Does greater employee racial diversity lead to an increase in organizational performance in the US film industry?

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Introduction

The traditional view of the role and aims of a company as described by Friedman (1970) also referred to as the “Friedman doctrine” is to maximize profits in order to satisfy the shareholders of the company. While this view was prevalent in the early and mid to late twentieth century, more modern thinking about the role of the firm takes a broader approach. Stakeholder theory for instance asserts that the core aim of the business is to create value for all the stakeholders of the business (Donaldson & Preston, 1995). Stakeholders are identified through their interest in companies operations and outputs and includes both internal stakeholders (owners, managers, employees) and external stakeholders (customers, society, suppliers, shareholders, etc.). These stakeholders have diverging goals and expectations of what the business should do, therefore firms must find a balance between the demands of different stakeholders depending on the importance to the companies operations and strategic goals (Donaldson & Preston, 1995). This paper focuses on the way in which environmental and societal stakeholders exert pressure on the firm to achieve equitable employee diversity and more specifically how the implementation of these goals affect a firm's organizational performance.

Over the last several decades society has been exerting an increasing amount of pressure on businesses to contribute towards achieving societal goals. The decision of a business to respond to these societal pressures is called corporate social responsibility (CSR) which WBCSD (2004) defines as “the commitment of a business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.”. Corporate social performance (CSP) is the way in which CSR is operationalized by the business. In response to the mounting social pressure to adopt CSR a large amount of research has gone into finding if there is a positive relationship between CSP and corporate financial performance (CFP). The basis for this relationship is stakeholder theory, which posits that responding to the demands of the organization's stakeholders significantly contributes to an organization's financial performance (Donaldson & Preston, 1995). The results of this research, however, were somewhat inconclusive with some empirical studies finding that there was a positive (Orlitzky et al., 2003; Marom, 2006), negative (Griffin & Mahon, 1997) relationships between CSP and CFP. In light of these findings the view of a universal link between CSP and CFP was abandoned in favor of a contingency perspective. Husted (2000) was the first to suggest the use of a contingency perspective when examining the relationship between CSP and CFP. The contingency perspective holds that organizational performance is contingent on the degree to which internal organizational variables fit with the social issue being addressed and contextual variables (Javed et al., 2016). This perspective therefore suggests that the CSP-CFP relationship will differ depending on the social issue and context in which it is examined.

The present paper will therefore cover one specific societal issue, which is the equitable racial distribution of employees within a business. While women and members of minority groups have been making inroads into many of the traditionally male and white dominated industries over the last couple of decades there are still significant employment disparities. Diversification as a societal issue has been underrepresented in research regarding the relationship between racial diversity and organizational performance. While some studies exist (Bear et al., 2010), they almost exclusively focus on diversity in board membership and therefore fail to consider the overall effect of firm wide diversification. According to the aforementioned studies on diverse board membership, the primary method through which diversification of the board impacts organizational performance is through the reputation that the firm gains when their diversification efforts are communicated to the stakeholders of the firm (Bear et al., 2010). The gained reputation can act as a competitive advantage with stakeholders, for example the firm's customers might favor their products over those of competitors due to the fact that the firm has shown responsiveness to social issues, similarly a good reputation for equitable hiring practices may attract the highest talent in employees from diverse backgrounds (Bear et al., 2010; Servaes & Tamayo, 2013). Accordingly, the higher the salience of the diversification effort the more reputation and therefore also the higher the organizational outcomes will be.

Consequently, this paper will focus on the film industry as the context in which to research the relationship between employee diversification efforts and organizational performance. The reason for choosing the film industry is threefold. Firstly, the film industry is relatively unique in the fact that the employee diversification efforts are communicated to stakeholders not just through signaling or advertisements but are reflected in the product they sell in the form of the movie cast. Secondly, the film and television industry have had and still have a significant impact on the formation and consolidation of cultural and societal values, beliefs and attitudes. Finally, the racial imbalance within the film and television industry has become a heavily debated social issue in recent years, which makes a study of the impact of employee diversification practices on corporations' financial performance exceedingly socially relevant.

The current debate on diversity within the film industry stems from the 2015 Oscars. In the winter of 2015, in the wake of the Academy Awards (Oscars) the hashtag "#OscarsSoWhite" (NYTimes, 2020) gained in popularity after all 20 of the Oscars awarded for acting were won by white actors. This hashtag soon caught on and in combination with the recently established BlackLivesMatter movement and the modern feminist movement sparked wider calls for equitable racial representation within the film industry. While the debate began with focusing on the diversity of actors that were nominated for an academy award it soon spread to consider the racial disparity in the acting profession and then grew even further to encompass the equitable employment of women and racial minorities within the film industry as a whole.

Since 2015 film companies and the Oscars have made steady progress in being more inclusive in their hiring and selection practices (Reign, 2020). As Van der Laan et al. (2008) write in their paper on CSP and CFP, unfortunately the likely motivation for the decision to engage in this CSR activity likely stems from a fear of losing reputation within the film industry rather than the hope of increasing the company's reputation. The justification for this assumption can be found in prospect theory which holds that people feel worse about losses than they feel good about equivalent gains (Van der Laan et al., 2008). The goal of this paper is to examine the relationship between employee racial diversity and organizational performance in order to conclude if there is a positive link between the two that would justify continued efforts toward employee diversification aside from simply avoiding losses to reputation.

Therefore, the research question of this study is: Does greater employee racial diversity lead to an increase in organizational performance in the US film industry?

