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Effects of Award Competitions on Market Competition in the Motion Picture Industry

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This study focuses on the role of award competitions in shaping market competition in the media industry. The basic premise is that there exists no uniform relationship between winning media awards and market performance. Instead, the effects of award competitions can be moderated by prize and jury characteristics, product characteristics, customer characteristics, and the (anticipation) strategy of the firm. In our empirical work, we focus on the Hollywood Motion Picture industry. Our results show that there are indeed important moderators that affect the effect of the awards. This study has among other things implications for media and communication managers that want to understand the strategic implications of award competitions.

Introduction

Each year, movie studios, actors, writers, poets, rock bands and other players in the media industry participate in award competitions. Award organizations often promote their prizes by suggesting that these prizes can have a big impact on the performance of the (nominated) products. The Man Booker Prize for Fiction is an example of a prize that explicitly mentions the increase in sales of nominated writers. The prize, established in 1968 by Booker plc., aims to reward the best novel of the year written by a citizen of the Commonwealth or Republic of Ireland. According to Booker's mission statement, the winner receives "£50,000 and both the winner and the short listed authors are guaranteed a worldwide audience and a dramatic increase in book sales".

Companies such as publishers and film studios operate under enormous pressures to make sure that their products receive critical acclaim and adequate attention (e.g., Eliashberg and Shugan 1997). It is likely that nominations, awards and prizes can be used to obtain such attention. Indeed, more and more corporations incorporate the prize competitions in their

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product launch strategy. For example, Disney has in-house *award consultants* who develop strategies for different stakeholders in the prize competition process (Morning News, October 11, 1999).

In the economic and management literature, the role of awards and prizes for a company's competitive position has received little attention. There have been prior sociological and historical studies into (cultural) awards and prizes (e.g. Levy, 1987; Osborne, 1989; Luis, 1997; Todd, 1996). However, research focusing on the economic value of awards and prizes in competitive processes is light (see e.g. Roerdinkholder, 1995 and Walsh *et al* 1992 on design awards; and see Hendricks and Singhal, 1996 on the economic impact of total quality awards). An exception is research on the Academy Awards, a very prominent award in the movie industry. Different authors have, for example, examined the economic effects of being nominated for and winning Academy Awards (see e.g. Litman, 1983; Litman and Kohl 1989; Sochay, 1994; Smith and Smith 1986; Nelson et al. 2001). The results of these studies indicate that, being nominated and/or winning an Oscar has indeed a positive effect on the commercial success of movies. However, none of these studies examined the effectiveness of Oscars relative to other awards and/or the underlying mechanisms explaining the impact of Oscars and other competing awards.

In this paper we aim to provide a theoretical underpinning and an empirical test of the effects of awards. We argue that the effects of award competitions can be moderated by prize and jury characteristics, product characteristics, customer characteristics, and the (anticipation) strategy of the firm.

This paper is structured as follows. First, some relevant literature is discussed and hypotheses are formulated. Then, the research setting and the data are discussed. In our empirical work, we focus on the Hollywood motion picture industry. The analysis is currently underway and some highlights will be described.

Theoretical Background

The basic premise of the paper is that there exists no uniform positive relationship between winning media awards and performance; this relationship is moderated by different factors such as the type of award, the jury process, and the product involved. Awards provide different benefits to the product, artist, or company winning the award. First, an award may provide the prizewinners with a significant amount of money or specific privileges. Second, winning an award may function as a signal of quality towards the final consumers, who ultimately have to buy the award winning item, or the distributors, who chose to stock the item. This latter role of awards as 'means of certification' seems particular important where valuation of product quality is problematic. For example, Darby and Karni (1973) and Emons (1997) argue that when product quality is relatively difficult to evaluate, consumers and other actors tend to rely on surrogate measures of quality. Awards can then play a key role as information or certification mechanisms.

The second line of reasoning that we propose is that institutional characteristics of the award, including the structure of the jury and the jury process, are essential drivers of the economic impact of awards. This is related to the role of the 'selection system' that is adopted by the award organization. For example, a jury consisting of peers may not be held in high respect by the general public, and as such may reduce the impact of the prize on competitive success. Before elaborating on this issue, we first need to specify the basic actors and the relationships between them. First, there are the potential prizewinners. Second, there are the actors whose behavior will more or less be influenced by the prize. Typically these are the customers. Finally, there are the actors who determine who will receive the awards, i.e. the members of the juries (and sometimes the persons who appoint the jury members and/or the persons who propose candidate prize-winners to the attention of a jury). The relations between these groups can be described in terms of the selection system expressed by the prize.

In earlier studies, the concept of selection systems was used to study the evolution of competitive processes in cultural industries (Wijnberg and Gemser, 2000). The selection system specifies the essential characteristics of the selected, consisting of actors that are competing with each other for recognition; and the selectors, consisting of actors whose decisions will influence the outcome of the process. The selection system therefore provides a shorthand description of the relation between the selectors and the selected, and more generally of competitive processes: the way in which winners are distinguished from losers.

