

LBS Research Online

[Amandine Ody-Brasier](#)

Exploring market processes through the lens of identity: essays on the determinants and price consequences of contested actions

Thesis

This version is available in the LBS Research Online repository: <https://lbsresearch.london.edu/id/eprint/2304/>

[Ody-Brasier, Amandine](#)

(2012)

Exploring market processes through the lens of identity: essays on the determinants and price consequences of contested actions.

Doctoral thesis, University of London: London Business School.

DOI: <https://doi.org/10.35065/LTZO1454>

Users may download and/or print one copy of any article(s) in LBS Research Online for purposes of research and/or private study. Further distribution of the material, or use for any commercial gain, is not permitted.

London Business School

*Exploring market processes through the lens of identity: Essays on
the determinants and price consequences of contested actions*

Amandine Ody-Brasier

A thesis submitted to the London Business School for the
degree of Doctor of Philosophy

April 2012

Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London Business School is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

The copyright of this thesis rests with the author. Quotation from it is permitted, provided that full acknowledgement is made. This thesis may not be reproduced without the prior written consent of the author.

I warrant that this authorization does not, to the best of my belief, infringe the rights of any third party.

Abstract

This dissertation explores the role of social identity in buyer-supplier relations. Many strategic benefits can be derived from managing supplier relations, yet little attention has been paid to the role of identity—especially at the organizational level. In a number of markets, identity shapes the perceptions of buyers and sellers; it creates an understanding of how organizations should act and what they should look like. This understanding about attributes and behaviors can both constrain and enable organizational behavior—an idea this dissertation explores with three essays based on a mix of fieldwork and panel data on the market for Champagne grapes. My findings highlight how identity affects a variety of outcomes, including the actions an organization can adopt or the prices it is charged by suppliers. This has important implications for the literature on organizational identity as well as on the sociological foundations of market processes—particularly the formation of prices.

The first essay shows that champagne producers (grape buyers) who display a non-traditional identity are charged higher prices by grape growers (i.e. grape sellers). Perceived threats to the collective identity of Champagne are thus penalized by suppliers in exchange relationships. Price differences are significant even in this context where the product is extremely homogenous, relationships are stable and information asymmetries are low. My qualitative evidence provides deeper insights into the underlying mechanisms of this identity-based price discrimination. This suggests that identity constrains organizational behavior; the other two essays show how it can act as an enabler of strategic action. I first look at which kind of firm is more likely to engage in contested actions when these are not easy to detect. I focus on one of the actions highlighted in the first essay, Champagne producers selling to supermarket brands. This is frowned upon by suppliers of grapes, yet it is not easily observable without some careful monitoring. I find that firms that display more traditional identities are ironically more likely to sell to supermarkets. My evidence suggests that this is due to them being less scrutinized, since suppliers assume them to be more trustworthy. I then focus on the other two actions highlighted in the first essay, Champagne producers making other sparkling wines abroad and producers acquiring vineyards in Champagne. These contested actions are easy to observe and clearly attributable to causes internal to the firm. I find that Champagne producers who display a traditional identity experience lower price increases for their grapes following their engaging in one of these actions. I argue this is because suppliers attribute these actions to situational factors rather than chronic predispositions. In sum, the last two essays show how a positive identity may allow firms to engage in actions that are economically advantageous if socially unacceptable.

'I'm a little girl,' said Alice, rather doubtfully, as she remembered the number of changes she had gone through that day.

'A likely story indeed!' said the Pigeon in a tone of the deepest contempt. 'I've seen a good many little girls in my time, but never ONE with such a neck as that! No, no! You're a serpent; and there's no use denying it. I suppose you'll be telling me next that you never tasted an egg!'

'I HAVE tasted eggs, certainly,' said Alice, who was a very truthful child; 'but little girls eat eggs quite as much as serpents do, you know.'

'I don't believe it,' said the Pigeon; 'but if they do, why then they're a kind of serpent, that's all I can say.' "

Lewis Carroll, Alice's Adventures in Wonderland

Acknowledgements

With a given identity come expectations about attributes or behaviors, and reciprocally. I find this idea puzzling and decided to explore it a bit further during my PhD studies at LBS. Five years later, I feel I have made significant progress in understanding this puzzle but I clearly could not have achieved this on my own.

I have been very fortunate to work with my advisor, Freek Vermeulen. Freek helped me see the most important pieces of the puzzle; he also let me put them together freely and according to my own research interests. He trusted me from the beginning—in spite of a challenging start—and provided me with constant support. Freek was able to pinpoint the most interesting aspects of my work and push my critical thinking forward, one step at a time. During my time at LBS, he was always available for advice, to discuss specific research problems or just for a friendly chat. He also (successfully) shared his enthusiasm about London, allowing me to discover some cultural aspects of the city that I may have missed otherwise. “There’s a crack in everything”, and I cannot thank Freek enough for showing me where to look for it.

I also owe my gratitude to Isabel Fernandez-Mateo, for her rigorous and dedicated feedback on my work as well as for enriching my thinking throughout my entire PhD studies. Isabel was of tremendous help to identify weaknesses in my arguments—she challenged my theoretical framing in a constructive manner and her holistic approach was critical to spot inconsistencies across my findings. Yet, Isabel was also kind and supportive, encouraging me to develop my own research agenda. I could not have hoped for a better role model in my academic career.

While I cannot acknowledge them by name, I am immensely grateful to everyone who agreed to meet with me in Champagne—industry experts, grape growers, representatives of Champagne houses, of coops and of industry associations. This dissertation would simply not have been possible without their contribution. I really appreciate their taking the time to meet with me to tell me about their personal experience, and, on occasion, their giving me access to proprietary data. They not only provided the necessary inspiration for this research but also invaluable insights into a fascinating industry.

In addition, I want to thank Phanish Puranam and Rajesh Chandy. I am thankful to Phanish for his support and precious methodological advice. With an unmatched ability to break down problems and simplify arguments, he helped me make sense of some results. Similarly, I am indebted to Rajesh for introducing me to new streams of research and methods, as well as for his feedback during my transfer—an important time in the PhD process.

Beyond the help I received at LBS, I also wish to thank my family and friends: I reckon they probably heard more about Champagne than they ever cared for. In particular, I would like to single out Derek, my husband, whom I thank for everything else—for moving to London with me, for believing in me (and making me believe!), for cheering me up and making me laugh at least once a day (and usually more), for being there always. This work is also his.

Table of Contents

CHAPTER 1 - INTRODUCTION	1
How do firms react to a threatened social identity?	2
How do identification processes affect organizational action?	2
How do identity processes influence reactions to contested actions?	3
CHAPTER 2 - THE PRICE YOU PAY: MARKETS, IDENTITY THREATS, AND PRICE AS AN ENFORCEMENT MECHANISM	1
ABSTRACT	1
INTRODUCTION.....	2
Research Setting: The Champagne Industry	5
THEORY AND HYPOTHESES	7
Identity and Norm Enforcement.....	7
Price-Setting and Identity Threats	9
METHODS.....	16
Data Sources.....	16
Sample.....	17
Dependent Variable.....	18
Independent Variables.....	18
Control Variables	21
Modeling Approach.....	23
RESULTS.....	25
DISCUSSION AND CONCLUSION	29
Spontaneous, Bottom-Up Norm Enforcement	30
Contributions to Extant Literature.....	33
Limitations and Future Research.....	35
NOTES	37
TABLES.....	39
CHAPTER 3 - NOT THE USUAL SUSPECTS: AN ANALYSIS OF WHO ENGAGES IN CONTESTED ACTIONS	46
ABSTRACT	46
INTRODUCTION.....	47
RESEARCH SETTING	49
Industry Structure.....	50
The Emergence of Supermarket Brands.....	51
A Contested Action	52
An Action Difficult to Observe	54
THEORY AND REVIEW	55

Identification and monitoring	55
Identification as a perceptual cognitive process	57
HYPOTHESES	59
Suppliers' Self-Concept	60
Identification Based on Management Type	61
Identification Based on Educational Background	62
Identification Based on Local Origin	64
Identification Based on Firm Location	65
Identification Based on Firm Age	67
METHODS & DATA	69
Dependent Variable	70
Independent Variables	71
Control Variables	74
Modeling Approach	75
RESULTS	79
DISCUSSION AND FURTHER ANALYSES	83
Why Do Firms Perceived as Trustworthy Do It?	83
Contributions to Extant Literature	85
Limitations and Future Research	89
NOTES	93
TABLES	94
CHAPTER 4 – CUTTING THEM SLACK: HOW IDENTITY MODERATES REACTIONS TO CONTESTED ACTIONS	101
ABSTRACT	101
INTRODUCTION	102
THEORY DEVELOPMENT	104
Organizational Identity as a Strategic Asset	104
Social Identity Theory	105
Social Attribution of Blame	106
RESEARCH SETTING: THE CHAMPAGNE INDUSTRY	108
Champagne Houses and Their Exchange Partners	108
Expectation Violations and Partners' Reaction	109
The Moderating Effect of a Positive Identity	111
DATA	114
Sources	114
Sample	115
MEASURES	116

Average Price Paid for Grapes	116
Testing For the Moderating Effect of Identity	116
Expectation Violations	117
Identity Characteristics.....	118
Control Variables	119
MODELING APPROACH	121
RESULTS.....	122
FURTHER ANALYSES	126
DISCUSSION AND CONCLUSION	127
NOTES	130
TABLES.....	131
GRAPHS 1-4: Production on non-Champagne sparkling wine abroad	139
GRAPHS 5-7: Acquisition of vineyards in Champagne	141
CHAPTER 5 - CONCLUSION.....	143
REFERENCES.....	144

CHAPTER 1 - INTRODUCTION

Social identity refers to the knowledge that one belongs to certain social groups together with the emotional and value significance of this group membership (Tajfel, 1972). Rooted in Tajfel's work on categorization and social perception, social identity is a theory of the dynamic and generative interdependence of self-concept and intergroup relations (Hogg and Abrams, 1999: 6). Actors tend to affirm ingroups to maintain a positive social identity and engage in self-enhancement (Tajfel and Turner, 1986). In intergroup contexts, they strive for positive distinctiveness: they try to differentiate their own group from the outgroup in an evaluatively positive manner because in doing so, the positive connotations of ingroup membership become positive connotations of self (Hogg and Abrams, 1999: 10).

Whether they're an organization, a group or an individual, actors need at least a preliminary answer to the question "who are we?" in order to interact effectively with others (Albert, Ashforth and Dutton, 2000). To date, scholars have paid little attention to the social identity of organizations (Rao, Davis, and Ward, 2000) and social identity theory has played a relatively small role in the literature on organizational behavior (Hogg and Terry, 2000). Despite a few exceptions (e.g. Ashforth and Mael, 1989), "the challenge for the future is to integrate new social identity mechanisms centrally into theories of organizational behavior" (Hogg and Terry, 2000: 135). Indeed, identity processes are inevitably linked to organizations' relations with others (Albert, Asforth, and Dutton, 2000). This dissertation aims at contributing to the growing body of research that investigates social identity processes at the organizational level. More specifically, the objective is to gain further insight into the consequences of identity processes for market actors. The basis for this "three essays" dissertation is a mix of qualitative and quantitative data that I collected on the Champagne industry. Each essay addresses distinct, yet related research questions.

How do firms react to a threatened social identity?

According to Tajfel and Turner (1979), actors may rely on one of three strategies when they are faced with a negative or threatened identity: mobility, social creativity and social competition. Mobility, which consists in dissociating oneself from the ingroup, is an individual rather than a group solution. A few studies document its relevance—for example, Rao and colleagues (2000) find that a number of firms migrated from the NASDAQ to the NYSE in order to maintain a positive social identity. Social creativity implies altering the elements of the comparative situation so as to recreate positive distinctiveness for the ingroup. A group solution, this cognitive strategy has also received some empirical support—for example, Elsbach and Kramer (1995) show that members of business schools whose identity was under threat simply switched categorization tactics; they started emphasizing their school's membership in organizational categories that highlighted favorable identity dimensions. The first essay in my dissertation focuses on the third type of response, which has received much less scholarly attention at the organizational level. Social competition is a group strategy that consists in trying to reverse the relative positions of the ingroups and outgroups on some salient dimensions. It may take various forms—for example actors may enforce conformity to group norms by derogating insiders who fail to comply with the standards of behavior ascribed to the group (Menon and Pfeffer, 2003). In the market for Champagne grapes, I find that Champagne houses (grape buyers) whose characteristics or actions lower the positive distinctiveness of the ingroup are charged higher prices by the growers (grape sellers). Not conforming to the accepted norms for their category is thus penalized by suppliers in dyadic exchange relationships.

How do identification processes affect organizational action?