The rest of the paper is structured as follows. First the literature review will break down the following: what institutional pressure is, what social actors generate institutional pressure, what influence strategies are, how they are used to influence film studios, how the film studios response generates organizational performance, conflicting institutional pressures, and how communication moderates the relationship between employee racial diversity and organizational performance. Secondly the methods are discussed, including the sample, type of analysis used, and the operationalization of the variable. Thirdly the results of the analysis are presented, Finally the findings are discussed including the limitations, implications and the avenues of future research

Literature review

Institutional theory

To begin with, institutional theory describes the way in which organizations are shaped and influenced by external institutional pressures (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1995). According to institutional theory these pressures, in the long run, compel organizations within the same, or similar industries to take on similar processes, practices and structures. The institutional pressure that precipitates the convergence of these processes, practices and structures is called “Isomorphic pressure” (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1995). According to DiMaggio and Powell (1983) there are three mechanisms that facilitate isomorphic changes, these being: coercive, mimetic and normative. Scott (1995) built on this and put forward his own “three pillars of institutions” which he named: regulative, normative and cultural-cognitive. Each of the pillars represents a different type of isomorphic pressure and has its own enforcement mechanism based on those put forward by DiMaggio and Powell (1983). The regulative pillar involves the establishment of rules, laws and regulations (which is usually done through the means of government legislation) which coerces organizations into adopting specific behaviors using either punishments or rewards (Scott, 1995). These coercive enforcements can be either formal (employing law enforcement agencies or other appointed agents) or informal (shaming or exclusion by others). The normative pillar represents the norms and behaviors that society expects organizations to adhere to and often relies on moral justifications. An example would be society's expectation that companies adopt processes and practices that reduce their environmental impact, this expectation is seen as a social obligation and a moral imperative. The final pillar is cultural-cognitive. It takes into account how the internal, subjective perceptions of people are affected by the external cultural lens through which they see the world. Cultural-cognitive pressure is created by a shared conception of how things should be, something that is “taken for granted” (Scott, 1995). In the context of the present study the institutional pressures, to introduce policies, practices and structures that facilitate a greater racial diversity in employees, are primarily related to the normative and cultural-cognitive pillars. The regulative pillar has played only a minor role in applying pressure in the pursuit of racial diversity within organizations. Policies and legislation have for instance banned discrimination based on ethnicity or race, however they have failed to introduce specific quota's on the amount or proportion of racial minorities that should be represented in organizations. Instead, regulative institutions have been content as long as organizations show that they are taking steps towards equitable racial employment (Yang & Konrad, 2011). This lack of significant regulative pressure likely stems from the fact that employee diversity and the incorporation of racial minorities into the workforce is still considered a politically sensitive issue. This study therefore focuses on the normative and cultural-cognitive pressures for greater employee diversity and how the environmental stakeholders from which they stem influence organizational performance.

Stakeholder theory

Institutional pressure does a great job in explaining the mechanisms through which institutional pressure is applied to organizations. It however, fails to identify the stakeholders that apply the institutional pressures that constrain organizations. In order to do this, we examine stakeholder theory. Stakeholder theory is closely related to institutional theory as it is concerned with the environmental stakeholders who apply institutional pressures to the organization (Donaldson & Preston, 1995). Stakeholder theory posits that the corporation is not a separate entity but is instead part of an interconnected web of relationships with stakeholders who have differing needs and expectations of the corporation (Donaldson & Preston, 1995). As mentioned in the introduction, stakeholders theory asserts that in order for organizations to survive and be successful in the long run it needs to find a balance between the conflicting demands (institutional pressures) of the various stakeholders of the company (Harrison & Wicks, 2013). Stakeholders are typically defined as being individuals or entities who have an interest in the organization or are affected by the day to day running of the organization (Jones & Wick, 1999). The different stakeholders are typically categorized into role-based groups based on their relationship with the organization. These groups typically include: shareholders, customers, employees, suppliers, NGO's, government, environment, community, etc. While there can be any number of stakeholders tied to an organization, not all of them have an equal impact on the organization's performance and survival. Clarkson (1995) categorizes stakeholder groups into a primary and a secondary category based on their association with the organization. The primary category is defined as stakeholder groups whose support and contributions are vital to the survival of the firm; these typically include customers, employees, shareholders, suppliers and the government. This means that if a primary stakeholder dislikes the behavior of the organization and proceeds to partially or fully withdraw from the relationship this would have dire consequences for the firm's performance and even its continued existence. The secondary category consists of stakeholders who have an impact on or are impacted by the organization, but do not "engage in transactions with the corporation and are not essential for its survival" (Clarkson, 1995). This secondary group consists of stakeholders like the media or NGO's who can affect the organization through their influence on the primary stakeholders and public opinion as a whole.