The basic types of selection systems that can be distinguished are market selection, peer selection and expert selection (Wijnberg, 1995). These concepts are very useful to describe and analyze a prize jury (and jury process). When the jurors or 'selectors' are 'ordinary' consumers deciding which of the candidates will be awarded a prize, the prize system may be characterized as *market selection*. This kind of consumer led prize systems is, for example, to be found in the Dutch book industry (e.g. the 'Publieksprijs voor het Nederlandse Boek'). The jurors may also be 'peers' in the sense that they are part of the same group as the candidates (Debackere *et al*. 1994). This type of *peer selection* is for example very common in academia, where prizes or honors for papers, books, and research projects are awarded by other scholars. Finally, the jurors may be 'experts', in the sense that the selectors are not themselves producers or consumers but have the power to chose by virtue of specific knowledge or abilities attributed to them (Wijnberg and Gemser, 2000). This type of *expert selection* is for example common in areas such as wine tasting. The basic types of selection systems described above are ideal types. In reality outcomes of competitive processes are often determined by a combination of types of selection. Still, in many cases a dominant type of selection system can be distinguished.

The extent to which a award or prize jury (and jury process) is characterized by market selection, peer selection or expert selection, can express the 'selection system' that dominates in the particular industries involved. We expect that the impact of a particular prize will, for a large part, depend on the extent to which the selection system dominating the prize system *corresponds* to the selection system dominating the industry involved at a particular point in time.

Finally, it is argued that prominent awards that are held in great esteem by the selectors and selected are likely to be more effective than winning awards that lack prominence. Prominent awards deliver, for example, in general more publicity, or have greater visibility. Although this sounds obvious, research into the essential characteristics of what makes an influential prize is as yet lacking. As we explained above, the 'selection system' that is being expressed by the institutional characteristics of the prize can be an essential explanatory variable of the prominence, and thus effectiveness, of awards. More specific, if a prize jury (and jury process) is characterized by, for example, market selection while peer or expert selection dominates the industry involved, the prominence of the award will probably be less than if the selection system dominating the prize system corresponds to the selection system governing the industry.

To summarise, we argue that awards are an important determinant of competitive success, in particular when product quality is difficult to evaluate. Awards are 'seals of approval' that can help firms to reach legitimacy and credibility. We also argued that the impact of an award is contingent on the 'match' between the selection system expressed by the award and the selection system dominating the industry involved. Below we will ‘translate’ these arguments into two specific hypotheses with respect to the motion picture industry. Other hypotheses and results will be discussed during the conference.

Hypotheses

We argue that the more difficult it is to evaluate the quality of the movie before consumption, the larger the impact of winning (any) awards on the commercial success of the movie. We furthermore argue that the presence of box office superstar actors for end consumers is a leading indication of the quality of the movie: if one of more box office superstars are present in the movie, consumers tend to be less insecure of the quality of the movie than in the absence of such stars. In addition, for higher budget/ more star power movies there is more media attention providing information to moviegoers. So, while it is true that the presence of box office superstars is no guarantee for the commercial success of the film, as has been demonstrated in some empirical studies (e.g. Ravid, 1999), these stars do provide an important informational signal to consumers that make awards less beneficial.

> Hypothesis 1: The impact of a movie award on competitive success is more positive if the quality of the movie is difficult to evaluate prior to consumption.

The movie industry can be characterized as an industry where box office success is based on ‘market selection’. We expect that, since the movie industry is market-selected, award systems that can be characterized as market selection (that is, where the jurors or 'selectors' are 'ordinary' consumers deciding which of the candidates will be awarded a prize) will be more effective in terms of economic impact than prize systems that may be characterized as peer or expert selection. Furthermore, we expect that in the market-selection based movie industry, positive worth-of-mouth will have a larger impact on the commercial success of movies than recognition by experts or peers.

> Hypothesis 2: In the market-selection based movie industry, awards that express market selection will have a larger impact on the commercial success of movies than awards expressing expert or peer selection.

In the next section, the industry setting and the data used to test these and other hypotheses will be discussed.

Method

The industry setting

In our analysis we examine the U.S. motion picture industry. The U.S. motion picture industry is an interesting industry to study in this context considering the abundance of prizes that are annually awarded and the public availability of financial performance data. We examine the impact of different U.S. prizes that we consider to be representative of peer, expert and market selection. More specific, we have included:

- Academy Awards that express peer selection
- Golden Globes and Critics awards that express expert selection and
- People Choice award that express market selection.

The data

To understand the importance of awards in shaping competition we collected data on awards and prizes (nominations and obtained) and the market performance of Hollywood motion pictures. We focus on all Hollywood releases by major studios (and their sub studios) in 1997 and 1998. This resulted in 223 movies.

