPOTHESES DEVELOPMENT

"The Intermediary as a principal" - The mediating role of the intermediary's investment on the relationship between the new venture founding team reputation and new venture performance

This study suggests that the effect of the VFT's ability - signaled by its reputation - on the new venture performance materializes through the actions of an intermediary that invest in the new venture providing a signal of commitment that goes beyond its capacity to assess the characteristics of the VFT. A particular investment could represent the intermediary's determination to spend more time in executing a value-adding role respect to the VFT. It means that the intermediary does not only provide financial resources for the new venture development, but also managerial assistance for the new venture's success (De Clerq and Manigart, 2007). In other words, an intermediary's investment can affect the performance of a new venture by contributing its "management" resource to the VFT (Fitza, Matusik, Mosakowski, 2009).

A relation-specific investment by an intermediary in the new venture (Teece 1987) can combine the intermediary's assets with the one of the VFT, creating a unique combination. Indeed, intermediaries can offer 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). Therefore, in the theoretical model of this study (Figure 1), the following hypothesis is outlined:

Hypothesis 1: The positive effect of the new venture founding team's reputation on the new venture performance is positively mediated by the investment of an intermediary in the new venture.

"The Intermediary as a principal" - 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 collaborations between the VFT and an intermediary are likely to affect the probability that the intermediary will support the new venture. 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, the performance of a new venture may benefit from repeated collaborations between the intermediary and the VFT.

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. Frequent relation-specific investments and knowledge sharing routines developed during the collaboration could give rise to relational rents (De Clercq and Sapienza, 2006). 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 the following hypothesis.

Hypothesis 2: 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 an intermediary investing in the new venture.

"The Intermediary as agent" - The effect of intermediary's investment compared to its reputation on the ordinary investors' decisions

"New ventures with founding teams that have pre-established relationships with third parties who are connected to venture investors are more likely to acquire external funding for their ventures" (Shane and Stuart, 2002, p. 7). 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. "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.

Being associated with a highly reputable intermediary can enhance the new venture founders' capacity to induce ordinary investors to concede resources to new ventures (Fitza, Matusik and Mosakowski, 2009). A VFT that receives the attention from a reputable intermediary demonstrates that the VFT could have been selected by the intermediary for its potential capacity to properly manage the new venture in the future (Dowling, 2006; Fombrun and Van Riel, 2004).

Nevertheless, 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). 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).

The investment of an intermediary is a signal particularly important for high-risk new ventures that need to attract investors in financial markets. Indeed, 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 investment of an intermediary as an indicator of its intention and commitment to make up for a possible lack of effort by the new venture founders (De Clerq and Manigart, 2007). The investment of an intermediary increases the credibility of a reputation signal provided by a VFT (Davila, Foster and Gupta, 2003). Therefore, in the theoretical model of this study (Figure 1), the following hypothesis is outlined:

Hypothesis 3: The investment of an intermediary in a new venture has a stronger effect on ordinary investors' decision than the intermediary's reputation.

RESEARCH SETTING

The empirical setting chosen to support the theoretical contribution of this study is the Italian film industry, wherein a new venture is represented 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 investment to a film project. The latter is measured by the number of screens dedicated to the film's theatrical release in the opening weekend that can be an important determinant of the film market performance (Sanders, 1955). For instance "a bank which decides to finance a film project cannot do it without a careful analysis of the distribution deal and the recoupment agreement agreed on between the producer and the distributor" (La Torre, 2014, p.139).

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; Kim and Jensen, 2014). "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).

RESEARCH MODEL

The film project is the unit of analysis of this study. To support the mediation model presented in the first hypothesis of this study (HP1) we followed the recommendations for testing the presence of mediators (Hayes, 2009; 2013).

First, we applied the causal step approach of Baron and Kenny (1986), which is based on ordinary least squares regressions (clustering data according to distributor's identity in order to obtain OLS estimates robust to correlation between residuals within distributors' groups). Therefore, the mediation model of HP1 requires, as first condition, the existence of a direct effect to be mediated, which shows that the predictors ("Producer and director's reputation") significantly affect the outcome ("Market Performance") when the mediator ("Distributor investment") is not included. As a second condition, the predictors must significantly affect the mediator, as third condition the mediator must significantly affect the outcome, finally as fourth and last condition, the significant effect of the predictors on the outcome has to decrease when the mediator is added to the model.