Stakeholder influence strategies

A stakeholder's ability to influence the firm is based on the amount of power it can exert over the firm. Power is considered through the lens of resource dependence theory. Resource dependency theory posits that organizations are not self-sufficient and are thus dependent on external stakeholders for certain resources that are vital for its survival and its day-to-day operations (Pfeffer & Salancik, 1978). In order to secure or maintain the flow of these resources' organizations have to negotiate with stakeholders. This dependence thus allows stakeholders to demand organizational changes in exchange for the continued supply of resources. Resource dependence can however go both ways, with some stakeholders in turn also relying on the firm for certain resources. Power then arises from the relative dependence that the firm and the stakeholder have on one another. Pfeffer & Salancik (1978) suggest that when there is an asymmetrical level of dependence between organizations, power flows to the organization that is least dependent on the other. On the other hand, when there is a more symmetrical level of dependence between organizations, power is distributed more evenly. It follows that if a firm is dependent on a stakeholder for a critical resource, while the stakeholder is not dependent on the firm, the firm is much more likely to respond to the stakeholders demands. According to Frooman (1999) In order to bring its power to bear and entice the firm to respond to its demands, stakeholders can employ either a withholding strategy or a usage strategy. Withholding strategy as the name implies is the decision by the stakeholder to withhold the resource on which the firm depends (Frooman, 1999). In order for this strategy to be effective the stakeholder doesn't have to actually withhold the resource, however, the stakeholder must be able to make a credible threat that the resource will be withheld if the firm doesn't comply with the demanded behavioral change (Pfeffer & Leong, 1977)(Hill & Jones, 1992). This withholding of resources can take on many forms depending on the nature of the stakeholder involved. For example, employees will withhold their labor and go on strike, while consumers will withhold their patronage and boycott the firm. The second strategy, usage strategy, involves placing conditions on the use of the resources the stakeholder supplies (Frooman, 1999). Instead of withholding resources or threatening to do so, stakeholders negotiate with firms in order to work out under which conditions the resources they provide can be used. For example, employees negotiate with the firm in order to set the conditions under which their labor can be used, resulting in a labor contract which specifies things like salary, working conditions, labor hours, etc. According to Frooman (1999) which of the two strategies is used by stakeholders depends on whether the dependence on resources is symmetrical or asymmetrical and in case of asymmetry, whether the firm or the stakeholder holds more power in the relationship. A withholding strategy is used by stakeholders when resource dependency is asymmetrical and power favors the stakeholder. A usage strategy on the other hand is used when resource dependence is high and there is symmetry in the level of resource dependence between firm and stakeholder. The usage strategy is also utilized when the stakeholder and the firm are in an asymmetrical resource dependence relationship that favors the firm. However, the likelihood that the usage strategy will result in organizational changes within the firm in such a scenario are pretty slim. Observing power through the lens of resource dependency gives a good idea of how primary stakeholders can influence the firm's decision making and how the firm's response or failure to do so can impact its organizational performance when firms withhold or set conditions on the resources they supply. This however doesn't account for the role of the secondary stakeholders (Media, activist groups, etc.) mentioned previously. These secondary stakeholders don't share a resource dependency relationship with the focal firm and are therefore unable to apply either a withholding or a usage strategy in order to influence the firm towards organizational change. Instead, these secondary stakeholders affect the focal firm indirectly by influencing the primary stakeholders on whose resources the firm relies (Clarkson, 1995). According to Frooman (1999), secondary stakeholders influence the primary stakeholders using a communication strategy which has three distinct aspects, this includes (1) the communication of the firms conduct, (2) why this conduct is viewed as being unacceptable, and (3) what should be done in order to change this conduct (boycott, strike, negotiations).

Influence strategies of film studio stakeholders

Power

Based on the resource dependence relationships between film studios as the focal firm and their stakeholders, we would expect two stakeholder groups to use a withholding strategy, these being: shareholders and consumers. Film studios are dependent on shareholder resources as they provide the organization with funding and financial security which allows the firm to operate. Shareholders, on the other hand, are not very reliant on film studios for resources. They receive occasional dividends and profit from raised share prices, however this can also be achieved by reinvesting in other organizations with little to no cost in doing so. Film studios rely on consumers for all of their revenues making them very dependent on consumers' continued backing. Contrastingly, consumers are not dependent on the resources (films) that film studios provide. This is due to the fact that films do not address consumers' two basic needs (physiological needs and safety needs) as put forward by Maslow (1943). Therefore, consumers are able to refrain (boycott) from watching or purchasing films for long periods of time without repercussions. Films as a resource are also substitutable as a source of entertainment by things like video games, theatrical performances, festivals, amusement parks, etc. These resource relationships between film studios and their shareholders and consumers affords much power to the latter two, giving them much influence over film studios behavior, and a disproportionately large impact on organizational performance if their demands aren't met (Pfeffer & Salancik, 1978).

While the resource dependence relationship between the focal firm and the shareholder and consumer stakeholder groups is asymmetrical in favor of the stakeholders, the firm's resource relationships with the remaining primary stakeholder groups are more symmetrical and are therefore predicted to employ a usage strategy (Frooman, 1999). The suppliers of film studios typically supply the company with specialized equipment such as cameras, lighting, etc., which are vital for the production process. On the other hand, most if not all of the supplier’s revenue comes from the film studios they supply, additionally most of their equipment is highly specialized and they are unlikely to find demand for their resources outside of the film entertainment industry. Similarly, employees such as the lead actors, support actors, director, producer, costume designer, etc. have specialized labor skills that the film studios use as resources and are essential in the filmmaking process. Conversely film studios provide these employees with income. Finally, distributors provide the film studios with an outlet or medium through which to reach the final consumers. These distributors can include cinemas, streaming services or retailers selling DVDs and blu-rays. Film studios in turn provide them with products that they can sell to final consumers.

In the context of the #oscarssowhite movement and the subsequent push towards greater racial representation within the film industry, secondary stakeholders were successful in influencing primary stakeholders. This can be seen in the response by prominent actors and directors (employee stakeholder) such as Jada Pinkett Smith and Spike Lee who boycotted the Oscars and advocated for greater racial diversity while linking the hashtag #oscarssowhite (Arkin, 2016). Social media as a medium for secondary stakeholder's influence was particularly important in this case as this is where the #oscarssowhite movement originated which then spawned a wider movement for the greater representation of racial minorities within the film industry. According to Jurgens et al. (2016) social media has enhanced secondary stakeholders' ability to influence the primary stakeholders of the firm, which it has achieved in three ways. The first way it achieved this is by making it easier to acquire and disseminate information, linking knowledge about the low racial representation in film and the film studios primary stakeholder. Secondly, social media facilitates the secondary stakeholders to better tailor the message of racial underrepresentation to attract a larger audience. This is achieved by using social media as a medium in which a number of conceptions of the issue can interact allowing users to generate their own content regarding the issue. Additionally, it increases the likelihood of influencer or celebrity engagement, allowing the message to reach a greater audience and boosting its credibility. Finally, the wide reach of social media platforms enables secondary stakeholders to rally support from a number of primary stakeholders and the public as a whole and incite them towards collective action.

Based on the above, it can be concluded that film studios as the focal firm have a strong (shareholders and consumers) and moderate (suppliers, employees and distributors) resource dependence on several stakeholders. This dependence lends stakeholders a degree of power over film studios, which they wield to influence the behaviors and actions of the film studios (Pfeffer & Leong, 1977). If film studios fail to conform to the institutional pressure for greater racial diversity, stakeholders can withhold their resources or impose stricter terms under which those resources can be used (Frooman, 1999). The withholding or constraining of vital resources will have a negative effect on organizational performance, as it deprives film studios of revenues (consumers) and funding (shareholders), and by constraining the use of resources like labor, equipment, and avenues for distribution, makes film studios operations more costly and inefficient.