Measurements

Box office performance in the U.S. was measured in dollars during the entire run (cumulative) of the movie as provided by *AC Nielsen*. Star power of the actors was obtained from *IMDb* and measured as the highest ranked actor and/or actress in the movie. This means that a lower rank indicates more star power. The awards and the nominations were obtained from the different award organizations that were included in this study. We measure the total number of awards obtained by a specific movie. In addition, we make a distinction between the major categories and the minor categories. For the People’s choice award we also collected data from *IMDb.* In this database, available on internet, there is a feature where people can rank a movie they have seen. Millions visit this site and thousands rate individual movies. The number of screens during opening weekend is used as a control variable together with the genre of the movie obtained from *IMDb* and coded as dummies. This has the advantage that one movie can belong to more than one genre.

Results

To test our hypotheses, several hierarchical moderated regressions were estimated (Cohen and Cohen 1983). The regressions with interactions are all controlled for the main effects and the variables are mean centered to reduce multi-collinearity (Cohen and Cohen 1983).

Our results show support for hypothesis 1: the effects of awards are more stronger if the movie is difficult to evaluate (measured as movies with lower star power). The increase in R^2 due to the interaction is significant (p<.001). The nature of the interaction is as follows. For both high and low star power movies, the effect of Academy Awards is positive. However, it is more positive for low star power movies. This is probably due to the fact that the base box office is lower for such movies. Interestingly, this moderation effect is present for Academy Awards and Golden Globes but not for our market/ public award. This may indic ate that market selection awards are based on the best product information, probably through word of mouth.

Hypothesis 2 is not supported. We expected that in the market-selected U.S. motion picture industry, awards that express market selection would have the strongest impact on performance. To test this, a regression was run with the award variables as predictors of success (Academy received, Academy nominated, Golden Globes received, Golden Globes nominated, People's Choice award).

Table 1:
Regression results for Box office Performance with several award variables as predictor of success (controlled for genre and star power)

Variable	Beta	t-value	Sign.
Academy received	.54	7.26	.00
Academy nominated	-.10	-1.11	.23
People's Choice	.15	2.24	.03
Golden Globes nominated	.15	2.95	.00
R^2	.68 F=33.9 (p<.001) N=223		

Dependent variable: cumulative box office in the U.S. during the entire run

The results are presented in Table 1. Because of multi-collinearity, the variable for Golden Globes Received was deleted from the analysis because of high correlation with the other variables. The results show that the Academy Awards play an important role in the industry. This explains why firms put such strong efforts in trying to obtain this award. The results however also indicate that a Golden Globe nomination is more important than an Oscar nomination. This is probably because of the fact that the Golden Globes competition takes place before the Oscars.

The strong relative impact of the Academy Awards relative to the People's Choice Awards is not what we expected. We find that the being awarded with an Oscar still has the strongest effect on the commercial success of movies. The market certification is second in its impact while the expert certification mechanisms (both Golden Globes and the Critics Awards) is third. At first glance it seems that our hypothesis 2 is rejected. However, when examining the voting procedure and the movies that are awarded with an Oscar more in detail, one might argue that in reality the Academy Awards system can be described as an expression of market selection with an additional filter of peer selection. Holden (1993, p. 12) for example noted that "The Oscar electorate, though suspicious of the biggest box-office stars, prefers to vote for box-office hits" and "The Oscar electorate (…) sees pretty much the same mainstream movies as those favored by the middlebrow paying public – and has broadly similar tastes" (Holden, 1993, p. 20). The members of the Academy are relatively 'old', which makes, in the words of Levy (p. 23, 2001), "(...) the Academy vote more conservative, lagging behind the industry's aesthetic and technological innovations". With regard to nominating for the Oscar in the best actor and best actress category, Levy notes (2001, p. 221) that "Popularity with audiences rather than quality of performance have often been yardsticks for nomination". And with regard to the choice of winners of a best picture Oscar, Levy remarks that this "has often been based on popularity rather than a talent contest since the final voting is done by the Academy's entire membership."

Thus, while the Oscar is praised as the ultimate peer recognition, in particular by those receiving the nomination and/or award, the outcome of the awarding process is rather the evaluation *by peers* of how well a picture performs in *the relevant market*. This evaluation is not a perfect reflection of current market success, but at least partly, a recognition of prior market success. Of course, this recognition is not given to those whose talent does not reach a certain threshold in the eyes of the – again, conservative, mainstream-oriented- members of the Academy, but this does not make the Oscar an expression of peer selection. The peers put the ultimate seal of approval, as it were, upon the market success of colleagues. This means that, at least in such cases, the Oscar is largely an expression of market selection, with an additional filter of peer selection.

Our finding so far trigger the interesting question of the nature of hybrid selection systems and we will discuss our latest insights during the conference.

Sensitivity analyses

In the study, a broad range of control variables is included such as production costs, marketing expenses, parental guidance rating, and season. These variables will be used to test the sensitivity of our results. In addition, an analysis using inflation correction will be used.

Conclusions and Discussion

Media awards and prizes matter but for some they matter more than for others and there may be a best prize in any market segment. From a media economics perspective, this study providing interesting insights into questions such as: to what extent are actors proactively participating in award contest? How do award and prize competitions shape media markets? Which prizes are particularly rewarding, for who and why? How can prize organizations influence specific types of innovations and diversity in markets? The broad range of findings will be discussed at the conference.

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