Social identity theory informs much current thinking on organizational identification (Pratt, 1998). Identification refers to the perception of oneness with an organization (Ashforth and

Mael, 1989). It typically requires two components: a cognitive one, in the sense of awareness of membership and an evaluative one, in the sense that this awareness is related to some value connotations (Tajfel, 1982). Virtually all conceptualizations of identification involve a perception of value congruence between an actor and an organization (Pratt, 1998). Therefore, scholars have long argued that identification can act as a powerful control mechanism; it guarantees that actions will be consistent with common goals and values in the absence of external stimuli (Tompkins and Cheney, 1985). "Identification becomes an important means for removing or reducing those inefficiencies that are labeled by the terms 'moral hazard' and 'opportunism'" (Simon, 1990: 41). While they may co-exist with other control mechanisms, identification processes are likely to act *in lieu* of such mechanisms when behaviors viewed as negative are also difficult to observe. Perceptions of value congruence guide actors' monitoring efforts, leading them to focus their limited attention on organizations whose values and goals they perceive as conflicting with their own.

The second essay in this dissertation investigates how identification influences what sort of firm is more likely to engage in contested actions when these are not easy to observe. In the context of the market for Champagne grapes, I focus on one of the actions highlighted in the first essay, Champagne houses selling to supermarket brands. This is frowned upon by suppliers, yet it is not easily observable without some careful monitoring. Ironically, I find that firms that display the traditional characteristics of suppliers' ingroups are in fact more likely to sell to supermarkets. My evidence suggests this is due to them being less monitored, since suppliers identify with them and assume them to share the same goals and values.

How do identity processes influence reactions to contested actions?

"Like it or not, we all make assumptions about other people, ourselves, and the situations we encounter" (Fiske and Taylor, 1991: 97). Social identity theory bears on the use of categories and schemas as conditioned by motivational factors (Fiske and Taylor, 1991). Actors are

motivated to see themselves and their group in a positive light—to achieve this goal, they typically favor ingroups and denigrate outgroups. Pioneering our understanding of stereotyping and prejudice (Hogg and Abrams, 1999), social identity theory implies that actors positively stereotype ingroups and negatively stereotype others in order to preserve their social identity (Tajfel, 1981).

A given identity is tied to expectations about attributes and behaviors; actors largely attribute the behavior of others on the basis of the social category to which they belong (Tajfel, 1982). When actors perceive what they regard as a negative action, they are more likely to attribute it dispositionally if the perpetrator is an outgroup member than if it is an ingroup member (Pettigrew, 1979; Hewstone, 1990). In other words, actors tend to view the same negative action as the result of situational constraints when it involves members of groups with which they are associated. Members of these groups are typically less blamed for the action since they are not seen as having purposefully intended to produce the negative outcome (Fiske and Taylor, 1991: 84).

The third essay in this dissertation examines the impact of identity processes on attributions of blame and punishment. In the market for Champagne grapes, I focus on two actions that are not only easy to observe but also result from clearly internal causes—the production of non-Champagne sparkling wine abroad and the acquisition of vineyards in Champagne. I find that, although the houses engaged in these actions tend to pay a higher price for the exact same grapes, the price increase is lower for those houses whose identity suppliers regard as positive. Further evidence suggests that this is because suppliers view negative actions as the result of situational factors rather than chronic dispositions when they involve firms toward which they hold affective predispositions.

CHAPTER 2* - THE PRICE YOU PAY: MARKETS, IDENTITY THREATS, AND PRICE AS AN ENFORCEMENT MECHANISM

ABSTRACT

This paper focuses on price-setting in buyer–supplier exchanges in the Champagne industry. Grape growers and Champagne houses, who purchase the grapes to make the sparkling wine, are two distinct “families” within the Champagne category. In spite of the product’s homogeneity, houses pay markedly different prices for the same grapes. We posit that growers charge higher prices to houses that display non-traditional characteristics and that engage in actions that threaten the identity of the category. Our qualitative evidence indicates that growers give price advantages to houses that conform to the category’s identity through a non-organized, bottom-up process. Prior research has addressed social ostracizing and the termination of relationships as reactions to identity threats. Our study highlights market prices as another distinct enforcement mechanism. As such, we also contribute to the literature on the social construction of markets, by showing that the price an organization pays for its raw materials depends on its identity.

* This chapter is the result of joint work with Freek Vermeulen.

INTRODUCTION

Various studies have observed that, over time, firms operating within the same industry can form a distinct category with a collective sense of identity (e.g., Porac, Thomas, and Baden-Fuller, 1989; Peteraf and Shanley, 1997; Rao, Monin, and Durand, 2005). As a category, firms perceive a shared economic interest; they develop stable patterns of and expectations about behavior. A growing agreement about what type of behavior is appropriate and what actions are not acceptable contributes to establishing norms that maintain social order (Durkheim, 1893; Parsons, 1949). The organizations that constitute the category may include direct competitors (Porac, Thomas, and Baden-Fuller, 1989) as well as firms that have buyer–supplier exchange relationships (Peteraf and Shanley, 1997). Often, they operate within the same geographical region (Porac, Thomas, and Baden-Fuller, 1989; Romanelli and Khessina, 2005). For example, the firms that in our setting form a distinct category—the Champagne industry—include both suppliers (Champagne grape growers) and producers (Champagne houses) within the French region of the same name.

What happens if certain actors breach the established norms of behavior, thereby threatening the category’s identity? Actors may pose a variety of threats to the collective identity. First, they may undertake actions that benefit themselves but threaten the industry’s common interest. For example, Porac and colleagues (1989) showed that when some Scottish knitwear producers began developing non-traditional items (sports garments), they were perceived as diluting Scottish quality, thus harming the industry’s collective interest. A similar example in our setting concerns houses supplying private-label Champagne, that is, selling Champagne to a supermarket chain that distributes and labels it under its own brand. While private labels may profit an individual house, they are thought to lower the value of the Champagne brand as a whole. A second norm violation may occur when actors try to alter the power balance within the industry in their favor. For example, Champagne houses that vertically integrate,

by acquiring vineyards, might not threaten the economic interests of the Champagne industry as a whole but do threaten the economic interests of the growers, one of the two families within the Champagne category. Finally, actors may violate the category's norms by displaying non-traditional characteristics, such as the background of their CEO or their choice of location, or simply because they are newcomers to the industry (DiMaggio and Powell, 1983).

Social identity theory suggests that actors faced with a negative or threatened identity engage in social mobility, social creativity or social competition (Tajfel and Turner, 1982). While the first two strategies have received some empirical support (e.g. Rao, Davis, and Ward, 2000; Elsbach and Kramer, 1995), evidence of social competition remains scarce at the organizational level. The latter consists in trying to reverse the relative positions of the ingroups and outgroups on some salient dimensions (Tajfel and Turner, 1982). It may take various forms—for example actors may enforce conformity to group norms by derogating insiders who fail to comply with the standards of behavior ascribed to the group (Menon and Pfeffer, 2003). One way that members of a category may act to defend the collective identity is public shaming and social ostracizing of the violators. For example, Scottish knitwear producers that were considered to be violating the category's norms were sharply criticized (Porac, Thomas, and Baden-Fuller, 1989). Similarly, “fake” microbreweries were publicly exposed by other industry players (Carroll and Swaminathan, 2000). Another response to deviant behavior is to cease exchange relationships with the exposed violators. For example, actors may refuse to do business with non-traditional players, or may terminate existing relationships when actors violate behavioral expectations (e.g., Ellickson, 1991; Ingram and Clay, 2000; Ostrom, 2000).

In this study we argue that there is a distinct third mechanism, overlooked in extant literature, which firms apply in response to actions that threaten their category's identity: transaction

price. We argue that firms may give better prices in their market exchanges to actors who conform to the norms and expectations of their category. On the other hand, actors who deviate from the category's traditional identity are charged higher prices for the exact same good. We test implications from this perspective using data from the Champagne industry because, given the specific circumstances in this industry and the homogeneity of the product, one would expect different Champagne houses to pay largely similar prices for the grapes they purchase in a given year. However, in contrast to these expectations, we observed large price differences within this industry. Through our analysis, we can explain the variance in these prices by looking at the extent to which different buyers (i.e., Champagne houses) display attributes or behaviors that are in line with the identity expectations of the category. Thus, we show that different houses, depending on how closely they conform to the traditional identity of the category, are charged different prices for the same goods.

These findings have clear implications for the literature on identity threats, and particularly for the element of norm enforcement (e.g., Negro, Hannan, and Rao, 2011). At least in our setting, price discrimination plays a significant role in how firms respond to deviant behavior. Interestingly, in Champagne there is no overarching institution—such as a trade union or a growers association—that organizes or otherwise stimulates growers to award price advantages to houses that conform to the identity of the category and to charge higher prices to those who don't. In fact, our extensive interview data showed that the price discrimination appears through a fully spontaneous, bottom-up process. As such, in general, our findings also have important implications for our understanding of how markets work. Identity, and buyers' deviation from their category's identity, plays a major role in the price different actors pay for the same good. In other words, at least in our setting, who you are and what you do determines the price you pay. Hence, our study also contributes to the literature on the social construction of markets (e.g., Granovetter, 1985; Fligstein, 1996; Uzzi and Lancaster, 2004)

Research Setting: The Champagne Industry

We chose to study the Champagne industry because it has certain characteristics that make it an ideal testing ground for our theory. It is a precisely defined area (the so-called Appellation d'Origine Contrôlée, or AOC), and only sparkling wines made from grapes grown in that region can legally be called Champagne. Champagne grapes are grown in vineyards by grape growers and are generally sold to Champagne houses—such as Bollinger or Moët & Chandon—who use them to produce the sparkling wine. There are about 15,000 growers and 66 Champagne houses. They are often referred to, by industry insiders, as the two families within Champagne. There is one combined Champagne Trade Association (the CIVC) for both growers and houses,¹ but it is headed by two co-presidents; one representing the growers and one representing the houses (for further details, see Cool and Henderson, 2005).

Although there are many more growers than houses, the growers largely act as price-setters for various reasons.² The AOC legal framework limits the amount of land that can be cultivated for wine production, as well as the yield of the vines. The region has reached peak production (Besse, Tegner, and Wilkins, 2006); it is fully planted, and vineyard productivity is at its maximum.³ Although historically some houses own their own vineyard—the grape growers own 90 percent of the vineyards and the Champagne houses about 10 percent—since the 1960s French law forbids houses to vertically integrate and acquire vineyards from growers. As a consequence, most Champagne houses have very low self-supply ratios, so that they depend on growers for the vast majority of their supplies. In contrast, the growers are not so dependent upon Champagne houses for distribution: they can potentially forward-integrate. In fact, although growers are relatively small in terms of total size, about one in three is already involved in the production of Champagne.

Where grape supply is limited, demand for Champagne is booming. While the domestic market remains strong, international demand—especially from countries such as Russia and

China—has risen dramatically over the past two decades.⁴ This has made the grapes a very scarce resource. In what people in the industry refer to as the supply race, Champagne houses compete fiercely to secure supplies: “All that is required to sell unallocated Champagne grapes is a 30-second telephone call. They’ll be bought, unseen with gratitude and alacrity [...] They all need grapes—desperately [...] each house tries to outdo the other both psychologically and financially to attract and keep hold of the grapes” (Jefford, 2008). Grape purchase now represents about 67 percent of the total production cost of a bottle (Besse, Tegner, and Wilkins, 2006). As can be expected, the high demand and limited supply of Champagne grapes have boosted prices. For example, while one hectare of vines in neighboring Burgundy costs approximately 87,000 euros, it costs 734,000 euros in Champagne. Consequently, the average grower’s margins are estimated to be close to 100 percent.⁵

The Champagne grape is extremely homogeneous; quality differences hardly influence its price. As one of our interviewees explained, “In all other wine regions, you pay according to the quality [...] This is not the case here.” Insofar as differences in grape quality exist, we were able to control for them in our regression models. Furthermore, all transactions occurred around the same time of the year, immediately following the harvest, starting in September. Because of the relative smallness and transparency of the region, search costs and information asymmetries in terms of the availability of grapes or of interested buyers also were minimal. Yet, for such a homogeneous product, price differences were surprisingly large. Whereas, during a normal season, a kilogram of raw material costs about 9 euros on average, the within-year standard deviation is about 6 euros. We triangulated this information using two independent databases.⁶

Exchange relations between buyers and suppliers in the industry are quite stable, in the sense that switching is rare. Existing relationships are seldom terminated—something we observed

both in our interviews and by studying an extensive subsample of longitudinal contractual data.⁷ Most growers sign declarations of intent to supply a given house for a number of years. However, even when a seller signs a declaration for multiple years, prices are systematically renegotiated after each harvest. Furthermore, there is no formal collusion between grape growers—prices are not agreed upon by a central body. We also found no indication in our confidential interviews—whether with growers, representatives of houses, or outside industry-experts—that any form of informal collusion is taking place among the 15,000 growers in the region. In the remainder of this paper, we posit that a substantial part of the observed price differences between what different houses pay for the same grapes can be explained by their identity, in other words, “who they are” and “what they do” (1985). Houses that conform to the established identity of the category are offered better prices by the growers than houses that deviate from and threaten the category’s collective identity.