While Frooman (1999) focuses on power stemming from the firms relative dependence on stakeholder resources as an indicator for how much attention the firm should pay to stakeholder demands, Mitchel et al. (1997) contends that there are an additional two attributes that serve as indicators, these being urgency and legitimacy.

Urgency

Urgency is seen as the degree to which a stakeholder demands are perceived to be important and require prompt action. Accordingly, Mitchel et al. (1997) posits that urgency hinges on two characteristics: time sensitivity and criticality. Time sensitivity is the extent to which a hold up in the firm's decision to respond to the stakeholder demand is considered intolerable by the stakeholder. Whereas, criticality refers to the relative importance of the issue that the stakeholder wishes the firm to address. In the context of the institutional pressures for greater employee racial diversity that stakeholders apply to film studios, the issue can be considered urgent. The time sensitivity of the issue was perhaps best illustrated by the outrage and condemnation by the public and influential members within the film industry, after the subsequent years Oscars, following the creation of the #oscarssowhite movement again saw no racial minority representation in acting nominations (Arkin, 2016). The criticality can be seen in the recent upsurge in racial justice movements like BlackLivesMatter and #oscarssowhite, and the salience of racial discourse in the US over the last decade (Buchanan, 2020)(Arkin, 2016).

Legitimacy

The other attribute that determines firms' attention to stakeholder issues aside from power and urgency is legitimacy. Suchman (1995) defines 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". The social system in the US is based on the ideals of the "american dream". This conception of the "American Dream" holds that regardless of one's gender, socio-economic status, ethnic or racial heritage, a person can attain upward social mobility if they put in enough hard work (Armstrong et al., 2019). This ideology therefore decries any barriers to upward social mobility that do not relate to an individual's effort and overall merit. According to this social system, organizations should adopt a "colorblind" racial ideology when hiring new employees (Doane, 2019). Implementing this ideology would, all else being equal, result in an employee racial distribution that more closely resembles the racial distribution of the US population. The reality however does not match this desired ideal, with white Americans making up between 70.8 and 77.6% of acting jobs between 2007 and 2016, despite making up only 60.1% of the US population according to the 2020 US census (Smith et al., 2017)(U.S. Census Bureau, 2020). Because this doesn't conform to the desired social ideal, film studios are expected to pay closer attention to stakeholders that demand greater, more equitable racial representation.

As the above shows, the legitimacy of stakeholder demands is key to grabbing the attention of the focal firm and contributes to the likelihood that the firm will respond favorably to the request. On the other hand, it is also possible for the focal firm to gain legitimacy from their stakeholders. Indeed, it is one of the central tenets of institutional theory, that legitimacy resulting from conforming to institutional pressures increases organizational performance (DiMaggio & Powell, 1983). Institutional theory suggests that organizations are expected to yield to institutional pressures and conform to the values, norms and expectations regarding what is considered proper behavior by the organization's stakeholders (Meyer & Rowan, 1977). Deephouse et al. (1996) and Scott (1995) both suggest that organizations who conform to the expectations of primary and secondary stakeholders who exert regulative, normative and cultural-cognitive pressure gain greater organizational legitimacy. This legitimacy stems from the approval of the primary and secondary stakeholders from which the institutional pressures emanate. Empirical evidence from prior studies also suggests that higher legitimacy translates into greater financial performance. For example Acquah et al. (2021) in their study looking at Ghanaian manufacturing SMEs noted that "legitimacy provides larger market share, improves sales and also attracts investors".

Reputation

Along with legitimacy the act of conforming to the institutional pressures can also bolster a firm's reputation. Reputation is defined as being the ability to predict an organization's future characteristics, actions, and structures based on observations of the organization's past characteristics, actions, and structures (Rindova et al., 2006). Lange et al. (2011) considers organizational reputation as having three dimensions, these are: “being known”, “being known for something” and “generalized favorability”. Being known describes the general level of recognition of an organization by stakeholders. Being known for something describes how stakeholders judge organizations on a particular trait or characteristic, such as racially equitable hiring practices in the context of this study (Rindova et al., 2005). Finally generalized favorability concerns the general appraisal of the organization by stakeholders, in other words it may be seen as stakeholders' overall perception regarding the totality of organizational attributes. In the context of this study the “being known for something” dimension is most relevant as it concerns the degree to which reputation is influenced by one specific attribute (employee racial diversity). According to Fombrun & Shanley (1990) reputation is and intangible asset in which one can invest. Building up a good reputation for something (greater racial diversity) can therefore be a source of competitive advantage if other competitors within the firm’s industry fail to build up a similar reputation (Carmeli &Tishler, 2004). Rindova et al. (2005) posits that a good organizational reputation can positively influence stakeholders’ evaluation of the firm, as it reduces information asymmetry regarding the issue that firms have a good reputation on. This in turn reduces the monitoring costs of stakeholders, and reduces the concerns they might have regarding the firms’ behaviors and actions. According to Graca &Arnaldo (2016) stakeholders might even be willing to pay a premium price to do business with firms with good reputations. Therefore having a good reputation for encouraging greater racial diversity in the workforce could increase organizational performance.

Based on the information given above we would expect film studios that have adopted behaviors and actions that address the institutional pressure for greater employee racial diversity, to gain both legitimacy and reputation, thereby increasing their organizational performance. On the other hand, film studios who have failed to conform to these institutional pressures or have done so to a lesser degree are expected to experience a decrease in organizational performance due to stakeholders withholding or constraining the use of critical resources that the film studios need. This study therefore predicts:

H1: The degree to which film studios conform to diverse racial employment is positively related to a film studio's organizational performance.

Conflicting institutional pressures

This is however contingent on the assumption that the stakeholders are unified in their demand for greater racial diversity and that there are no other conflicting institutional pressures within the organizational field. Meyer & Rowan (1977) Indeed warn that there can be multiple institutional pressures on organizations that can overlap or even contradict one another within the organizational field. The organizational field in this case is defined by DiMaggio & Powell (1983) as “organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products”. Therefore, the institutional field in the context of this study approximately amounts to the film studios and their surrounding primary and secondary stakeholders. According to Pache & Santos (2010) organizations are most likely to encounter conflicting institutional pressures in organizational fields that are moderately centralized and are highly fragmented.