Second, we implemented a subsequent bootstrap test to confirm the mediation effect of HP1. Because the sampling distribution of the indirect effect is not normal but asymmetric, with nonzero skewness and kurtosis, bootstrap resampling has been employed (with one thousand replications) as an alternative to the Sobel Test, which is based on the normality assumption (Preacher and Hayes, 2004). 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. It means that during the test of distributor investment as mediator between the director market reputation and film performance, the producer market reputation is treated as a control variable together with the other controls. While, during the test of distributor investment as mediator between producer market reputation and film performance, the director market reputation is treated as a control variable together with the other controls.

Finally, to support the moderation model presented in the second hypothesis (HP2), this study uses a hierarchical moderated regression analysis. As recommended by Aiken, West and Reno (1991), the independent variables were mean-centered prior to the formation of interaction terms. Then, the hierarchical approach allows for a comparison between different models with and without interaction terms, which (once added in the regressions) need to be significant in order to confirm moderation effects (Jaccard & Turrisi, 2003).

DATA AND MEASURES

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.

Dependent variable

Market Performance. This variable is the dependent variable employed for HP1 and HP2. The new venture 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 (Ferriani, Cattani and Baden-Fuller, 2009). 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).

Private investments. This variable is the dependent variable employed for HP3. 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). Although films receive public subsidies to cover a residual part of their budget, private investments represent the most important source to assure the accomplishment of a film project (Bagella and Becchetti, 1999).

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 (in our case banking groups), which are economic entities who are in charge of managing the financial assets of other economic entities (Gup, 2011). The Italian Financial Law of 2008 (no. 244/2007), which came into effects on the 21st of January 2010, introduced the possibility for private companies to invest equity in national or co-produced films with a release in the national market. In this study, all private investment data, from 2010 until the beginning of 2014, is collected through the online "Tax-credit section" of the Italian Directorate General for Cinema (DGC), which is affiliated to the Italian Ministry of Cultural Heritage, Activities and Tourism (MIBACT). The DGC was established in 2001 with the aim to promote and develop Italian cinema and the national film industry, and is in charge of investment policies in Italian films (Cinema.beniculturali.it, 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).

Distributor investment. The intermediary's investment is represented by the distributor's investment in number of opening screens conceded to a film release in the first weekend of its schedule in cinema theatres. It is important to consider that films with more opening screens in the 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).

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). As a first condition to support HP1, 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 multicollinearity problems (Mean VIF < 10), the results of Table 2 (Model 3) 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 VFT's reputation needs to have a positive effect on distributor's investment. The results in Table 2 (Model 4) 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 distributor's investment in opening screens.

As a third condition, the distributor's investment needs to positively affect the new venture performance. The results of Table 2 (Model 5) show that distributor investment indeed is positively related to film box-office ($\beta = 1.12$, p. < 0.001).

The fourth and last condition of the mediation expects that the positive effect of the VFT's reputation on new venture market performance is less significant when the distributor's investment is included in the model. The results of Table 2 (Model 6) show that distributor investment, 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 the bootstrap test about the significance of the mediation effect. The results reject the null hypothesis that the indirect effect is not different from zero, confirming the mediating effect of distributor investment with respect to director market reputation ($z = 2.87$, $p < 0.004$), and also with respect to the producer market reputation ($z = 3.46$, $p < 0.001$). This evidence supports the first hypothesis of this study.

Afterwards, in order to support HP2 in Table 2 (Model 3), as first step, we control 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 ($\beta = 0.09$, $p < 0.05$), as well as the interaction 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 ($\beta = 0.11$, $p < 0.01$). As second step, we also control that the introduction of the interaction variables slightly increases the variance explained in the dependent variable ("market performance") from the Model 2 to Model 3 ($\Delta R^2 = 0.0088$, $p < 0.001$). These two evidences support the second hypothesis of this study.