THEORY AND HYPOTHESES

Identity and Norm Enforcement

Albert and Whetten (1985) defined identity as the central and enduring characteristics of an organization that distinguish it from others. Scholars subsequently applied this construct to collections of organizations, including regional industries (Porac, Thomas, and Baden-Fuller, 1989; Romanelli and Khessina, 2005) and strategic groups (Peteraf and Shanley, 1997). These extensions in the level of analysis suggest that various social entities experience a need for a situated sense (Albert, Ashforth, and Dutton, 2000). They also suggest that a collective identity can be shared by a number of organizations across vertical chains and even across industries (Peteraf and Shanley, 1997). Much work on collective identity draws on social identity theory (Tajfel and Turner, 2004), which describes identity as the result of a

categorization process. Accordingly, Albert and Whetten (1985) described “identity as a classification.” A collective identity is the consequence of categorization processes that actors employ in making sense of their environment.

A collective identity is a social agreement about the interpretation and label applied to the category (Negro, Hannan, and Rao, 2011) but it is also permeated by a moral view of what it means to be a member. It entails norms of behavior that define what is expected of the bearers of the identity (Rao, Monin, and Durand, 2005; Hsu, Hannan, and Polos, 2009). In this sense, a collective identity is a social construction with important consequences for category members: the collective identity provides them with a sense of self and meaning and places them in a wider social context (Ashforth and Mael, 1989) but it also implies prescriptions on what an organization in the category should look like and how it should behave. This is what Porac, Thomas, and Baden-Fuller (1989: 414) referred to as the “price of admission.” When actors in the industry do not conform to the category’s social prescriptions, they may face sanctions by other organizations.

Recent extensions of social identity theory suggest actors may enforce conformity to category norms by derogating insiders who fail to comply with the standards of behavior ascribed to the category (Menon and Pfeffer, 2003). Examining organizational identification, Ashforth and Mael (1989) discussed punishing infractions and rewarding behavior in line with the collective identity. Similarly, studying socialization, Hsu, Hannan, and Polos (2009) showed that collective identities are typically maintained through sanctions for norm violations and/or rewards for conformity, and Rao, Morrill, and Zald (2000) discussed monitoring and policing as crucial in identity movements. At the individual level, Homans’ (1951) seminal study of the Western Electric bank-wiring room showed that monitoring and enforcement occur spontaneously among members of a group. Conformity to the rules of the group is rewarded with social approval, while deviance is punished with disapproval and ostracism (Homans,

1951; Portes and Sensenbrenner, 1993; Rao, Morrill, and Zald, 2000). The fear of ostracism is a powerful motivator to conform to group norms, as “small, close-knit groups often snub those who do not play by the rules” (Bicchieri, 2006: 204). Similar behavior can be observed among organizational members of a category.

In addition to ostracism, other social sanctions have been documented, including public shaming or ridiculing (e.g., Carroll and Swaminathan, 2000). For example, Porac, Thomas, and Baden-Fuller (1989) showed that, when a few of the larger Scottish producers began to contradict the conventional wisdom by developing sports-garment lines such as cotton golf sweaters, they were criticized by existing members. When some Italian producers started challenging the conventional definition of the Barolo and Barbaresco wine category, supporters of the traditionalist identity sharply condemned them (Negro, Hannan, and Rao, 2011). Scholars in new institutional economics have argued that firms may adhere to norms because of the threat not only of social but also of economic sanctions (Ingram and Clay, 2000; Ostrom, 2000). Rejection of a norm may lead to the cessation of social relationships and the refusal of future economic exchange (Ellickson, 1991; Ingram and Silverman, 2002). In addition to these insights, in this paper, we discuss price as another enforcement mechanism, in particular in transactions in the markets for grapes in the Champagne industry.

Price-Setting and Identity Threats

The price that one actor charges another actor within the same category can act as an enforcement mechanism. Buyers that have attributes or that display behaviors that are not in line with the collective identity may be charged higher prices by members of the category to punish them for unwanted behavior. On the other hand, firms that operate in conformity with a group’s traditional identity may be charged better prices to reward them for their behavior and discourage them from shifting. These ideas regarding price discrimination are in line with social identity theory on ingroup–outgroup dynamics. Porac, Thomas, and Baden-Fuller

(1989) described how Scottish knitwear companies displayed typical ingroup–outgroup behavior when confronted with identity-threatening actions by a subgroup of producers within the category. Social identity theory (Tajfel and Turner, 2004) implies that members of an ingroup see each other in a more positive light, and extend favors that they would not extend to those who are considered not to be part of the ingroup. Following this logic, exchange partners who are not considered part of the ingroup may be charged higher prices.

Various behaviors may disqualify a firm from being seen as a loyal member of the ingroup. Albert and Whetten (1985) suggested that some actions may threaten the central and enduring characteristics of a category. Firms may engage in actions that challenge the category’s common interests, for example the central tenet of Scottish quality (Porac, Thomas, and Baden-Fuller, 1989). Actions may also threaten the category’s distinctiveness. For example, firms may act in ways that reduce the degree to which the category stands out, or the categorical contrast (Rao, Monin, and Durand, 2005). This not only tempers existing status effects (Peteraf and Shanley, 1997) but may also lower the economic benefits of specialism (Negro, Hannan, and Rao, 2010). Italian producers of Barolo and Barbaresco wines feared such negative consequences when reinterpretations of this category reduced its contrast with the New World category (Negro, Hannan, and Rao, 2011).

One action by Champagne houses that is contested on such grounds is the supply of Champagne for supermarket brands. It is considered economically attractive for houses, because it leads to a stable flow of demand and saves many of the hassles of distribution. However, it is also perceived as a threat to the category’s overall distinctiveness, weakening the existing status hierarchy and economic interests of the category as a whole. As one industry observer commented, “The Champagne sold in supermarkets and the prices charged for it stir up hot debates among Champenois. Some almost see it as the absolute evil” (SGV, 2006). Our qualitative evidence confirms that providing Champagne for supermarkets’ private

labels is seen as devaluating the image and distinctiveness of the category, blurring the boundaries with other types of sparkling wines, both in terms of quality and price. “Have you ever tried one of these wines? I mean, it’s far from great. You might as well drink a good Cava.” “With this type of behavior [supply of wine for supermarket brands], how do you want consumers to understand why they should pay more for Champagne—these products are cheaper than some [non-Champagne] sparkling wines. The other day, I saw an English sparkling whose retail price was higher!” One comment by an interviewee summed up the general sentiment among growers: “it [supplying wine for supermarket brands] devaluates the product with prices that are not worthy of Champagne.”

Champagne’s distinctiveness derives from its place as “the king of wines and the wine of kings.”⁸ In both casual conversations and official discourse, bearers of the Champagne identity suggest that Champagne differs from other wines because “it lies at the top of the pyramid. As long as we stay at the top, Champagne will remain Champagne. But we have to stay at the top; we have to be the best” (interviewee). Supermarket brands threaten this element of the category’s identity. Therefore, we expect that in order to reward houses that do not engage in this practice and to thus discourage its use, houses that refrain from supplying supermarket brands will be given price advantages. Put differently:

Hypothesis 1 (H1): Houses that supply Champagne for supermarket brands will be charged higher prices for their grapes.

Another action that is contested, because it threatens the distinctiveness of the category and, with it, the economic interests of the industry as a whole, is the operating of winemaking subsidiaries outside of France. These subsidiaries make wines that could be seen by consumers as a substitute for Champagne. Although the appellation itself is not used to brand the foreign wine,⁹ the name of the house often is. As suggested by one CEO of a Champagne

house: “Come on, Moët & Chandon and Chandon [Napa]? It’s really, really similar, right?”

Another insider commented, “I think it’s dreadful when our own people, our own Champagne companies, go to other countries and set up production facilities for sparkling wine in these countries that is going to compete with Champagne.”¹⁰ In sum, releasing such products is perceived as disloyal to the collective identity because it involves taking winemaking expertise outside the region while exploiting the brand name of Champagne, thus threatening the economic interests of the category as a whole. Therefore, we hypothesize:

Hypothesis 2 (H2): Houses that also operate winemaking subsidiaries abroad will be charged higher prices for their grapes.

The two actions discussed above—supplying supermarket brands and operating subsidiaries abroad—are seen as potentially affecting the distinctiveness of the category, and thus as threatening its economic interests as a whole. Other actions may be contested not because they challenge the economic interests of the entire category, but because they threaten the status quo within a category, potentially affecting the economic interests of one of the parties. An example within Champagne is when houses purchase vineyards within the region. French legislation may prevent houses from vertically integrating by buying up growers, but a house can increase its vineyard area by taking over other houses that owned land prior to the enforcement of the regulation (in the late 1960s). This practice reduces the economic dependence of the particular house on grape growers, who strongly oppose such actions. The division of tasks—into vine growing and winemaking—is seen as a central and enduring characteristic of the category, which distinguishes it from others (Albert and Whetten, 1985), because it is unique to the area. As one interviewee proclaimed, “Our organization is unique. We’re the only ones who were able to do that! Look at Cognac; it’s a mess.”¹¹ Another one argued: “The houses are trying to mess with the traditional equilibrium in Champagne: by trying to acquire vines, by trying to become land owners, by trying to own vines whatever the

cost, they're destabilizing our collective organization."¹² "The wraith of integration [. . .] That would simply lead to the vertical integration of the growers to the benefit of the houses . . . They want to destroy our structures and entirely self-supply for grapes."¹³

Backward integration—houses purchasing vineyards—openly challenges the established roles of the two families within the category. It may not harm the economic interests of the region as a whole,¹⁴ but it challenges the growers' role. Growers therefore may charge better prices to houses that refrain from the practice, and charge higher prices to those that engage in it.

Hypothesis 3 (H3): Houses that purchase vineyards in Champagne will be charged higher prices for their grapes.

So far, we have examined actions of houses that threaten the category's identity while somehow challenging the economic interests of the suppliers, either because they hamper the category's standing as a whole or because they affect the economic interests of the growers specifically. However, certain attributes of actors operating within a category may also be seen as threatening to its identity simply because they do not conform to the traditional image of what an organization of its kind should look like. This argument is in line with Albert and Whetten's (1985) view of identity, that it is determined by "what you do" and "who you are," in other words, by actions as well as characteristics of the organization. One central characteristic of the collective identity in Champagne is family management. Many Champagnes bear a traditional family's name (e.g., Krug or Billecart Salmon), and many companies are still run by a descendant of the founder. Management by a founder's descendants is also thought to distinguish Champagne from other French wine regions, in part because names are often tied to families and not just estates (e.g., Domaine La Romanée Contie in Burgundy). There is a perception that the region's prosperity is tied to the tradition that management is passed on from one generation to the next, and hence that the industry is inseparable from the families that made the region's name. As one interviewee commented,

“Firms that keep the family spirit, that’s what matters [...] That is to say, the spirit of the founder.” Hence, family management is seen as a central and enduring characteristic of the category’s collective identity. Consequently, houses whose CEO is a descendant of the founder are more likely to be seen as “one of us,” as part of the ingroup, and to be charged more favorable prices by the growers.

Hypothesis 4 (H4): Houses that are managed by a family CEO, that is, a descendant of the original founder, will be charged lower prices for their grapes.

Identity is often also connected to geography. Geographic co-location is a strong factor in identification, where different regions can be known for different industries, such as textiles near Como in Italy (Sorenson and Audia, 2000) or knitwear around Hawick in Scotland (Porac, Thomas, and Baden-Fuller, 1989). Co-location leads to abundant inter-firm communication, which strengthens a collective identity (Tajfel and Turner, 2004). Similarly, some villages are considered the original “bastions” of Champagne, recognized as historical centers of this regional industry. As the industry developed, producers also located further away from these villages,¹⁵ venturing off to other locations within the Champagne region. This geographical expansion generated heated debate throughout the development of the industry. For example, it gave rise to the so-called Champagne riots in the early 1900s, during which the authenticity of some villages was disputed, and they were considered to produce so-called second-zone Champagne. Today, some villages are still described as the cradles of the Champagne industry, central to its identity. In those villages, the relative density of Champagne houses is high. Being located in such a village benefits inter-firm communication and increases the probability that a house is seen as part of the category’s ingroup. Therefore, we predict that houses that are located in traditional villages are more likely to be charged favorable prices for their raw materials. In contrast, houses based in locations that are

generally not seen as the traditional centers of Champagne will be charged higher prices for their grapes.

Hypothesis (H5): Houses located in traditional villages will be charged lower prices for their grapes.

Newcomers who join a particular industry with a strong collective identity at a relatively late stage often will not be considered central to a category. Newcomers may even be seen as threatening the category's identity. They may be viewed as opportunistic, entering at a time when the established actors have secured the category's prosperity. Especially in an industry with strong traditions (Negro, Hannan, and Rao, 2011), entrants may be viewed with some suspicion as to whether they will conform to and honor the category's traditions and practices. As proclaimed by many of our interviewees, a sense of history is also a central characteristic of Champagne's collective identity. Almost a fifth of all Champagne houses date back to the eighteenth century; 70 percent were founded before Champagne received the AOC recognition in 1926. Firms that entered several decades ago, after the industry took its present form, are often still referred to as newcomers. Houses that are seen as having contributed to building the name and fame of Champagne are (almost affectionately) referred to as old-timers. We predict that these latter firms, which are seen as having helped build the category rather than benefiting from it after it had been established, will be given price advantages when purchasing their grapes. So-called newcomers will be charged higher prices.