Centralization refers to the power structure of the organizational field. Highly centralized fields are generally characterized by having one or two dominant stakeholders that impose institutional pressures, while decentralized fields lack any dominant stakeholders and therefore have a difficult time imposing institutional constraints on organizations (Pache & Santos, 2010). Regarding the current study, the organizational field of film studios can be considered to be moderately centralized, as there are several stakeholders that have the ability to impose institutional pressures both directly (shareholders, consumers, employees, suppliers and distributors) and indirectly (Media, special interest groups).

Fragmentation is “the number and distribution of organizations or social actors a focal organization is dependent upon” (Meyer et al., 1987). Organizational fields then are highly fragmented if they rely on and respond to a multitude of uncoordinated stakeholders. In order to assess whether or not the organizational field is fragmented we must first consider that all members of a role-based stakeholder group do not have the same type of demand. For example, consumers of film studios, unless mobilized by secondary stakeholders, generally act in an uncoordinated manner when they decide whether or not to view or purchase a film. Similarly, employees, especially in the US where labor unions are hard to come by and the short-term contractual nature of jobs within film studios, generally don't coordinate in order to express their desires. The organizational field within the film industry can therefore be considered highly-moderately fragmented. Therefore, due to the moderate centralization and the highly-moderately fragmented nature of the organizational field the odds of there being conflicting institutional pressures to greater employee racial diversity are high.

Wolfe and Putler's (2002) study on the ties that bind stakeholder groups together assert that when faced with decisions regarding social issues, self-interest rarely becomes the main motivator that shapes stakeholder attitudes. Accordingly, they created four factors which make self-interested decision making more likely. The first factor regards whether or not the potential consequences are significant. The second is whether the opportunity cost of forgoing alternatives is clear. The third is whether there are detrimental outcomes as opposed to beneficial outcomes. The fourth and final one considers whether or not the responsibility for the social issue lies with the stakeholder or an external party. If the social issue doesn't evoke any of these four factors, the individual stakeholders within these stakeholder groups would fall back on symbolic predispositions to inform their attitudes (Wolfe & Putler, 2002). Symbolic predispositions as defined by Sears & Funk (1991) are values and attitudes regarding attitude objects such as political and social issues that people acquired through socialization during childhood and early adulthood. In the context of the social issue of equitable racial diversity within the workplace these symbolic predispositions pertain to the attitudes that the various stakeholders hold towards minority groups.

Social identity theory gives us an insight into how these attitudes develop. Social identity theory posits that individuals seek to maximize their self-esteem (Tajfel, 1982). In order to attain this greater self-esteem individuals, engage in social comparisons with others in their environment. Subsequently the individual places themselves and others into a number of groups and categories. These categories can consist of varying things like religion, language, nationality, gender, race, ethnicity, etc. (Messick & Massie, 1989). Through the assigning of these groups and categories, individuals form their own identity, which is construed as the individual's membership within certain groups and categories. In order to maintain self-esteem, individuals will look favorably towards those who are part of the same groups and categories as themselves (the in-group), while those who are outside of these groups are regarded unfavorably (the out-group) (Tajfel, 1982). In order to raise their own self esteem people tend to develop prejudicial, discriminatory and stereotypical views of those in the out-group (Brewer, 1979) (Pitt & Jarry, 2009). These attitudes are often developed at a young age but due to cognitive dissonance are quite rigid and persist into adulthood. According to Hsiao et al. (2015) these prejudicial attitudes can lead to friction between the in-group and out-group which makes communication difficult and creates a breakdown in trust. This is especially true for stakeholders who face the prospect of coming into contact or working together with these new racially diverse employees such as employee, supplier and consumer stakeholders. Social identity theory therefore assumes that initially if stakeholders who aren't motivated by self-interest and don’t identify as a minority were to consider the organizations attempt to confront the social issue of diversifying employees, they would reject it. This is because in order to raise their own self esteem they would consciously or unconsciously discriminate against the minority out-group. Members of minority groups, on the other hand, would support greater employee racial diversity either out of self interest or in order to support other members of their in-group. A large percentage of the population, based on either self interest or attitudes toward minorities, are consequently expected to support conflicting institutional pressures such as keeping the status quo. Therefore we predict that:

H1B: The degree to which film studios conform to diverse racial employment is negatively related to a film studio's organizational performance.

Conformity to institutional pressures and the subsequent legitimacy obtained from environmental actors is heavily dependent on the communication of between both parties. It is difficult for environmental stakeholders to ascertain to what extent organizations have adjusted their policies, practices and structures in line with the institutional pressures they exert, as information asymmetry exists between them. Organizations circumvent this issue through reporting, advertising or giving of other signals that alert stakeholders to their compliance with regards to institutional pressure (Connelly et al., 2011). addressing the issue. If organizations fail to communicate the action and behavioral changes, they implemented in order to address the issue of greater employee diversity, the stakeholders will not know to respond to these changes. In fact, in the absence of firm-stakeholder communication, stakeholders will take it upon themselves to monitor the focal firm's behavior which can be quite costly. Depending on the power relationship between the firm and the stakeholder, the stakeholder will attempt to offload those extra monitoring cost onto the focal firm. If the firm, however, communicates effectively with their stakeholders and if the stakeholders agree with the behavioral changes the firm has made the positive relationship between racial diversity and organizational performance will increase (Rahman et al., 2017). If on the other hand, stakeholders disagree with the behavioral changes because they support conflicting institutional pressures the negative relationship between racial diversity and institutional pressure will also increase. Therefore:

H3: A film studios level of communication with stakeholders has a positive effect on the relationship between greater racial diversity and organizational performance