Finally, results show that the market reputation of the new venture founding team has a positive effect on the size of the investments conceded by ordinary 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 7) shows that the commitment of an intermediary has a greater capacity to determine ordinary investments with respect to its market reputation. Indeed, the effect of the distributor's investment on private investments is positive and significant ($\beta = 0.29$, $p < 0.05$), while the distributor's market reputation is not significant (β = -0.11, n.s)[1]. These findings support 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, the study finds that the level of investment committed by an 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. We explain how intermediaries contribute to the market performance of a new venture by playing a dual role between the new venture founding team and the ordinary investors (Fitza et al., 2009). We argue that the action of an intermediary is especially valuable in empirical settings, which are characterized by information asymmetry problems and the risk of opportunistic behavior by the new venture founding team vis-à-vis the ordinary investors (Rosenbusch, Brinckmann and Müller, 2013).

Second, 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).

Third, while earlier works have examined these signaling mechanisms in the VFT-ordinary investors relationships (Kuckertz, Kollmann, Röhm and Middelberg, 2015), only

[1] 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, $p < 0.001$).

few studies have suggested examining the role of signals in the context of intermediaries-ordinary investors relationships (Klotz, Hmieleski, Bradley and Busenitz, 2014). We contribute to the literature by showing that the intermediary's investment to a new venture has a significant effect on the decision investment of ordinary investors, whereas the effect of the intermediary's reputation is not significant. The findings of this study support the theory that, although the intermediary reputation can determine the new venture performance, the investment of an intermediary is a commitment signal that is much more powerful than its reputation in order to govern the new venture fundraising (Busenitz, Fiet and Moesel, 2005).

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

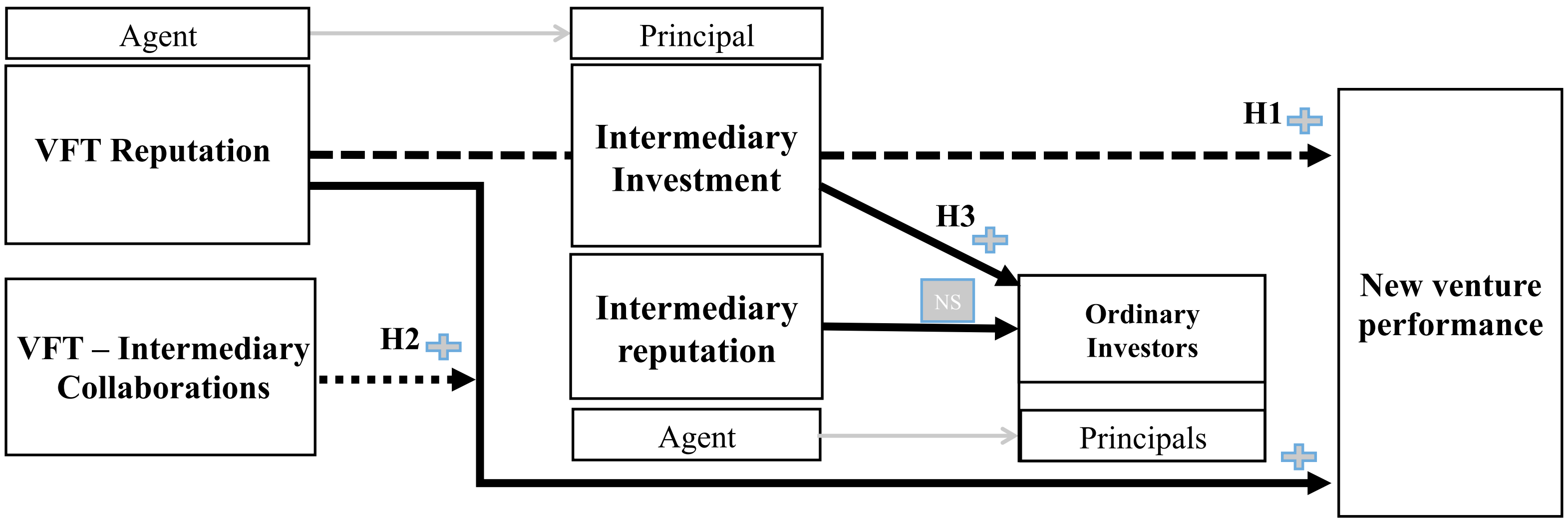

Table 1 A – Mean, Standard Deviation and Correlations (Variables 1 to 11)