Hypothesis 6 (H6): Houses that are relative newcomers to the industry will be charged higher prices for their grapes.

Categories with a strong identity—such as Champagne—often have developed distinct traditions. Sometimes these traditions are seen as clashing with a more commercial and financial orientation (Porac, Thomas, and Baden-Fuller, 1989; Negro, Hannan, and Rao,

2011). The latter often concerns larger corporations or listed firms. Accordingly, the production of Champagne is still seen as an artisanal process. Artisanship is associated with the overall success of Champagne as a region, with symbols such as handpicking of the grapes or hand riddling of the bottles. One producer commented, “Some talk about the Champagne industry; it’s a word that doesn’t belong in Champagne. Champagne is a luxury product and an artisanal product; it relies on human skills, even if there is some mechanization of course.” Honoring these practices has become central to the category’s identity. In contrast, the emergence of large corporate groups, which own some of the Champagne houses, some of which are listed on the stock exchange, are seen as threatening this identity.¹⁶ One interviewee commented, “large financial groups do not share the collective vision.” Typically, the co-president of the Champagne trade association (CIVC) recently advocated “remain[ing] artisans, artists, men of the vine and men of wine” and “not becom[ing] agro-food industrial groups.” Therefore, we expect the independent houses, who thus conform to the traditional expectations of the category, to be perceived as part of the category’s ingroup, and to be charged better prices for their grapes. In contrast, houses that are owned by corporate or publicly owned financial groups will be charged higher prices.

Hypothesis 7 (H7): Houses that are part of listed, corporate groups will be charged higher prices for their grapes.

METHODS

Data Sources

For this study, we relied on a mix of fieldwork and quantitative analysis. We collected the qualitative data from archival sources (trade publications; local and national newspapers), a large number of in-depth interviews, and on-site visits. We used this information to

understand the organization of the industry, especially its price-setting mechanisms and market institutions, and to understand the collective identity of the players involved and the practices associated with their identities (table 1 provides further qualitative evidence). We interviewed a total of 43 respondents, some of them on several occasions: 15 members of the relevant professional association and industry experts, 14 CEOs of Champagne houses, and 14 grape growers (table 2 provides an overview). The growers were selected to represent Champagne's four growing areas (Montagne de Reims, Vallée de la Marne, Côte des Blancs, Côte des Bars).

----- Please insert tables 1 and 2 about here -----

The quantitative data were gathered from three data sources: 1) DIANE, a Bureau Van Dijk database containing detailed financial information on 974,000 French private and public companies; 2) the National Registry of Trade & Companies, the official source of financial and legal information on French private and public companies, and 3) the Guide Curien de la Champagne, a publication created in 1991 by Champagne experts that provides detailed information about Champagne companies. Insiders describe this as *the Champagne Bible* (Claeys-Pergament, 2009).

Sample

Approximately 100 companies claim to be Champagne houses, but only 66 are officially listed as members of their professional association (UMC). Conversations with the UMC director and a careful examination of the firms excluded from the list reveal that most are négociants rather than houses; that is, they sell Champagne but produce barely any wine. Because we are interested in the collective identity of Champagne producers, we chose to focus on the 66 companies listed by the UMC. Data was unavailable for 2 of these firms due to their small size. However, we obtained complete financial data for 64 Champagne houses

between 1998 and 2007, the study's unit of analysis. We restricted the analysis to the period 1998–2007, because before this date, prices were not fully determined by market forces—the price of grapes was negotiated and fixed at the industry level between growers and houses¹⁷—and reliable data were difficult to obtain.

Dependent Variable

The dependent variable is the average *price* that a house is charged for the raw materials it uses in its Champagne production in a given year. The grapes that a house purchases typically come from a large number of growers and therefore can potentially have a different cost price. For this reason, for each of the houses, in line with previous studies on winemaking (Benjamin and Podolny, 1999), we constructed this measure by dividing the annual purchase cost of raw material by the volume of grapes.¹⁸ Houses do not report the costs of grapes separately from the costs of other raw materials. However, production processes in Champagne are strictly controlled: yeast and sugar are the only other raw materials that can be added to make the wine. These materials are used in very small quantities, as compared to the grapes. Moreover, they are both commodities, which can therefore be expected to hardly vary in price between different houses. Hence, we use the average price of raw materials in a given year as a proxy for the costs of grapes that a house purchases.

Independent Variables

Supermarket brands. Supplying supermarket brands is a practice that emerged in Champagne in the 1990s. We obtained information on whether houses produced wine for supermarkets' private labels using the annual Buyer's Own Brand listing of Rayon Boissons, a trade publication dedicated to beverages in supermarkets. This document reports information on all major supermarket labels as well as their original producers. Subsequently, for each Champagne house in each year, we measured the total number of supermarket brands it supplied in that particular year. We took the natural logarithm of this variable, because its

influence on price can be expected not to be entirely linear; for instance, the difference between supplying 0 and 1 supermarket brands may be perceived differently than the difference between supplying 5 and 6.

Foreign subsidiaries. Data on whether houses opened winemaking subsidiaries outside of France in a given year were collected as follows: First, we used DIANE and the French Registry of Trade & Companies to track all subsidiaries in each house's corporate structure. Second, we used the various national registries of trade to make sure only subsidiaries dedicated to the production of wine were included, excluding those dedicated to the mere distribution of wine. Some houses have had subsidiaries abroad for more than half a century. Therefore, for this variable, we computed the total increase in the number of subsidiaries a house owned outside of France between 1998 and 2007. The maximum increase in the number of foreign subsidiaries during this period for any given house was 2. Only one house closed more subsidiaries than it opened. Hence, it was assigned the value -1.

Vineyards acquired. To measure the acquisition of vineyards by houses, we used the Guide Curien as well as archival data to track the size of the vineyard owned by each Champagne house in a given year. Vineyards acquired refers to the cumulative number of hectares acquired by each house in Champagne during our sample period (1998–2007). We did not measure the total number of hectares of vineyard owned by each of the houses because, historically, some Champagne houses have owned their own vineyards. In line with our theory and interview data, we assumed that vineyards owned by houses for historical reasons (which they may have owned for centuries) are not seen as a threat to the category's status quo and identity; it is the more recent additions in terms of vineyard purchases that are contested. Hence, the variable used to test the hypothesis was measured as the cumulative number of vineyards acquired since 1998.

Family CEO. Consistent with prior studies (e.g., Anderson and Reeb, 2003; Villalonga and Amit, 2006), we measured family management as firms whose CEO is a descendant of the founder by either blood or marriage. We created a binary variable coded 1 if that is the case and 0 otherwise. These data were obtained from firms' corporate websites, cross-checked with the French Who's Who and the Guide Curien.

Traditional village. We treated high density as an indication of whether a particular village was central to the identity of Champagne. We measured the relative density of houses in the various villages in Champagne by collecting location data for each house; we then computed the number of houses relative to the village's population (measured in hundreds). This information was collected from the Guide Curien. Alternatively, we also estimated our models with dummy variables directly indicating whether a house was located in a village considered to be one of the traditional Champagne locations (in particular, Reims, Epernay, Chalons en Champagne, Essoyes, Hautvilliers, and Les Riceys). This alternative variable produced near-identical results with our density variable.

Newcomer. We measured the extent to which a Champagne house was a newcomer by means of a proxy that indicated to what extent a house was relatively late entering the industry. Exact founding dates of all houses are unknown since many of them have existed for centuries. Moreover, at some point, how long a house has been in existence seems to matter little to whether it is considered a newcomer; for example, whether a particular house is 200 or 300 years old seems to be irrelevant to its newcomer status. Therefore, we created a lateness-of-entry variable, coded 0 if the particular house was founded before 1960; otherwise the variable would take on the value of year of entry minus 1960. Thus, for example, a house entering the industry in 1965 would be assigned the value 5, and a house entering in 1995 would be assigned the value 35, to indicate its lateness of entry. We chose 1960 as a cut-off point because around this time the industry took its present form; the French government

adopted legislation in the early 1960s that, for instance, prevents houses from acquiring grower-owned vineyards. Our interviews suggested that this was often seen as a crucial cut-off point, distinguishing newcomers from old-timers.

Corporate and listed group. To distinguish between the Champagne houses that belong to a larger corporate group and those that operate independently, we created a binary variable coded 1 for the former and 0 for the latter. For example, Moët & Chandon was coded 1 (since it belongs to the LVMH group), whereas Pol Roger was coded 0 (since it is still operated as an organization). We also created a dummy variable coded 1 if the group was listed on the Paris stock exchange; 0 otherwise. No independent houses were listed. We used DIANE and the French Registry of Trade & Companies to track the houses' corporate structure. When necessary, we cross-checked this information with firms' corporate websites. We also performed sensitivity analyses combining the two measures using an ordinal measure coded 0 for independent firms, 1 for firms belonging to larger corporate groups, and 2 for firms belonging to listed groups. This variable also led to statistically significant results in the predicted direction.

Control Variables

In our models, we controlled for several variables pertaining to a particular house's demand. Size of the Champagne house was controlled for through its annual *volumes* of bottles sold. This also represents the amount of grapes purchased, because all producers need approximately 1.2 kilos of grapes to produce 750 ml of Champagne. We collected this data from the Guide Curien and a variety of company and industry reports. We did not have a particular expectation regarding the direction of its effect. Firms that require larger volumes may be expected to receive discounts so that the price they are charged is lower. On the other hand, larger houses may have to pay higher prices to secure the larger volumes of grapes that they require. We also controlled for vineyard ownership, because this may affect a house's

bargaining position vis-à-vis the growers, and potentially lower the price it pays for its grapes sourced through them. We measured the size of the *vineyard owned* by each firm by taking the natural logarithm of the number of hectares owned by the firm. Another control we included was firms' *return on assets* (roa). This variable was included because suppliers may potentially assess a firm's demand function according to its profitability and may try to price-discriminate against the most profitable firms. We also ran models with *return on capital* as an alternative control and obtained nearly identical results.

Prior studies suggested that the price a firm obtains from suppliers may also depend on its *status* (Benjamin and Podolny, 1999; Uzzi and Lancaster, 2004). We created a status index composed of two measures: the first was obtained by asking an industry expert to rank Champagne companies according to their level of prestige. The second measure consists of an official ranking of Champagne companies by the *Revue des Vins de France*, a leading publication for wine connoisseurs in France. The expert ranking was highly correlated with this official ranking (correlation = 0.76). We mean-centered each measure and took its average, although using the variables independently led to nearly identical results.

Another control variable added was the *size of the growing area* of the village in which the house is located. As part of the AOC framework, the vineyard area is legally delimited in Champagne; each village is associated with a clearly defined growing area. For example, the village of Ay features a growing area of about 350 hectares. We had no particular expectations regarding the direction of the effect of this variable. On the one hand, one might expect that larger growing areas are associated with higher local supply, which could suppress prices. However, it was also suggested to us that houses located in areas with little local supply are used to sourcing grapes from more distant areas, which enables them to obtain them for a relatively good price, whereas houses located in larger growing areas are more inclined to source their grapes locally, where there may be high demand and correspondingly

high prices. This variable is time-variant because growing areas were sometimes revised during our period of observation. For example, the growing area in Ay was 356 hectares in 1998 (the beginning of our sample period) and 354 hectares in 2007 (the end of our sample period).

We also controlled for *grape quality*, which represented the average quality of the grapes purchased by a particular house in a given year. This is reported by each of the houses and is measured according to the “Echelle des Crus”; an official scale ranging from 80 to 100 used to measure the quality of grapes depending on their origin. Although, according to our interviewees, grape-quality differences within Champagne are thought to be minor and to have relatively little influence, if any, on their price, we expect houses that purchase higher quality grapes to pay higher prices. Finally, since the harvest and year of sale may affect the price of grapes, we included dummy variables for each *year* in all of our models.

Modeling Approach

To account for changes in prices across firms and over time, we used panel-data estimation methods. First, we used a random-effect specification, which takes into account the individual-level differences between firms over time periods and captures the heterogeneity in the error term. A Hausman test rejected the null hypothesis that there is a significant difference in the coefficients of our random-effect specification and a fixed-effect specification (prob. $> \chi^2 = .1774$). We also tested the assumption that the individual random component is zero: the χ^2 test we obtained in the sample was 98.28 (with one degree of freedom). This test rejects the null hypothesis (Castilla, 2007), supporting the use of random effects. The random-effects model can be expressed as follows:

$$Price_{it} = \alpha + \beta \cdot x_{it} + u_i + \varepsilon_{it}$$

$$with Cov(x_{it}, u_i) = 0$$

where $Price_{it}$ represents the price paid by firm i at time t , x_{it} is a set of covariates, and the error term is split between the firm-year component ε_{it} and the pure firm component u_i .

