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**WHAT IS CRITICAL TO SUCCESS IN THE MOVIE INDUSTRY?
A STUDY ON KEY SUCCESS FACTORS IN THE ITALIAN MOTION
PICTURE INDUSTRY**

Introduction

Heterogeneity in firm performance has been investigated with different perspectives. Starting from the original contribution of Industrial Organization Economics, since the second half of '80s, scholars have pointed out an increasing role of firm-specific factors. Amongst them, the role of human capital and knowledge-based resources are gaining increased attention. Accordingly, this is emphasized in creative industries where the relevance of intangible and experiential factors is one of the key issues to investigate competitive landscapes.

This paper investigates key successful factors in the Italian motion picture industry, with a major focus on human and relational capital as a driver of competitive advantage. So far in the creative industries this concept assumes a particular relevance, taking into consideration that the *know-how* is often spread in social networks of professionals belonging to different communities of artists. Therefore, the capability of quickly reconfiguring these competences into specific projects is a critical issue (Lampel and Shamsie, 2000 and 2003). Moreover, intangible assets play an important role within

these industries. Based on a research on more than one thousand movie project produced in the Italian cluster, this paper tries to address the role of intangible factors in the motion picture industry.

Strategic industry factors in the motion picture industry

Motion picture industry is a cultural industry, in which the evaluation of performance is two-fold: as an artistic creation, and as an economic product. Each product is a prototype, that embodies a relevant component of creativity and non-recurrent content, which employs a wide range of diversified competencies in the artistic (e.g. actors) as well as technical (e.g. directors) side (Conant, 1960; Caves, 2000; Lampel e Shamsie, 2000 and 2003). Besides this, the industry is affected by a relatively high rate of uncertainty on the economic returns due to volatility on the demand side and moral hazard and information asymmetries on the supply side (Conant, 1960; De Vany e Walls, 1996 and 1999; Caves, 2000). The prototypical and non recurrent nature of the movie production thus calls for a project-based organization of the industry and the firms. In such a way, although some companies are operating on a more stable basis, the more common structure is project-based: teams of principals are formed to perform a single film and then disband (Faulkner and Anderson, 1987; Robins, 1993; Jones, 1996; Miller e Shamsie, 1996; DeFillippi and Arthur, 1998; Mezias e Mezias, 2000).

As many other creative industry, the major and most valuable component of resources is dispersed in a wide community of independent professionals which are staffed on film projects with specific and not stable appointments. As a matter of fact, even in the US industry, after the Second World War, a major breakthrough has occurred with the U.S. Supreme Court sentence which enforced the Hollywood studios to reduce their vertical scope and «...following a period of transition the old studio system was replaced by organizations which exhibit the characteristics of contemporary new organizations: they are flat rather than hierarchical, they are knowledge intensive rather than capital intensive, and they rely heavily on networks to mobilize crucial resources» (Lampel and Shamsie, 2003, p. 2190).

In this context, thus, movie project complexity is due to product- and organization-specific factors: the former are linked to the cultural, emotional, and experiential characters which make each film a prototype not replicable in the future; the latter come from production activities which are highly specialized, non recurrent, with temporary organizations build upon a team of independent professionals, and characterized by specialized competencies. In other words, motion pictures are the collective creation of a large number of separate individuals, each contributing their creative input, unique talents, and technical expertise to the project (Ferriani et al., 2005).

As a matter of fact, there have been numerous theoretical and empirical accounts of the relevance of external community of professionals. Chisholm (1993), for instance, analysing the evolution of the US motion picture industry after the Supreme Courte sentence, pointed out the rationality behind the decision of progressively relaxing the relationships with professionals and define flexible contracts¹.

Besides this, Lampel and Shamsie (2003) argued that industry dynamics enforced the studios to become financing and distribution hubs with a key role in the resource bundling. The authors more specifically observed that while in the first era the most

¹Chisholm also observed that the advent of television industry put some pressures on the motion pictures producers to develop and shoot big budget and unique film that might be clearly differentiated with the products broadcasted on the tv-screens (Chisholm, 1993).

relevant factors affecting project performance appeared to be a so-called transforming capability, in the post-sentence era the distinctive factor can be considered the mobilizing capability, that is the capability to attract and select the most effective and successful artistic and technical resources for staffing the project.