Methods

Sample

Data was gathered from 5 major Hollywood film studios based in the United States. These include: Warner Bros, Universal Pictures, 21st Century Fox, Walt Disney, and Paramount Pictures. This includes 4 out of the 5 film studios that are considered to be the "Big 5" Hollywood film studios. The remaining film studio (Sony Entertainment) is excluded as it is majority owned by non-US citizens. The 20-f annual report that it is required to fill out is less extensive than the 10-k report required by US owned companies. Additionally, the reporting was done in yen instead of dollars making it difficult to compare due to fluctuating exchange rates. Because of this 21st Century Fox is used in its place. Despite this these film studios together account for about 63.67% of the US film market (Clark, 2022). The data is gathered over a 9 year time period between 2011 and 2019. Therefore the sample contains 45 different event (5 studio * 9 years = N 45) covering a total of 540 feature length films which were produced by the 5 studios during this time period . This timeframe was chosen due to missing financial data for a number of studios before the year of 2010. Additionally, the financial data from years following

2019 could not be used as many film studios cut back or halted their film production and many cinemas, retailers and other distribution channels were closed due to the Covid 19 pandemic.

Dependent variable

In order to operationalize organizational performance, we use return on sales (ROS). ROS is used because it provides a measure of the organization's operating efficiency. As a ratio of net income to revenues the measure controls for a companies size and because the companies being analyzed exist within the same industry their ROS values can be easily compared. The data for net income and revenues were obtained from 10-K annual reports mandated by the US government. In the period between 2011 and 2019 there was a decline in theatrical ticket sales and an increase in the online viewership or streaming of films. In accordance to this we consider both revenues of both theatrical releases, content licensing and home entertainment.

Independent variable

In this paper employee diversity is operationalized by considering the distribution of racial minority to racial majority members. As data on the racial composition of film studio employees is not readily available this paper instead considers the diversity of the lead actors in each of the films covered in this study. This is due to the fact that lead actors are the most visible extension of an organization's commitment towards racial diversity. Lead actors are categorized binarily as either belonging to a racial minority or the racial majority. As the sample of this study consists of US based film studios, we use the US census categorization of race in order to allocate lead actors. Accordingly, whites at 60.1% of the population are considered the racial majority, all other races are considered part of the minority (U.S. Census Bureau, 2020). Note that in the 2020 census Hispanics and Latinos were categorized separately from whites, and are therefore considered a minority in this study. In order to quantitatively measure diversity this study borrows the Gini-Simpson index from ecology (Hurlbert, 1971). In the context of this study the Gini-Simpson index describes the probability that two randomly chosen lead actors from a film studio in a given year are of different racial classifications (minority or majority).

$$1-\sum_{i=1}^{k}\frac{n_i(n_i-1)}{n(n-1)}$$

Interaction variable

Organizations communicate their conformity to institutional pressures and their corporate social responsibility activities to stakeholders through the use of official reporting in the form of CSR reports and through advertising (Bashir, 2022). Official reporting on CSR issues like racial and ethnically diverse employment is relatively uniform across the film industry however some of the film studios haven't reported CSR in all the years covered in this study. Therefore, in order to operationalize communication, we focus on advertising as the primary method through which an organization's actions regarding racial diversity is communicated to stakeholders. Specifically, we use advertising intensity which … defined as the "ratio of advertising expenditure of a firm over the operating

Control Variables

In order to isolate the effect of racial diversity on the organizational performance of film studios this study employs a number of control variables. The first control variable is the number of films produced by a film studio in a year. According to Shamsie et al. (2009) the more movies a studio produces the more they benefit from economies of scale. The 3 Hobbit movies for instance were all shot back-to-back saving on transportation, set building and maintenance costs, etc. The number of movies produced is measured using The Numbers (2022) film database. The second control variable is "critics review". Critics through their perceived professional opinions can influence the audience, either persuading or dissuading them from watching movies (Eliashberg & Shugan, 1997). In order to measure "critics review" this paper uses Metacritic, which combines reviews from professional critics into a number that ranges from 0 to 100 (100 representing overwhelmingly positive reviews and 0 overwhelmingly negative reviews). The average scores for each film studio in a given year is used as the control. The final control variable is the number of academy award (Oscar) nominations that films from a studio received in a given year. According to Litman (1983) academy award nominations work in a similar way to critic's reviews in that it can motivate people into watching these movies. In order to determine the number of academy award nominations we draw on the database of the Academy of Motion Picture Arts and Sciences (AMPAS).

Analysis

For the analysis of both hypothesis 1A, 1B and 2 a hierarchical regression was used. Model 1 of the hierarchical regression included the three control variables: critic reviews, academy award nominations, and number of films produced. Model 2 adds the independent variable in the form of the Gini-Simpson diversity index scores. Finally, Model 3 includes the moderating effect of advertising intensity (advertising intensity * diversity).

Results

Table 1: Descriptive statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Return on Sales	-0.17	0.30	0.1157	0.08848
Number of Films	7.00	22.00	13.5556	3.60275
Critics scores	46.67	68.33	54.8580	6.06750
Oscar Nominations	0.00	13.00	3.3111	3.87194
Degree of Diversity	0.16	0.50	0.3699	0.10581
Advertising Intensity (AI)	0.16	0.51	0.3079	0.09669

Table 2: Hierarchical regression determinants of return on sales (N=45)

		Unstandardized Coefficients		Standardized coefficient	
Model	Variable	B	SE	Beta	Sig
1	(Constant)	-0.257	0.139		0.072
	Number of Films	0.003	0.004	0.134	0.367
	Critics Scores	0.006	0.002	0.436	0.005**
	Oscar Nominations	-0.006	0.003	-0.272	0.060
2	(Constant)	-0.267	0.145		0.073
	Number of Films	0.004	0.004	0.143	0.353
	Critics Scores	0.006	0.002	0.427	0.007**
	Oscar Nominations	-0.006	0.003	-0.261	0.088
	Degree of Diversity	0.036	0.130	0.043	0.783
3	(Constant)	-0.242	0.223		0.285
	Number of Films	0.009	0.005	0.361	0.067
	Critics scores	0.004	0.002	0.303	0.058
	Oscar Nominations	-0.006	0.003	-0.245	0.101
	Degree of Diversity	-0.280	0.385	-0.335	0.472
	Advertising Intensity (AI)	-0.043	0.437	-0.047	0.922
	AI*Diversity	1.134	1.125	0.660	0.320