However, we also wanted to see how our results would hold when taking into account fixed effects for firms. Yet, since some of our independent variables are time-invariant, or do not change for all the observed houses throughout the sample period, simple fixed-effects regressions would systematically drop such observations from the analysis, potentially creating an unacceptable bias. Therefore, we performed two sets of further analyses. First, given that some of our independent variables are time-variant, we followed Mundlak (1978) and ran a random-effects model that inserts additional instrumental variables that are time-invariant. These are the firm-specific averages of the time-varying regressors. Teasing out the firm-specific variance caused by the time-varying regressors, these instruments are intended to replicate the “within” transformation of classic fixed-effects estimation with a random-effects design. The model can be expressed by the following equation:

$$Price_{it} = \alpha_{it} + \beta_1 \cdot x_{it} + \beta_2 \cdot \bar{x}_i + \mu \cdot z_i + \varepsilon_{it} + \eta_i$$

where x_{it} is a set of time-varying covariates, z_i are a set of time-invariant covariates, and \bar{x}_i are the Mundlak instruments. The error term is split between the firm-year component ε_{it} and the pure firm component η_i . This one-step estimation model allowed us to take into account the individual-level differences between firms over time periods and to capture the heterogeneity in the error term.

Third, following Reitzig and Puranam (2009), we estimated a two-stage model that can be expressed with the following equations:

$$Price_{it} = \alpha_{it} + \beta_1 \cdot x_{it} + \varepsilon_{it} + \eta_i \text{ (Stage 1)}$$

$$\hat{\eta}_i = const_i + \gamma \cdot z_i + controls_i + \mu_i \text{ (Stage 2)}$$

In the first stage, we estimated a fixed-effects model, which allowed us to predict the pure firm component of the error term η_i . To address potential issues of heteroskedasticity, we used robust variance estimators. In the second stage, we regressed this firm-specific error $\hat{\eta}_i$ on the time-invariant regressors. This method allowed us to tease out the firm-specific error and explain the variance of these errors across different firms (i.e., fixed effects) as a function of the independent variables. The estimates obtained in the second stage are unbiased in the sense that they do not spuriously capture other elements of unobserved heterogeneity at the firm level (Reitzig and Puranam, 2009). These models partial out fixed effects and therefore all unobserved time-invariant firm heterogeneity. We report the results of all three estimation methods in the text and table below.

RESULTS

Table 3 presents descriptive statistics and correlations for all the variables. Note that these statistics and correlations are based on both within- and across-year comparisons. Hence, the large variance in price is partly also determined by price differences between years (rather than merely between houses), depending on whether the harvest in a particular year was good or bad.¹⁹ A few of the correlations are quite high ($>.50$), but this is to be expected in longitudinal data. Notably, this only concerns some of the control variables, so it could not lead to biased estimates on our predictors (Wooldridge, 2003). Nevertheless, we computed variance-inflation factors (VIFs) for all the variables in the full model, and the average VIF was 1.72 with a maximum of 2.95, which, without exception, is well below the standard cut-off rate of 10 used in the literature (Greene, 2003).²⁰ Hence, multicollinearity is not an issue in our models.

----- Please insert table 3 about here -----

The results of our regression analyses are displayed in table 4. The first hypothesis predicted that houses that supplied Champagne for supermarket brands would be charged higher prices for their grapes. All three model specifications support this hypothesis. The random-effects model, as displayed in the column labeled model 2, shows that a house that supplies one supermarket brand pays almost 1.55 euros more per kilogram of grapes than a house that supplies no supermarket brands. Furthermore, the fixed-effects estimator in the two-stage model displays an even higher value, which suggests that a house that starts to supply a supermarket brand, where previously it did not, pays almost 3 euros more for grapes than it did before.

----- Please insert table 4 about here -----

Hypothesis 2 predicted that houses that opened winemaking subsidiaries abroad would be charged higher prices for their grapes. This hypothesis is supported in all three model specifications. According to the random-effects model, houses that operate a subsidiary abroad pay about 1.45 euros more for a kilogram of grapes. When we take into account and tease out fixed effects—in the Mundlak and two-stage specifications—the results remain strong. Houses that open a subsidiary abroad face a price increase of about 1.40 to 1.50 euros per kilogram.

Our third hypothesis specified that houses that acquire vineyards will be charged higher prices. Again, this hypothesis is supported across all three model specifications. According to model 2, houses that acquired one hectare of vineyard during our sample period pay 3 eurocents more for a kilogram of grapes. Note that in our sample the average vineyard acquisition is about 12 hectares, which corresponds to a higher price per kilogram of about 36 eurocents compared with houses that acquire no vineyards. The within-house effects, estimated in

models 4 and 6, amount to an increase of about 4.5 eurocents per kilogram for each hectare acquired by a particular house.

Hypothesis 4 predicted that houses run by a CEO who is a direct descendant of the founder, that is, a family CEO, would be charged lower prices for their grapes. In the random-effects model, the coefficient on this variable is in the expected direction but not statistically significant. The coefficient itself is substantial—it suggests that houses with a family CEO pay 85 eurocents less for a kilogram of grapes—but due to a high variance is not statistically significant. However, the estimates in the Mundlak and two-stage models, which tease out fixed effects for houses, are statistically significant, thus supporting our prediction. These models estimate the effect of a family CEO to be no less than 3 euros per kilogram of grapes. Since these models concern within-house comparisons, this result suggests that it is the houses that are run by a family CEO but then switch to a non-family CEO during our sample period that are especially confronted with a large increase in price. Hence, the negative effect on price of having a non-family CEO appears to be especially driven by houses that abandon family management during our sample period.²¹

Hypothesis 5 predicted that houses located in traditional Champagne villages—villages with a high density of houses—would be charged lower prices for their grapes. This hypothesis is again supported. The random-effects and Mundlak models indicate that houses in villages with a relatively high density (1 SD above the mean) pay about 1.20 euros less per kilogram for their grapes than houses located in a village with relatively low density (1 SD below the mean). The results are even stronger for the two-stage model, which suggests that this price difference equals about 2.23 euros. Note that because the location of houses is time-invariant (no houses in the sample switched location), in the two-stage model we added this variable to the second-stage estimation. However, because the number of inhabitants may vary a little

over time, technically this variable is somewhat time-variant. This may explain the discrepancy between the Mundlak and two-stage estimators.

The newcomer variable, used to test hypothesis 6, is positive as predicted and statistically significant. This suggests that the houses that had entered into the industry later were charged higher prices for their grapes, about 10 eurocents more per kilogram for each year that they entered after 1960, according to the random-effects estimations. The variable is not statistically significant when we take into account fixed effects in the two-stage estimation, where we entered it as a fixed variable (because the founding year of a house is fixed). This suggests that the variance exists between houses, rather than within the different observations of the same house over time. Put differently, it matters whether you are an old or a young house in our sample, but we do not observe an aging effect when we compare the price a house pays for grapes at the beginning of our observation period with the prices it pays at the end of our observation period. This makes sense because the old-timers among the houses are often centuries old, so that the advancement in number of years over our sample period (1998–2007) is comparatively small; a house considered a newcomer in 1998 would still be a newcomer in 2007.

Having said that, the way we measured the variable—as the number of years since 1960—also makes it somewhat unsuitable for both the Mundlak and our two-stage estimation. That is because the variable is time-invariant for houses established before 1960 (they were assigned the value 0) but time-variant for houses founded after 1960. This may also explain the discrepancy in estimates between the Mundlak and two-stage estimations. Moreover, we performed sensitivity analysis using a different cut-off point to compute our lateness-of-entry variable, namely 1926 (the year the region received its formal AOC recognition) instead of 1960. These results were insignificant. Similarly, using log age as an alternative predictor also yielded insignificant results. Therefore, this hypothesis receives only tentative support.

Our last hypothesis specified that houses that were part of a larger, perhaps listed corporation would be charged higher prices for their grapes. This hypothesis is supported, insofar as it concerns the comparison between independent houses and houses that are part of a corporation. All three model specifications displayed a positive and significant coefficient for houses that are part of a corporate group, suggesting that they are charged between 4.68 and 5.89 euros extra for each kilogram of grapes they purchase.²² The estimate on the variable that indicates whether a firm is listed or not is significant only in the two-stage model. Therefore, this part of the prediction receives only minimal support. To conclude, growers charge substantially higher prices to houses that are part of a corporate group, regardless of whether it is listed.

DISCUSSION AND CONCLUSION

Our findings indicate that in Champagne, grape suppliers charged lower prices to those buyers who conformed to the traditional identity of the category. Price advantages were awarded to buyers, that is, to Champagne houses, who did not engage in actions that threaten the economic interests of the region as a whole, for instance by lowering the uniqueness and distinctiveness of the Champagne brand in general. Supplying supermarket brands or operating winemaking subsidiaries abroad was seen in this light, and hence associated with higher prices. Houses that acquired vineyards of their own inside Champagne were also charged higher prices. While vineyard acquisition does not threaten the brand and economic interests of Champagne as a whole, it does threaten the economic interests of the growers by shifting the existing role structure within the industry. Yet, houses that were no longer family-run, or that were relative newcomers to the industry, part of a larger corporate group, or not located in a traditional Champagne village, also encountered higher prices. Such characteristics may not challenge the economic interest of Champagne or of the growers, but

they do represent deviations from the traditional identity in the category. Thus, we establish market price as a distinct mechanism through which actors in a category respond to identity threats posed by others operating within the category.

Organizations that threaten a category's identity may be charged higher prices because this acts as a deterrent, an attempt by suppliers to repress deviations from the category's identity and to reinforce the status quo. This view is in line with the literature on norm enforcement and responses to identity threats. Empirical studies have confirmed how the norms and reactions of market participants discipline producers, specifically how non-traditional forms are discounted (Zuckerman, 1999; Carroll and Swaminathan, 2000; Rao, Monin, and Durand, 2003; Zuckerman and Kim, 2003; Hsu, 2006; Ruef and Patterson, 2009). Our findings suggest that participants' attempts to reaffirm the status quo can also influence the determination of price. The threats of economic penalties serve to pressure producers to reproduce the existing structure of the market. Some argue that the very function of markets is first and foremost to promote stability (Fligstein, 1990), aimed at repressing behaviors that undermine the existing order (Fligstein, 1996). Market prices may therefore be a mechanism through which actors try to reinforce the existing structure of a category.

Spontaneous, Bottom-Up Norm Enforcement

The belief that actors may be willing to sanction violators has been described as essential for the enforcement of social norms (Bicchieri, 2006). Interestingly, in our setting, we found no indication that in Champagne the price-setting was organized or even propagated by some overarching institution, such as a trade organization or union, or even by a social norm that one should charge non-traditional houses higher prices. In our many lengthy and anonymous interviews with growers, houses, and knowledgeable industry outsiders, no one suggested anything that led us to believe that it was anything other than a spontaneous, bottom-up process. In fact, most of our interviewees seemed unaware that this form of price

discrimination was going on in the industry. Many believed prices to be homogeneous across houses; some growers indicated that although they themselves engaged in price discrimination they believed others did not, whereas a third contingent seemed aware of price discrimination but “chose not to know” (see table 5 for sample quotes), considering it a private issue. Hence, that houses that threaten the category’s identity are charged higher prices is not common knowledge in Champagne.

----- Please insert table 5 about here -----

This does suggest a more nuanced view of why—at least in our setting—supplying organizations charge higher prices to firms that are not in conformity with their category’s identity. Higher pricing may be a reaction to an identity threat and may even deter others from engaging in the behavior; however, the individual growers may not have consciously initiated it for this reason. Our qualitative evidence suggests (see table 1) that identity threats trigger emotion (Albert, 1998), which stimulates organizations to charge higher prices to violators—something they perhaps might also have done if charging higher prices were known to be ineffective as a deterrent. Thus, the growers’ reaction seems to be based on “affect,” reflecting the subjective value function of identities and categories (Tajfel, 1982).²³

Growers seem to like some houses better than others—houses that conform to the traditional image of the category—and therefore give them better prices. Prior work has also established that individuals sometimes just do not like doing business with particular others (Becker, 1971). For example, they may be willing to incur costs in order to avoid dealing with actors who do not share their identity (Bernhard, Fehr, and Fischbacher, 2006; Goette, Huffman, and Meier, 2006). Hence—although arguably somewhat speculative—we believe that firms’ price-setting behavior may also be influenced by this type of affect-based reaction. This idea mirrors Rao, Davis, and Ward’s (2000: 274) conclusion that when faced with an identity

threat, firms' move from the NASDAQ to the NYSE was a "visceral rather than intellectual decision." Similarly, in other industries where identity threats were documented (Porac, Thomas, and Baden-Fuller, 1989; Rao, Monin, and Durand, 2005); other firms' reactions to violators in terms of ridiculing, ostracizing, or the termination of exchange relationships may initially also have been triggered, at the level of the individual firm, by affect. Collectively, this behavior may culminate in norm enforcement that deters further violations. Thus, the insights derived from this study lead us to conjecture that norm-enforcement behavior—including price-setting—may be a spontaneous, bottom-up process based on affect.²⁴

In addition, it is important to note that, in our setting, there are real costs associated with the seller's price-setting behavior; they gave substantial price advantages to houses that conformed to the category's traditional identity, whereas they undoubtedly could have sold these grapes for much higher prices.²⁵ Hence, it seems unlikely that the costs incurred by an individual grower in order to give substantial price advantages to houses with a traditional identity are outweighed by the direct, individual economic benefits it might derive from discouraging houses to engage in actions that may threaten their interests (such as setting up subsidiaries abroad, supplying supermarket brands, and acquiring vineyards). Individual growers are very small relative to houses; the influence of an individual grower seems negligible, but the costs they incur are not. Writing on the topic of norm enforcement, Bernhard and colleagues (2006) suggested that people are willing to incur costs that outweigh their individual benefits for the greater good of their identity category. This is similar to what we observed in the Champagne industry. When faced with identity threats, organizations are sometimes willing to incur costs in order to defend their category's identity, although the economic benefits of such enforcement behavior do not outweigh its costs. This observation strengthens the proposition that identity processes explain what could be perceived as

“irrational behavior” (Albert and Whetten, 1985) or “bad choices” (Akerlof and Kranton, 2010: 122).