		Mean	S.D.	1	2	3	4	5	6	7	8	9	10
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	Private Investments	0.0	0.1	0.26***	-0.01	-0.23***	0.11**	0.00	1.00				
7	Distributor experience	18.5	22.9	0.13**	0.05	0.02	0.13**	-0.11**	0.01	1.00			
8	Producer experience	8.4	12.9	0.40***	0.15***	-0.16***	0.03	0.10*	0.10*	0.10*	1.00		
9	Director experience	8.6	12.0	0.35***	0.17***	-0.09*	0.04	-0.00	0.10*	0.07	0.25***	1.00	
10	Coproduction	0.1	0.3	0.04	0.12**	0.01	-0.03	-0.02	-0.11**	-0.08*	0.08+	0.12**	1.00
11	Distributor Artistic Reputation	2.0	1.0	0.28***	0.10*	-0.11**	0.09*	-0.28***	0.00	0.31***	0.22***	0.16***	0.06
12	Producer Artistic Reputation	1.5	1.3	0.47***	0.12**	-0.27***	0.04	-0.01	0.18***	0.05	0.45***	0.29***	0.13**
13	Director Artistic Reputation	1.3	1.3	0.43***	0.18***	-0.12**	0.05	-0.02	0.14***	0.04	0.23***	0.61***	0.07+
14	Distr. Artistic Reputation (miss.)	0.0	0.1	-0.04	0.09*	0.17***	0.09*	0.03	-0.05	-0.01	-0.05	-0.07+	-0.05
15	Prod. Artistic Reputation (miss.)	0.0	0.1	-0.08+	-0.00	0.06	-0.01	-0.04	-0.03	0.08+	-0.04	-0.04	-0.03
16	Dir. Artistic Reputation (miss.)	0.0	0.1	-0.11**	0.02	0.09*	-0.02	0.04	-0.04	-0.01	-0.05	-0.04	-0.04
17	Distributor Market Reputation	11.0	3.4	0.68***	0.20***	-0.26***	0.18***	-0.13**	0.20***	0.31***	0.41***	0.34***	0.02
18	Producer Market Reputation	10.1	3.9	0.66***	0.19***	-0.28***	0.10*	0.07	0.28***	0.15***	0.60***	0.34***	0.06
19	Prod.&Dist. previous collaborations	0.5	0.9	0.48***	0.17***	-0.11**	0.13**	0.30***	0.19***	0.22***	0.38***	0.23***	-0.05
20	Director Market Reputation	8.7	4.7	0.57***	0.22***	-0.17***	0.09*	0.05	0.22***	0.11**	0.32***	0.68***	-0.00
21	Dir.&Dist. previous collaborations	0.3	0.7	0.40***	0.18***	-0.01	0.09*	0.13**	0.15***	0.14***	0.27***	0.39***	-0.02
22	Distributor Investment	3.0	2.1	0.90***	0.16***	-0.40***	0.10*	-0.03	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.	11	12	13	14	15	16	17	18	19	20	21	22
11	Distributor Artistic Reputation	2.0	1.0	1.00											
12	Producer Artistic Reputation	1.5	1.3	0.30***	1.00										
13	Director Artistic Reputation	1.3	1.3	0.22***	0.45***	1.00									
14	Distr. Artistic Reputation (miss.)	0.0	0.1	0.06	-0.02	-0.03	1.00								
15	Prod. Artistic Reputation (miss.)	0.0	0.1	0.01	0.06	-0.03	-0.01	1.00							
16	Dir. Artistic Reputation (miss.)	0.0	0.1	0.01	0.01	0.09*	0.11**	0.23***	1.00						
17	Distributor Market Reputation	11.0	3.4	0.66***	0.45***	0.34***	-0.05	-0.05	-0.05	1.00					
18	Producer Market Reputation	10.1	3.9	0.28***	0.84***	0.44***	-0.02	-0.04	-0.07	0.60***	1.00				
19	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			
20	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		
21	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	
22	Distributor Investment	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
	Market Performance	Market Performance	Market Performance	Distributor Investment	Market Performance	Market Performance	Private Investments
Control Variables							
Budget	0.44***	0.37***	0.35***	0.44***	0.03	0.01	0.71***
	(0.08)	(0.07)	(0.07)	(0.06)	(0.05)	(0.05)	(0.12)
Budget (missing)	-2.55***	-2.28***	-2.13***	-2.63***	-0.17	-0.06	-4.83***
	(0.47)	(0.44)	(0.43)	(0.36)	(0.23)	(0.22)	(0.76)
High Season	0.25	0.27*	0.21	-0.05	0.38***	0.33***	0.79*
	(0.16)	(0.13)	(0.13)	(0.11)	(0.10)	(0.10)	(0.38)
Vertical Integration	-0.02	-0.32+	-0.35+	-0.46**	0.06	-0.02	-0.37
	(0.20)	(0.19)	(0.18)	(0.14)	(0.13)	(0.14)	(0.63)
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	-0.00	-0.00	-0.01	0.00	-0.00	-0.01*	0.01
	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)
Producer experience	0.01	-0.00	-0.00	0.00	0.00	-0.01	-0.03
	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)
Director experience	-0.00	-0.01*	-0.01*	-0.00	-0.01	-0.01	-0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Coproduction	-0.04	0.23	0.25	-0.05	0.19	0.26+	-2.27***
	(0.25)	(0.23)	(0.22)	(0.17)	(0.15)	(0.14)	(0.65)
Distributor Artistic Reputation	-0.66***	-0.43***	-0.40***		-0.06	0.02	-0.13
	(0.12)	(0.10)	(0.10)		(0.08)	(0.07)	(0.30)
Producer Artistic Reputation	0.15+	-0.30**	-0.07	-0.18+	0.06	0.06	-0.77*