Model 1: $R^2 = 0.218$, Model 2: $R^2 = 0.219$, Model 3: $R^2 = 0.314$

The Descriptive statistics are reported in Table 1 while the results of the hierarchical regression are reported in Table 2. Both hypothesis 1A and 1B were not supported by the results. The degree of employee diversity had a small positive effect on the return on sales, with a standardized coefficient of 0.036, however, the result was nonsignificant with P=0.783. There is therefore not enough proof to reject the null hypothesis that there is no relationship between employee diversity and organizational performance. Indeed, based on the R squared change between model 1 and 2, it is concluded that employee diversity predicts only 0.1% of the change in return on sales.

Of the three control variables used in the model only critics scores were significant. Critics scores has a small positive effect on return on sales evidenced by the 0.002 standard coefficient and together with the other control variables accounts for 21.8% of the change in return on sales.

Finally, Hypothesis 2 was also not supported by the findings. The interaction effect of advertising intensity is high with a standardized coefficient of 1.125, however it is non-significant with a p value of 0.320.

Discussion

Purpose of the study

The aim of this study is to determine whether or not organizations within the film industry respond to institutional pressures to increase the racial diversity of its employees. Furthermore, this study seeks to determine whether conformity to this institutional pressure positively or negatively relates to organizational performance. Finally, this study examines whether this relationship is influenced by the degree to which conformity to the institutional pressure of racial diversity is communicated to the various stakeholders of the organization.

Main findings

Hypothesis 1A and 1B are not supported according to the results found in table 2. While the results show a small positive correlation between racial diversity and organizational performance this result is not statistically significant. This does not mean that there is no relationship between the two but rather that we don't have enough confidence to reject the possibility of there being no relationship. This contradicts findings such as those by Colwell & Joshi (2013) who found that organizations that acquiesced to institutional pressures for environmental action experienced greater organizational performance than those who did not conform to these pressures. Similarly, Ansmann & Seyfried (2021) found a significant correlation between educational organizations that conformed to isomorphic pressures calling for quality management reforms and organizational performance.

Hypothesis 2 was not supported by our finding according to the results found in model 3 of Table 2. This stands in stark contrast with findings by Servaes & Tamayo (2013) who found that awareness of CSR activities operationalized through advertising intensity moderates the relationship between CSR activities and firm value. Similarly, Rahman et al. (2017) found that "the relationship between CSR activities and market share was moderated positively by the extent of advertising intensity.

Interpreting the findings

There are several possible explanations for the non-significant result regarding the relationship between employee racial diversity and organizational performance.

The first of these surrounds the reputation stemming from conformity to institutional pressures. As mentioned in the theory section of this paper the act of conforming to institutional pressures can generate a positive reputation amongst an organization's stakeholders. A reputation being defined as the ability to predict an organization's future characteristics, actions, and structures based on observations of the organizations past characteristics, actions, and structures (Rindova et al., 2006). With a reputation being considered positive or negative depending on the nature of the issue being examined and the degree to which organizations address the issue. In the context of this study, however, the issue of greater racial diversity has only arisen recently within the last couple of years following the #OscarsSoWhite movement at the start of 2015 (nytimes, 2020). This has given organizations little time to build up a reputation of conforming to the institutional pressures for greater racial diversity. As Fombrun & Stanley (1990) suggest in their article, reputation is an intangible asset in which firms invest in the short-term in order to realize greater long-term rewards. Firms invest resources and incur costs in setting up and exploring new organizational policies, practices, and structures in order to facilitate more diverse racial employment. In return they expect to gain a greater reputation for social responsibility. Regarding the results of this paper, it is possible that organizations have incurred the short-term costs associated with building a reputation while not yet having seen all of the greater long-term rewards.

A second possible explanation for the nonsignificant result is that the institutional pressure for greater racial diversity is weak relative to other institutional pressures within the film studios' organizational field. Determining the nature and relative strength of the institutional pressures that internal and external stakeholders place on film studios is beyond the scope of this study. However, it is conceivable that achieving greater racial diversity is not a primary priority for most stakeholders. As mentioned earlier in the study the American perspective on racial diversity is characterized by the “colorblind” racial ideology (Doane, 2019). This ideology holds that the USA is a post racial society where an individual's race doesn’t form barriers to their advancement. If primary stakeholders within the organizational field hold to this ideology, greater racial diversity wouldn’t take precedence over other more pressing demands. Therefore, if the institutional pressure for greater racial diversity were small, organizations would gain only a slight increase in legitimacy and reputation from conforming to it (Deephouse et al., 1996). This small change in legitimacy and reputation would then be expected to result in a slight nonsignificant change in organizational performance (Acquah et al., 2021).

A third possible explanation for the results regarding hypothesis 1A & 1B is that organizations do not just experience multiple institutional pressures; these institutional pressures can also conflict with one another. According to Pache & Santos (2010) organizations are most likely to encounter conflicting institutional pressures in organizational fields that are highly fragmented and are moderately centralized. Fragmentation is "the number and distribution of organizations or social actors a focal organization is dependent upon" (Meyer et al., 1987). Centralization refers to the power structure of the organizational field. Highly centralized fields are generally characterized by having one or two dominant actors that impose institutional pressures, while decentralized fields lack any dominant actors and therefore have a difficult time imposing institutional constraints on organizations (Pache & Santos, 2010). The organizational field that film studios are a part of is indeed highly fragmented as the film studios are beholden to a large number of uncoordinated organizations and social actors. These include movie actors who all negotiate individually for a contract, a wide ranging consumer base with diverging tastes and interests, media and news outlets with differing agendas, etc.. The organizational field is also moderately centralized with the media, film critics, consumers, and employees, etc., having some ability to impose their demands on film studios. It is therefore conceivable that there are conflicting institutional pressures to greater employee racial diversity within the film studios organizational field. If film studios experience conflicting institutional pressures from organizations or social actors in their organizational field that can impose a similar degree of constraint, the legitimacy and reputation gained from conforming to greater employee racial diversity would be negated by the legitimacy and reputation lost from ignoring a conflicting institutional pressure. This might explain the non-significant result regarding the relationship between employee racial diversity and organizational performance