Contributions to Extant Literature

This study’s primary contributions are to the literature on identity threats in categories, specifically how category members respond to violators from within their own category. Prior research has documented practices such as ridiculing and social ostracizing. In addition to social sanctions (Homans, 1951; Portes and Sensenbrenner, 1993; Carroll and Swaminathan, 2000; Rao, Morrill, and Zald, 2000), the termination of relationships is typically mentioned as a response to identity threats: rejection of a norm often leads to the cessation of relationships and refusal of future economic exchange (Ellickson, 1991; Ingram and Silverman, 2002). Our results contribute to the literature on identity threats by showing that firms may respond to deviant behavior through price discrimination. Interestingly, examining a sample of transaction-level data (for triangulation purposes), we observed few instances of switching in the industry, that is, growers terminating a relationship with a particular house in order to move to another buyer. This observation was widely confirmed by our interviewees. Apparently, in spite of identity violations, growers seldom terminate relationships; instead, the practice of price discrimination seems much more prevalent, suggesting that price-setting may be a heretofore overlooked but key response to identity threats.

Our study also contributes to the literature on identity threats in categories by means of the type of threats it studies. Past research has usually focused on actions perceived as identity threats because they change the primary output product of the category: nouvelle versus classical cuisine in French gastronomy (Rao, Monin, and Durand, 2005); modern techniques in Italian winemaking (Negro, Hannan, and Rao, 2011), different product types in Scottish knitwear (Porac, Thomas, and Baden-Fuller, 1989), and so forth. In our study, the product and production process of Champagne may remain the same, but houses depart from the existing

identity of the category by opening different distribution channels (e.g., supermarket brands), or management practices (e.g., corporate ownership, non-family management), or by altering the division of roles within the category (e.g., vertical integration). These types of identity threat have received little attention in the literature so far but, as suggested by the size of the effects we documented, can trigger strong responses, too. These effects imply that a collective identity is permeated by a moral view about what it means to be a category member (Negro, Hannan, and Rao, 2011); challenges to core attributes such as values, culture, mode of performance, and standing relative to other categories may also be perceived as threats (Elsbach and Kramer, 1996).

Our study makes a more secondary contribution, to the literature on self-regulation through private institutions, whereby firms in an industry create and abide by a set of social norms (King and Lenox, 2000; Lenox, 2006). Private institutions, defined as social norms with their enforcement mechanisms, facilitate the attainment of collective ends by constraining firm actions perceived as harmful to the industry as a whole (Ingram and Clay, 2000). Our study highlights a material sanction, price discrimination, that deters members from acting “out of character” (Whetten, 2006). We thus document a form of decentralized norm enforcement, something that has been “widely ignored until recently, no doubt because they [the decentralized institutions] are much less visible than centralized organizations” (Ingram and Clay, 2000: 536). Whereas centralized institutions typically rely on third-party enforcement, decentralized institutions can employ second-party enforcement (Ingram and Clay, 2000). Our findings confirm the relevance of looking beyond centralized norm enforcement: they suggest that self-regulation in Champagne may also be sustained through economic sanctions inflicted by individual industry members themselves.

Another stream of research that our study contributes to is the literature on the social construction of markets. While economists have identified a variety of market and

organizational factors affecting prices, few have looked at the influence of identity.²⁶

Challenging the premise of economic price theory, sociologists have long argued that prices are the outcome not only of individual preferences but also of social and political forces (e.g., Granovetter, 1985; Fligstein, 1996; Uzzi and Lancaster, 2004). A number of studies show that prices result from the embeddedness of market transactions in institutions, social networks, and cultural meaning; “what the[se] studies share is the assumption that prices do not mysteriously emerge from the market but result from the established rules of the game that producers tacitly obey” (Becker, 1971: 3). In Champagne, we find that identity—and buyers’ deviation from their category’s identity—plays a major role in the price different actors pay for the same good. We thus propose that identity is one of the social forces that form the preferences of actors, shape supply and demand, and influence market prices.

Limitations and Future Research

Naturally, our study also suffers from some limitations, which at the same time open up some exciting areas for further research. First, our study documents the response of suppliers (i.e., growers) to identity threats posed by buyers (i.e., houses) in the form of price discrimination, but it does not reveal to what extent this reaction is effective. Examining whether houses are inclined to abstain from engaging in some actions because of these price sanctions would clearly require a very different research design and data from ours, but it could lead to further important insights in terms of responses to identity threats. Furthermore, our study does not directly compare different enforcement mechanisms; for instance, studies comparing price discrimination with the termination of relationships and with social punishment would clearly add to our understanding of the topic.

Another limitation of our study is that we exclusively examine characteristics of the buyers in our sample, who therefore also form our unit of analysis. We document how actions and features of Champagne houses trigger price discrimination but do not take into account

supplier (i.e., grower) characteristics. Yet, different suppliers could potentially respond differently to the same type of identity threat. Moreover, examining dyadic relationships between particular buyers and suppliers (e.g., the duration of their relationship) may lead to additional interesting insights. Future studies that take into account characteristics of both buyers and suppliers would shed greater light on the processes involved with identity threats.

Finally, obviously, the generalizability of our results could not be assessed directly in this study. We chose the Champagne industry for our research setting because several of its idiosyncratic characteristics (for instance the separation between buyers and suppliers, the homogeneity of the product, the strong identity of the category, the precise delimitation of the area and research population, and so on) made it an ideal and controlled testing ground for our ideas. At the same time, these characteristics also make it hard to judge the study's generalizability. We are convinced that price is an important and under-researched mechanism in response to identity threats, and that prices charged are often influenced by the buyer's identity in all sorts of industries and settings, but future research examining this mechanism across different settings should enhance our understanding of how markets and identities are shaped and interact

NOTES

¹ Comité Interprofessionnel des Vins de Champagne. The CIVC encompasses two trade associations: the houses' (UMC: Union des maisons de Champagne) and the growers' (SGV: Syndicat General des Vignerons).

² For example, the director of the Champagne business of Moët-Hennessy—although generally seen as the most powerful group within Champagne—commented, “Who holds the power when Champagne demand is strong? The growers do” (Passariello, 2008).

³ There are currently talks about a “revision” of the delimited area that can be used for growing Champagne grapes. However, most agree that this will not solve the grape shortage in the longer term. One interviewee commented, “It’s like putting a plaster on a wound.”

⁴ France is already the world’s largest exporter of wine in value, but the Champagne region represents no less than a third of all exports (2.3 billion euros in 2007), while it covers only 4 percent of the French vineyard area. It sold 339 million bottles in 2007 (some 46 million more than in 1998) and exports have grown 116 percent in value since 1998 (twice as fast as the other French wine categories).

⁵ Growers do not publish their margins, but what is known is that for those Champagne houses that own their own vineyards, the production cost of a kilogram of grapes from a hectare of self-owned vineyards is almost two times less expensive than the cost of buying the grapes from a vine grower. Hence, assuming growers are approximately equally efficient in terms of vineyard exploitation, their margins will equal about 100 percent.

⁶ We triangulated this information using two completely independent databases: the one used in this paper, and a database that comprised the contracts for 8,920 individual transactions over the period 1992–2009. This concerned a sample of transactions in the industry during that period. We gained access to this sample because it concerned all the contracts drawn up by one particular agency, who gave us confidential access to their database.

⁷ We used our confidential data on 8,920 transactions over the period 1992–2009.

⁸ This is how Champagne is described both formally and informally by industry members. For example, this sentence is often used in communications by the Champagne trade association

⁹ The legal protection of the collective identity is guarded fiercely in Champagne. For example, at present, the Champagne trade association includes a department whose sole role consists of taking legal actions against companies (and sometimes countries) that use the appellation for products other than Champagne.

¹⁰ This is not a newly contested action. In 1962, the magazine *La Champagne Viticole* had already published the following: “Some may say it’s a private matter. But in our region, brand names are so intimately related to the [Champagne] appellation that they are of concern to all. Even if a brand is a purely private good, these [subsidiaries] are abusive because the prestige they are benefiting from only exists because the brand is associated with our region. So it is not acceptable for a brand to unilaterally sever this association for its own benefit or to the detriment of the region [...] We cannot agree with a Champagne house that associates its name (or a very similar name) and its technical expertise with another wine that unduly claims our appellation.”

¹¹ This too is not a newly contested action. As far back as 1952, the co-president of the Champagne trade association drew “public attention to [houses’] attempts at monopolizing vineyard land” (SGV, 1952).

¹² Patrick Lebrun, president of the growers’ association, at the 2006 general meeting of the AVC.

¹³ James Clément, president of the Vallée de la Marne coop union, at the 2007 general meeting of the AVC.

¹⁴ Many of the respondents we interviewed frowned on firms that challenge the existing role structure of the Champagne identity. Some even claimed that this practice is also detrimental to the quality of the end product and therefore threatens the economic interests of the category as a whole. As the CEO of a Champagne house explained, “When you see these houses that own vineyards and when you see in what shape these vineyards are... Let the growers grow vines. They grow vine, we make the wine, that’s how it works.”

¹⁵ Location is therefore somewhat related to time of entry within the industry. For instance, a grower we interviewed said that newcomers today “cannot expand in the traditional villages. It would have to be north of here [...] in regions where there are no vines, no tradition of vines.” In our models, we control for the time of entry into the industry.

¹⁶ Growers have also remained relatively small, independent, and honoring traditions. Official records indicate that in 1882 there were 20,000 grape growers in Champagne, most of whom owned less than 1 hectare. This has not changed dramatically: today, the region features about 15,000 growers with, on average, estates of about 2 hectares. Compared with other French wine regions, the average Champagne estate has remained relatively small (about 2 hectares vs. a national average of 7 hectares). The growers’ sociological profile remains fairly homogeneous: most of them are in the 50–65 age bracket and have been involved in grape growing for several generations. Their focus is primarily on land and cultivation (Charters and Menival 2008). One grower commented, “I am of grower stock, I’m the fourth generation [...] our profession is fascinating. It involves observing nature, traditions [...]”

¹⁷ This system was officially abandoned in 1989 to comply with EU regulations. However, some observers argue that a complete liberalization took several years longer to really take effect (Gaucher, Giraud-Héraud, and Tanguy, 2005). traditions

¹⁸ By purchase cost, we refer to a firm's annual expenditures on raw material—not to stocks—which consists largely of grapes.

¹⁹ The year with the lowest average price was 2004, with a mean price of 6.60 euros (SD = 4.80), and the highest year was 1998, with a mean price of 14.30 euros (SD = 10.80). The year 1998 was exceptional because it concerned the harvest used for Champagne sold in late 1999—just before the new millennium, when the price of Champagne was expected to soar.

²⁰ Although in the literature a cut-off rate of 10 has emerged, Greene—often cited with respect to VIFs—recommends a cut-off rate of 20.

²¹ In theory, the effect could also be driven by houses that switch from a non-family CEO to a family CEO, but that event only occurred once during our sample period.

²² In the two-stage model we had to add the variable to the second stage, because in the entire sample only 7 houses had switched from being independent to being part of a corporation, and none had switched the other way, making the variable basically time-invariant; likewise for the variable listed. Therefore, these estimates are between-firm, rather than within-firm, comparisons.

²³ This description is consistent with the origins of the identity construct, which was based on observations of affect-based reactions in a university setting, as described by Albert (1998), who recalls seeing “the moral indignation” at a dean's leaving academia for the private sector.

²⁴ The idea that growers initiate higher prices for houses that do not conform to the category's traditional identity based on affect gains some ground if one realizes that the prices for grapes are largely kept secret in this industry. Pricing in Champagne is not very transparent because of a tradition of secrecy, and because total prices are allocated via a relatively complex system of various discounts and markups. However, if pricing were used consciously to deter houses from engaging in certain practices, or even to deter new, non-traditional entrants, it would make sense to publicize much more that these pricing disadvantages exist.

²⁵ As we earlier quoted an industry insider saying, “all that is required to sell unallocated Champagne grapes is a 30-second telephone call. They'll be bought, unseen with gratitude and alacrity.”

²⁶ In general, economists have not paid much attention to identity, but for exceptions see, for instance, Akerlof and Kranton (2010) or Bowles and Gintis (2004).