	(0.09)	(0.10)	(0.12)	(0.11)	(0.05)	(0.08)	(0.38)
Director Artistic Reputation	0.37***	0.05	0.09	-0.21*	0.20***	0.20**	0.18
	(0.08)	(0.15)	(0.14)	(0.10)	(0.05)	(0.08)	(0.43)
Distributor Artistic Reputation (miss.)	1.14+	0.80	0.81		1.85*	1.72+	-0.89
	(0.58)	(0.56)	(0.58)		(0.92)	(0.91)	(0.57)
Producer Artistic Reputation (miss.)	-0.50	0.12	-0.24	-0.28	0.11	0.01	0.12
	(1.39)	(1.39)	(1.38)	(0.39)	(1.15)	(1.14)	(0.72)
Director Artistic Reputation (miss.)	-1.80**	-1.26*	-0.87*	0.01	-1.40*	-0.92+	0.13
	(0.54)	(0.53)	(0.42)	(0.19)	(0.65)	(0.53)	(1.08)
Explanatory Variables							
Distributor Market Reputation		0.37***	0.36***		0.10**	0.08*	-0.11
		(0.04)	(0.05)		(0.04)	(0.03)	(0.11)
Producer Market Reputation		0.24***	0.25***	0.21***		0.09**	0.26+
		(0.04)	(0.04)	(0.04)		(0.03)	(0.14)
Prod. & Dist. previous collaborations		0.11	-0.58+	-0.01		-0.47**	2.00
		(0.12)	(0.29)	(0.19)		(0.18)	(1.24)
Director Market Reputation		0.12*	0.14**	0.12**		0.04+	0.23+
		(0.05)	(0.05)	(0.04)		(0.02)	(0.12)
Dir. & Dist. previous collaborations		0.20	-0.52+	0.29		-0.75**	-2.64+
		(0.14)	(0.30)	(0.20)		(0.22)	(1.48)
Dir. Mark. Rep. X Dir. & Dist. Prev. Collaborations			0.09*	-0.01		0.10***	0.47*
			(0.04)	(0.03)		(0.03)	(0.20)
Pro. Mark. Rep. X Pro. & Dist. Prev. Collaborations			0.11**	0.04		0.07**	-0.44**
			(0.04)	(0.03)		(0.02)	(0.16)
Distributor Investment					1.12***	1.08***	0.29*
					(0.06)	(0.06)	(0.13)
Constant	0.17	-0.12	-0.43	-5.46***	5.69***	5.06***	-9.00***
	(0.86)	(0.84)	(0.79)	(0.61)	(0.60)	(0.60)	(1.51)
R^2	0.63***	0.67***	0.67***	0.65***	0.84***	0.85***	0.31***

Adjusted R^2	0.62***	0.65***	0.66***	0.64***	0.83***	0.84***	0.29***
F	119.59***	147.99***	133.19***	258.40***	251.96***	369.88***	27.98***
Df	154.00	154.00	154.00	154.00	154.00	154.00	154.00
VIF	1.67	2.72	5	5.62	1.87	5.02	5.26

N= 580; Standard errors in parentheses; Significance: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$