A fourth explanation is because the Gini-Simpson diversity index used in this study represents the aggregate of the racial majority or minority casting decisions of a film studio in a given year, there is an implicit assumption that the racial diversity is uniform within these film studios over a given year. It also assumes that all films are created equal in the sense that each film produced in a given year produces the same amount of revenues and incurs the same amount of costs, therefore contributing the same amount to the organization's return on sales. In reality this is not the case, with some films garnering many times more revenues than others. It is possible that racial diversity was highest in the films that generated the most revenue, and lowest in the films producing the least amount of revenue (or vice versa). In this scenario the potential positive or negative effects that racial diversity has on organizational performance is masked by the aggregation of both racial diversity and organizational performance.

Finally, the small sample size makes it very unlikely to find a statistically significant effect unless this effect is extremely large. According to Tabachnick & Fidell (1996) for a multivariate regression, the sample size should be $N > 50 + 8*m$ where m is the number of variables in the regression. In this paper we had 3 control variables, 1 independent variable and 1 moderator. Therefore, Tabachnick & Fidell (1996) would recommend a minimum sample size of 90 for this study, whereas this study only had a sample size of 45.

Limitations

The first limitation follows from the small sample size of 45 which makes it difficult to generalize our findings.

The use of lead actors as a proxy for the overall employee composition of the organization limits the degree to which the results of this study can be generalized. This is because it might not reflect the racial diversity of the organization's employees. In the context of a firm's reaction to institutional pressure, Kostova & Roth (2002) suggest that some organizations respond with “symbolic adoption”. Symbolic adoption is when organizations respond to institutional pressures by acquiescing to them through actions in some regards and through claims in others (Kostova & Roth, 2002). Therefore, the film studios studied could have increased the diversity of their lead actors (action) as they are the most visible part of the company and thus the most likely targets of public scrutiny, while simply claiming that they have increased racial diversity within their entire labor force.

In this study, film studios are assumed to reside in a single, uniform organizational field. An organizational field being defined as “organizations that, in the aggregate, constitute an area of institutional life; key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio & Powell, 1983). All the film studios within this organizational field are therefore assumed to be subject to the same institutional pressures. However, Moser et al. (2020) in a recent study suggested that organizations within the same industry can be influenced by differing organizational fields. In the context of this study this means that some film studios could have experienced greater or smaller pressure for employee diversity than others. If the degree of institutional pressures that film studios face varies, the responses by institutional actors (stakeholders) to a film studio's decision to conform to an institutional pressure can vary leading to different organizational performance outcomes.

Another limitation of the study is that advertising intensity was used as the sole metric in order to estimate the degree to which conformity to greater racial diversity was being communicated to stakeholders. As Bashir (2022) noted the communication of an organization's conformity to institutional pressures related to CSR, happens primarily through advertising and through the use of CSR reporting. CRS reporting was left out as a measure of communication due to the nature or lack of the reporting within the industry. Most of the film studios covered in this study are subsidiaries to larger corporations. Universal Pictures is owned by Comcast, Warner Bros is part of Warner Bros. Discovery, etc.. Instead of creating a report for the individual subsidiaries, one corporation wide report is made, which doesn’t differentiate the different business elements. This would therefore give stakeholder little to no information about the CSR activities of the film studios.

Implications

If the findings are reliable the results imply that film studios who make an effort to foster greater employee racial diversity will neither be rewarded for their efforts nor be penalized for them. The fact that employee racial diversity only predicted 0.1% of the change in return on sales suggests that racial diversity as a social issue is not yet important enough in the eyes of stakeholders when compared to their other issues to warrant withholding or constraining their resources or designating film studios as legitimate. A mentioned in the introduction, the relationship between CSR activities and organizational performance has been extensively researched over the past four decades, with inconclusive outcomes (Orlitzky et al, 2003). Indeed, Barnett (2007) suggests that the dynamic natures of a firm’s environment make stable financial returns to CSR almost impossible. Therefore, the relationship can vary firm by firm and also year to year. This study contributes to the broader field by first considering racial diversity, a dimension of CSR that has often been neglected in prior literature. Secondly, it gives insight into how a social pressure that only recently became salient (#Oscarssowhite 2015), effects organizational performance within an industry.

Recommendations for future research

Because it is unclear whether or not racial diversity is a salient issue to stakeholders of film studios, futures research could investigate the relative importance that stakeholders give to greater racial diversity, as compared to other institutional pressures.

Research by Neville & Menguc (2006) on stakeholder multiplicity, suggests that stakeholders can work together in order to exert more influence on the focal firm. This study briefly touches on this when describing the way in which secondary stakeholders mobilize primary stakeholders in order to influence film studios. However, this study doesn't consider potential alliances between multiple primary stakeholders. Future research could therefore examine whether or not such networking between stakeholders takes place and what effect this might have on the relationship between film studios and their stakeholders.

Other future research might investigate whether different results might be obtained if this same study were to be carried out in a more ideologically collectivistic culture as opposed to the individualistic United States. This is because there would likely be less conflict especially amongst members of the same stakeholder group. Additionally, most of the CSR-organizational performance literature has focused on western countries where many CSR activities have long since become an established practice.

Finally, the issue of greater employee racial diversity has only recently become a salient issue within the film industry, following the #Oscarssowhite movement starting in 2015. The period of time examined in this study covers 4 years before and 4 years after this event. This Could mean that the predictors such as legitimacy and reputation regarding greater employee diversity haven't had the time to manifest. Therefore, it would be interesting to reexamine the relationship between greater employee racial diversity and organizational performance once it has been more firmly established in the industry.

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