TABLES

Table 1

Sample Quotes Concerning Identity Threats in Champagne

<p>Supermarket brands</p> <p>“It [supermarket brands] devaluates the product with prices that are not worthy of Champagne!” (a grower)</p> <p>“Anyway, supermarket chains are a public enemy for brands. And for luxury products. I’ve always said so. They’re image thieves; that will never change.” (a grower)</p> <p>“There is a risk for the image of Champagne. It’s the image of the product that’s devaluated [with] these low-priced Champagne released by supermarkets.” (a grower)</p> <p>“We’ll never create value with supermarket brands. Never. It will make a few people rich, some businessmen...they extract some value from it but they don’t share it [...] It’s not something I would facilitate. It’s not the right path for Champagne.” (an industry representative)</p> <p>“Supermarket brands...Please, I don’t want to become rude!” (a grower)</p>	<p>Foreign wine-making subsidiaries</p> <p>”I think it’s dreadful when our own people, our own Champagne companies, go to other countries and set up production facilities for sparkling wine in these countries that is going to compete with Champagne.” (a grower, annual industry meeting, 2008)</p> <p>“Come on, <i>Moët & Chandon</i> and <i>Chandon [Napa]</i>? It’s really, really similar, right?” (a CEO of a Champagne house)</p> <p>“These products are dangerous, they’re competitors [...] I visited the facilities of [a Champagne producer] in Argentina... One must be realistic, it’s quite good. It will be very competitive. From a qualitative standpoint, they’re able to do nice things, it’s undeniable.” (a grower)</p> <p>“You can either [buy] more resources here in Champagne [...] or you can take your expertise and money elsewhere and develop something else [...] You have 15,000 people integrated in the production of Champagne and who are not happy...If you don’t have them on board, what are the consequences going to be?” (an industry expert)</p>
---	---

Vineyard acquisitions	<p>“What’s really at stake is the expropriation of growers by Champagne companies.” (the president of the growers’ association in Les Echos, <i>L’année de Presque tous les Records</i>, December 22 2004)</p> <p>“What’s problematic is the house that [...] schemes to buy vineyards at prices we couldn’t match.” (a grower)</p> <p>“We are two families, the growers on the one hand and the houses on the other hand. That’s how we’ve maintained the region’s balance and success [...] We tell the growers: keep your vineyards, it has been with you for generations, you know your job inside out – we’ll take care of making a wine worth your efforts.” (a CEO of a house)</p>
Family CEO	<p>“Family firms that keep the family spirit, the spirit of Champagne, that’s what matters.” (a grower)</p> <p>“If you are a family business in the region, your overriding aim is the development and maintenance of your family business but within the context of a successful Champagne region.” (an industry expert)</p> <p>“Yes, it is obvious there is an advantage [in being the founder’s descendant]. For supply relations, there’s a significant advantage: a perceived stability for growers. They know I’m here for at least 30 years; my words are worth a contract. They see a leading figure at the head of the firm, someone who knows Champagne and who’s <i>Champenois</i>, that’s a clear advantage.” (a CEO of a house)</p> <p>“Champagne as a framework depends on complex interactions, both social and economic. Outside managers may not understand how these relationships work.” (an industry insider)</p>
Traditional village	<p>“I mean, come on! In some places, there have never even been any vines! Any tradition of wine.” (a grower)</p> <p>“They cannot expand in the traditional villages. It would have to be north of here [...] in regions where there are no vines, no tradition of vines.” (a grower)</p> <p>“We’re in an ancient Champenois village in the Mountain of Reims; it dates to the 8th century [...] It’s a traditional village, one of the most beautiful villages in the Champagne region. Our vineyards are renowned, they’re listed among the first Champagne vintages.” (a CEO of a house)</p>

<p>Newcomers</p>	<p>“The fairly senior players in mid-sized houses are still maintaining the “we have two families, we are the houses and with the growers, we all work together [...]” (an industry expert)</p> <p>“It’s a very beautiful house. It belongs to the history of Champagne.” (a CEO of a house)</p> <p>“This is a beautiful firm. They have a history, a great legacy. It has taken them time and efforts to build the brand...a colossal amount of work. They have little to learn from anyone in the industry! I respect that.” (a grower)</p> <p>“Some of these firms, they come and go. Who knows for how long they’re here, where they’ll be in 5 or 10 years? They would leave tomorrow if they stopped making money. They don’t care about Champagne.” (a grower)</p>
<p>Corporate, listed groups</p>	<p>“These groups, they do not contribute anything to the profession. They’re just interested in money.” (a grower)</p> <p>“A guy like Bernard Arnaud [CEO of LVMH, a large French conglomerate], I hate him. I hate this guy. I hate all these financiers. He doesn’t give a damn about us or about Champagne. Tomorrow, he’s sell everything if he stops making money.” (a grower)</p> <p>“M. Arnaud his fate is not tied to that of Champagne. If he gets a nice offer, he’s capable of letting go of this [Champagne] business. Actually, there have been some discussions over the last two years, we know there is some movement [...] There are houses that belong to large groups, to institutional investors, things like that. These houses, they may be beautiful structures, and they may belong to Champagne’s heritage but who knows what will happen in 1, 5 or 10 years depending on what the owners decide to do. We have no idea.” (a growers’ representative)</p> <p>“These large financial groups, they do not share a collective vision... that’s what happens as soon as shareholders come into the picture.” (a growers’ representative)</p> <p>“Can Champagne houses still envision Champagne in the mid to long term or do they plan on keeping their eyes fixed on the CAC 40 and on their cash ratios?” (Patrick Le Brun, president of the growers’ association in La Champagne Viticole, October 19 2009)</p>

Table 2

Overview of Respondents Interviewed

Number of informants	Affiliation
3	Heads of Champagne industry associations (CIVC, UMC and SGV)
12	Industry experts
14	Grape growers
14	CEOs of Champagne houses

* Two industry experts and the head of the UMC were interviewed twice.

** Industry experts include Masters of Wine (MW), a scholar from the Champagne Management Chair – Reims Business School, a UBS analyst for European Luxury Goods, the managing director of the Champagne Bureau in the UK, Champagne agents, oenologists and the former head of UMC

Table 3

Descriptive Statistics and Correlations (N=636)										
Variable	Mean	S.D.	1	2	3	4	5	6	7	
1. Price	8.96	7.16								
2. Supermarket brands	0.17	0.40	0.11							
3. Foreign subsidiaries	0.03	0.28	0.05	0.15						
4. Vineyards acquired	12.10	46.07	0.03	0.07	0.29					
5. Family CEO	0.43	0.49	-0.15	0.00	-0.13	-0.17				
6. Traditional village	0.26	0.55	-0.11	-0.07	-0.06	0.02	0.04			
7. Newcomer	4.22	9.20	0.12	0.03	0.04	-0.04	-0.01	0.17		
8. Corporate group	0.56	0.50	0.22	0.13	0.08	0.17	-0.45	-0.24	-0.20	
9. Listed	27.10	50.07	0.06	0.04	0.18	0.18	-0.41	-0.14	-0.19	
10. Volumes	2.70	1.78	0.00	0.20	0.35	0.73	-0.21	-0.05	-0.14	
11. Vineyards owned	4.55	6.08	0.04	0.01	0.20	0.39	-0.01	0.05	-0.01	
12. Roa	0.03	0.94	-0.04	-0.06	0.15	0.18	0.01	-0.07	-0.08	
13. Status	0.35	0.48	0.02	-0.25	0.00	0.06	-0.08	-0.13	-0.34	
14. Grape quality	90.76	5.76	0.04	-0.12	0.03	-0.01	-0.09	0.01	-0.21	
15. Growing area size	215.07	140.85	-0.04	-0.05	-0.18	-0.03	0.24	0.17	0.16	
Variable	8	9	10	11	12	13	14	15		
9. Listed	0.55									
10. Volumes	0.33	0.34								
11. Vineyards owned	0.06	0.11	0.38							
12. Roa	0.25	0.23	0.26	0.30						
13. Status	0.34	0.24	0.09	0.35	0.32					
14. Grape quality	0.28	0.25	0.03	0.07	0.12	0.56				
15. Growing area size	-0.40	-0.40	-0.19	-0.09	-0.15	-0.14	-0.11			

Table 4

Panel Regressions Predicting Price*						
Variable	Random-effects regressions		Panel regressions following Mundlak		Two stage residual estimation	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Supermarket brands		2.240 • (1.064)		1.791 • (1.100)	4.107 • (1.680)	
Foreign subsidiaries		1.454 • (0.749)		1.492 • (0.695)	1.391 • (2.040)	
Vineyards acquired		0.030 ••• (0.009)		0.042 ••• (0.012)	0.045 ••• (3.640)	
Family CEO		-0.845 (0.917)		-3.020 • (1.764)	-3.177 • (-1.690)	
Traditional village		-1.099 • (0.671)		-1.097 • (0.677)		-2.229 ••• (0.677)
Newcomer		0.104 •• (0.044)		0.114 •• (0.042)		0.043 (0.085)
Corporate group		5.056 ••• (1.664)		4.675 •• (1.678)		5.896 •• (2.493)
Listed		-1.151 (1.239)		-1.580 (1.162)		7.667 •• (2.688)
Volumes	-0.002 (0.008)	-0.039 ••• (0.010)	-0.074 (0.086)	-0.125 † (0.073)	-0.136 (-1.880)	
Vineyards owned	0.164 (0.604)	0.300 (0.500)	-0.071 (1.287)	0.073 (1.159)	-0.298 (-0.230)	
Roa	-0.135 (0.086)	-0.138 † (0.077)	-0.162 † (0.091)	-0.143 (0.088)	-0.146 (-1.580)	
Status	0.385 (0.919)	0.202 (0.901)	-0.022 (0.874)	0.065 (0.866)		2.827 •• (1.194)
Grape quality	-0.005 (0.129)	-0.019 (0.102)	-0.566 (0.620)	-0.617 (0.529)	-0.697 (-1.170)	
Growing area size	0.000 (0.004)	0.004 (0.004)	0.046 •• (0.016)	0.046 •• (0.017)	0.043 •• (2.770)	
Constant	15.61 (11.718)	14.40 (9.001)	10.83 (12.150)	11.02 (8.948)	74.58 (53.803)	-6.14 ••• (1.802)
Year dummies	YES	YES	YES	YES	YES	
N	636	636	636	636	636	64
Wald chi2 (d.f)	68.47(15)	186.76(23)	167.23(20)	256.73(32)		
F(d.f)					F(18,63)	F(5,63)
Prob	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

••• p<.001 •• p<.01 • p<.05 † p<.10, significance tests are one-tailed for predictors; two-tailed for controls

* Heteroskedasticity-consistent robust standard errors are in parentheses, clustered by firm

Table 5

Beliefs about Price-setting in Champagne

Prices-setting is confidential and not transparent

“There may be some variations...I don’t know all these figures. I’m not interested in this, it’s not my job. In the same village, I think prices are quite homogeneous [...] It’s hard to know because these are secret things. I don’t know how much my neighbour gets. These things are confidential.”

“It’s impossible to know the real price. There are a lot of hidden premiums, this has always existed but it has become very large.”

Belief that prices are homogeneous

“I’d be surprised if there were differences. There may be small differences but it cannot be major.”

“prices are very homogeneous [...] But it’s true that this year, we sold to three different houses and we have three different prices.”

Acknowledging the possibility of price discrimination

“I think prices are roughly the same [...] But maybe I’m naïve: I guess in the end, people do the maths.”

“I know there is some extortion going on for some Champagne houses. But I mean, I think there’s not a huge difference between the highest price point and the lowest price point. I don’t want to know.”

“We could easily sell at a price that’s 20 eurocents higher. But I mean, why would we? [...] Had it been another, we may have tried to do something. But there’s no reason to.”

CHAPTER 3 - NOT THE USUAL SUSPECTS: AN ANALYSIS OF WHO ENGAGES IN CONTESTED ACTIONS

ABSTRACT

While they may benefit a firm, some actions are perceived as detrimental and therefore contested by key exchange partners. In this paper I investigate the question of what kinds of firms are more likely to engage in a contested action when it is difficult to observe, that is, when opportunism has to be inferred from a visible outcome. Paradoxically, I propose that it is those firms that partners least suspect who are more likely to engage in these contested actions. I build on theories of identification and trust-related judgments to argue that firms with whom partners identify are scrutinized less and that they make use of this leeway to behave opportunistically. Based on a mix of fieldwork and panel data, my empirical analysis looks at the supply of supermarket brands in the Champagne industry: grape suppliers, a key exchange partner for producers, perceive this practice as detrimental but cannot easily observe it. My results confirm that supermarket brands are more likely to be supplied by firms with whom grape suppliers identify and perceive as trustworthy: firms managed by a family CEO, firms whose CEO did not go to business school, firms whose CEO was born and raised in Champagne, and firms located in or close to traditional villages. Qualitative data show that suppliers remain unaware that it is the firms they see as most trustworthy that are likeliest to supply supermarket brands. Furthermore, an analysis of which firms engage in vineyard acquisitions—another much-contested action in Champagne, but one that is easy to observe—reveals hardly any differences between firms. This provides further support for the argument that firms perceived as trustworthy engage in contested actions because they are monitored less, and hence are unlikely to get caught.