Other contributions have pointed out the role of distinctive and talented resources, like stars and awarded technicians (directors and cinematographers; e.g. Miller and Shamsie, 1996; Ravid, 1999; Basuroy et al., 2003; Lampel and Shamsie, 2000 and 2003), and more recently the relevance of relational factors connected to the external community of professionals.

As a matter of fact, while Miller and Shamsie (1996) focused on the effect of property and knowledge-based resources on the financial performance, Lampel and Shamsie (2000) introduce the concept of *momentum*, as the capability of a movie to attract sufficient consumers to activate the mechanism of word of mouth. Later on, Lampel and Shamsie (2003) use the box-office revenues to explain economic performance. Similar results come from Ravid (1999), that tries to identify the role of “stars” on the ability to produce revenues, Basuroy et al. (2003), that analyse the effect of critics on the box-office. Sorenson and Waguespack (2006), besides this, investigated the effects on box office performance of prior relationships between key figures in the movie production and distributors. In another study focused on vertical ties, Cattani et al. (2008) traced the inter-organizational network between feature film producer organizations (candidates) and distributor organizations (audience), and its influence on producer organizations’ exit rates over the period 1912-1970. Delmestri et al. (2005) investigated either vertical or horizontal ties in the community of the Italian motion picture industry. In a recent research, Esparza and Rossman (2008) tried to assess in the US motion picture industry the role of complementary productivity, reputation and status, and network. A similar research has been conducted by Uzzi and Spiro (2005) in the live entertainment shows in Broadway.

Summarizing these studies, critical success factors in the motion picture industry can be divided in three dimensions: firm- and project-specific resources and competences (Basuroy et al., 1999; Lampel and Shamsie, 2003); social network and ties within the artistic and technical communities, upon which the project is built and which allow to rapidly set a common operational knowledge base (Delmestri et al., 2005; Ferriani et al., 2005); the activities and the investments realized in the distribution phase which affect the capability of a movie to create momentum (Lampel and Shamsie, 2000) and to positively influence critics and reviews which might boost box office performance (Basuroy et al., 1999).

The research

The study uses data on the Italian motion picture industry from 1995 to 2006, to explore the relationships between film performance and strategic factors.

Comparing the Italian cluster of movie producers with the US-based industry it is possible to raise some similarities and differences. The US studio system is an integrated cluster in which distributors act as hubs for the entire industry, financing and selecting projects realized by independent or affiliated companies. Besides this, the 6 majors which are leading the worldwide market (Viacom, Sony Corporation, Nbc Universal, Timewarner, News Corporation, The Walt Disney Company) own a division or a company which produce motion picture projects with operations mainly located at Hollywood. Despite this organization, the specific phase of production is mainly the

same as that realized by independent companies, with a relevant role of the community of artists and technicians dispersed in the specific cluster or system. The Italian motion picture industry is fundamentally based on small, independent, and temporary companies, which on average each year shoot 100 movies. One of the main differences between the Hollywood and Italian system is on the role of directors, that play in Italy the pivotal role of the entire phase of production (Delmestri et al., 2005). Accordingly, it is not uncommon that a small and single-project company has formed by a director with some partners just to realize one film². Beside this, another difference is the presence of an underdeveloped star system within the Italian cluster, which is reflected on the average budget of production that in Italy is more or less one tenth of the mean of the budget in the US.

In order to investigate on the critical success factors, four different type of variables have been developed: *project-specific variables*, that include technical as well as artistic resources; *firm-specific variables*, that refer to organizational and managerial competences of the production; *network-specific variables*, that encompass relational attributes of the project team; *performance variables*, that deal with artistic (awards, nominations, and critics) and economic performance (box office revenues).

Data have been collected from a variety of sources, including the Internet Movie Database and covering all motion picture producer organizations in Italy. The observation period begins in 1995 and ends in 2006. For each film – nearly 100, on average, every year – data on performance as well as on project-, firm-, and network-specific attributes have been collected and analysed.

Some regression models allow to discuss the critical role of network centrality, organizational competencies, and distinctiveness and flexibility of artistic and technical resources upon movie performance.

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²See also Delmestri et al (2005). An interesting data is that in the last 8 years the major part of the firms within the file of production companies registered at the Italian Ministry of Arts and Cultural Goods did not realize any movie. Source Research Unit of Cinecittà Holding (2007).

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