INTRODUCTION

When Goodyear moved to mass merchandisers in the 1990s, it deeply upset its traditional tire resellers. The latter responded by shifting their resources to competitor brands, contributing to an estimated US\$500 million revenue loss for Goodyear (Coughlan, Anderson, Stern, and El-Ansary, 2006). Goodyear's move illustrates what scholars have defined as a "contested action," an action that may benefit the firm but raises stiff opposition among key partners (Fiss and Zajac, 2004). While the decision involves a cost-benefit trade-off, most firms would agree that "having [key partners] mad at you is not the way to be successful" (GM CEO Rick Wagoner in Taylor, 2002). When firms behave opportunistically,¹ they risk losing partner support, which may limit their access to resources and increase their probability of failure (Pfeffer and Salancik, 1978).

Are some firms more likely than others to engage in contested actions? Research shows that the ease with which one's actions can be observed significantly influences firm behavior (Pfeffer and Salancik, 1978). It is often the case that a contested action is difficult to observe for partners; in other words, opportunism tends to be inferred from a visible outcome. When there is some ambiguity in assessing who is to blame, opportunism may go unpunished (Pfeffer and Salancik, 1978; Bergen, Heide, and Dutta, 1998). For example, high-fashion designers believe it damages their brand when distributors resell merchandise to off-price retailers. Yet, "who sells what to whom in the off-price world remains a murky business" (O'Donnell and Dugas, 2007). Many designers know one can find their items at T. J. Maxx or Syms, but they don't know which of their distributors are to blame. In the face of such ambiguity, some firms are perceived as trustworthy, whereas others tend to raise some suspicion (Scott, 2001). For instance, many high-fashion designers perceive high-fashion department stores as trustworthy: "Those are very serious organizations, and they know how to treat luxury brands" (Prada's communications director, in O'Donnell and Dugas, 2007).

This paper proposes that firms with whom partners identify are perceived as more trustworthy, are less scrutinized and as a result, engage more in actions that are contested but difficult to observe. Research shows that identification increases perceptions of trustworthiness (e.g. Elsbach, 2004) and trust (e.g. Kramer, Hanna, Su, and Wei, 2001). On the one hand, identification is a perceptual cognitive process: actors identify with organizations that they believe have values and goals similar to their own (Pratt, 1998). When actors perceive an overlap between their sense of self and the cognitive image they construct of an organization, they identify with that organization (Scott and Lane, 2000). On the other hand, perceptions of trustworthiness, a predictor of trust (Schoorman, Mayer, and Davis, 2007), are also driven by value congruence and often imply an identification-based notion (Lado, Dant, and Tekleab, 2008). Actors are typically more inclined to trust those whom they see as like themselves (Hardin, 2006). Scholars have described as “identification-based trust” the extent to which parties effectively understand and appreciate each other’s goals and values (Lewicki and Bunker, 1996).

This literature suggests that identification processes may cause one party to develop very positive (negative) evaluations of organizations perceived as similar (dissimilar). Put differently, a party might automatically perceive organizations he/she identifies with as trustworthy. While studies have often pointed to the benefits of organizational identification, my focus here extends to the potential downside of identification-based trust: if a particular action benefits a firm but is contested by key partners and if it cannot be easily observed, firms perceived as trustworthy are paradoxically in a better position to behave opportunistically because they are less monitored. Under these circumstances, I hypothesize that the firms with whom partners identify are paradoxically more likely to engage in contested but difficult-to-observe actions than firms with whom partners do not identify. More specifically, I argue this is because they are less scrutinized: their perceived

trustworthiness allows them to secretly engage in actions viewed negatively by exchange partners.

To test my hypothesis, I examine what sort of firm supplies supermarket brands in the Champagne industry. While they can be profitable for individual producers, supermarket brands are contested by suppliers because they are thought to lower the value of the Champagne brand as a whole. My qualitative evidence also shows that it is difficult for suppliers to find out “who’s hiding behind supermarket brands” (Letessier, 2009). Using a mix of fieldwork and statistical analyses, I find that the firms with whom suppliers identify—based on social similarity—are indeed more likely to supply supermarket brands. While other mechanisms may be in play, my qualitative data combined with further analyses suggest that this is because these firms are less scrutinized and, hence, can get away with this activity. To paraphrase a respondent, “Out of sight, out of mind [. . .] Who’s ever gonna find out.” Extensive interviews confirm that suppliers are not aware that the firms they perceive as trustworthy engage in this behavior: while they catch the “usual suspects” involved in supermarket brands (e.g., Vranken), they largely believe that the firms they identify with are not involved (e.g., Cattier – which *does* supply supermarket brands). By contrast, further analyses show hardly any differences between firms with regard to the likelihood of acquiring vineyards in Champagne, another much-contested action but one that is easy to observe for suppliers. I discuss the implications of these findings in the conclusion.

RESEARCH SETTING

The Champagne industry provides a good setting for this study. First, it features firms whose suppliers are key business partners, making the cost-benefit trade-off of engaging in a contested action relevant. Second, it features a practice whose recent adoption is both

contested by suppliers and difficult for them to observe—for example, the supply of Champagne for retailers’ supermarket brands.

Industry Structure

Champagne is a wine region that is precisely delimited by the French Appellation d’Origine Controlée framework (AOC). Only sparkling wines made from grapes grown in that geographical area can legally be called “Champagne” and thus command a premium price. Champagne grapes are grown in vineyards by grape growers and are generally sold to Champagne houses – such as Bollinger or Moët & Chandon – who use them to produce the sparkling wine. Industry insiders refer to the 15,000 grape growers and 66 houses as “the two families” of Champagne. There is one combined Champagne Trade Association (the CIVC) for both growers and houses,² but it is headed by two co-presidents; one representing the growers and one representing the houses.

Grape growers are key partners for Champagne houses because they own 90% of the vineyard area, while houses own only 10%. Legal limitations on houses’ vineyard purchases explain why houses have maintained low self-supply ratios. For example, Moët-Hennessy, by far the most powerful corporate group in Champagne and the most aggressive in terms of vineyard acquisition, must purchase 70% of its grape supply. As suggested by the director of Moët-Hennessy’s Champagne business, “Who holds the power when Champagne demand is strong? The growers do” (Passariello, 2008). During my period of observation (1998-2007), demand for Champagne was very strong: it sold 339 million bottles in 2007, some 46 million more than in 1998. Exports grew 116% in value over the same period, almost twice as fast as the entire French category.

The Emergence of Supermarket Brands

Supermarket brands are products supplied by a firm for offer under another firm's brand—usually a retailer's. This business model innovation has increased the size of the market for most fast-moving consumer goods (Markides, 2008). In France, supermarket brands went from almost 25% of the volumes sold in grocery stores to 34% between 1998 and 2007 (Moati, 2008). Champagne sold under supermarket brands emerged in the 1990s, and its market penetration has increased steadily (Declerck, 2005). By 2007, annual sales in this category represented 9% of all Champagne sales, reaching over 25 million bottles.

There are several reasons why supermarket brands can be beneficial to producers. First, they are premium products (see, e.g., Baudouin, 2010). For instance, at the 2005 annual Christmas wine Oscars in the UK, Tesco premier Cru was named the best non-vintage Champagne, beating in blind taste tests famous brand names such as Taittinger and Lanson (Kumar and Steenkamp, 2007). An insider explains: “They [the retailers] now understand they can make money out of Champagne. They know they need their supermarket brand at a certain price level to have the quality. This is benefiting Champagne as a whole” (Reed, 1998). As premium products, supermarket brands make good economic sense for producers: the latter are offered supply agreements at higher margins than they could achieve if they were to supply traditional items (Breton, 2004).³ “For a house to have these kind of products can be very good, it's good short term money” (interviewed expert). Furthermore, it involves relatively low costs: retailers do not charge “slotting fees” and take responsibility for advertising and promotion (Dunne and Narasimhan, 1999). The CEO of a house that supplies Champagne for a major supermarket brand explains that he can produce 4 million Champagne bottles annually with only 4 full-time workers in the plant—he argues that his margin on each bottle is similar to what a producer of branded Champagne takes home with the same retailer.⁴

Perhaps more crucially, supermarket brands make good strategic sense (Dunne and Narasimhan, 1999). First, they help producers gain an edge with distributors (Brak, Deleersnyder, Geyskens, and Dekimpe, 2011; Dunne and Narasimhan, 1999). The CEO of a large corporate group in Champagne explains: “In exchange [for us supplying this retailer’s supermarket brand], we negotiated the placement of 3 of our brands in different price categories” (Lecluse, 2009: 13). An expert confirms: “At the same time they were supplying the retailer, they [a house] used this to put on the supermarket shelves their top Champagne, and they would get listed that way.” Second, supermarket brands help firms deter potential challengers and occupy the market space (Dunne and Narasimhan, 1999; Breton, 2004): “Our strategy was [. . .] to meet the demand from every niche in the market [. . .] Getting out of supermarket brands is out of the question,” a CEO explains (Marieux, 2008). Third, they help firms build capacity by providing relatively long-term contracts and, hence, some financial stability and security (Breton, 2004). My interview data confirm that this also comes into play in firms’ decision to supply a supermarket brand. A CEO explains: “I’m not gonna criticize supermarket brands now. They allowed us to build volumes and develop our business [. . .] They are used as safety nets by many houses, and highly respected ones at that.”

A Contested Action

While Champagne sold under supermarket brands is well accepted by consumers, it is very much contested in the industry. In a recent publication, the Champagne Trade Association stated that “this practice [supermarket brands] represents a risk of misappropriation, dilution and trivialization of the Champagne Appellation” (CIVC, 2008). “There is a strong belief in the industry that Champagne’s success derives from the fact that it is “the king of wines and the wine of kings.”⁵ In both casual conversations and official discourse, respondents would suggest that Champagne is distinct from other wines because “it lies at the top of the

pyramid. As long as we stay at the top, Champagne will remain Champagne. But we have to stay at the top; we have to be the best” (interviewee).

Supermarket brands are viewed negatively by grape suppliers primarily because they feel it devaluates the image of the Champagne product (please see table 1 for further qualitative evidence). More specifically, they are perceived as a threat to the Champagne category’s overall distinctiveness, weakening the existing status hierarchy and economic interests of the category as a whole. One could recently read in the growers’ trade publication that “the Champagne sold in supermarkets and the prices charged for it stir up hot debates among *Champenois*. Some almost see it as the absolute evil” (SGV, 2006: 24). My qualitative evidence confirms that supplying Champagne for supermarket brands is seen as devaluating the image and distinctiveness of the category, blurring the boundaries with other types of sparkling wines, both in terms of quality and price.⁶ A grower commented: “Have you ever tried one of these [supermarket brand] wines? I mean, it’s far from great. You might as well drink a good Cava.” Another argued: “With this type of behavior [supply of supermarket brand wine], how do you want consumers to understand why they should pay more for Champagne—these products are cheaper than some [non-Champagne] sparkling wines. The other day, I saw an English sparkling whose retail price was higher!” One comment by an interviewee summed up the general sentiment among growers: “It [supplying supermarket brands] devaluates the product with prices that are not worthy of Champagne.”

-----Please insert table 1 about here-----

A secondary reason why supermarket brands are viewed negatively by suppliers is that they are perceived as detrimental to the 5,000 small growers who make their own Champagne and sell it directly to consumers.⁷ The latter feel that the houses who supply supermarket brands violate the existing structure of roles within differentiated niches in the marketplace, that is,

established norms of competition. Because they have no brands, these small growers are largely confined to the national and local market. In their trade publication, one could recently read, “the price positioning of supermarket brands does not place them in competition with branded Champagnes [. . .] It is at the same level as the prices charged by the growers who make their wine and sell them directly to consumers. Therefore one can wonder whether supermarket brands do not compete with this. These are different market environments but they have the same client base” (SGV, 2004).

An Action Difficult to Observe

While grape suppliers can see Champagne sold under supermarket brands, it is difficult for them to know who’s hiding behind these brands. There are several reasons why this practice is fairly difficult to observe (Papin, 2010). First, since these brands belong to distributors, information on the producer is rarely displayed on the product label. The only legal requirement is to state either a name/address for the producer or an official code. When the labels state a name/address, it may be that of a subsidiary set up by Champagne producers specifically for this business. When the label states a code, people may apply to the distributor for the actual identity of the producer but, as suggested by many, “it will take a rather determined kind of individual to do that” (Simon, 1989). Second, given the volumes needed by retailers, several houses may supply Champagne for the same supermarket brand, making traceability more difficult. For example in 2000, no fewer than 3 houses supplied Champagne for Comte de Lavigny, one of the brands owned by French retailer Géant Casino. Third, firms are very much aware that the practice is contested. With few exceptions, most keep it fairly discrete: “[The BCC group] is one of the largest supplier for this type of brands, says the floorwalker of a large supermarket chain who wants to remain anonymous [. . .] Its direct competitor, Vranken, prefers to hide this practice [. . .]” (Lecluse, 2009).

While it is possible for suppliers to find out who supplies supermarket brands, it requires much time and effort. An interviewee summed up: “This information, you can get it through the retailers, internet, professional publications and wine fairs. But you have to look hard for the information” (interviewed grower). Suppliers’ monitoring efforts tend to be directed toward firms that they are particularly suspicious about. One grower I interviewed explained about Moët & Chandon, a usual suspect: “I keep informed, I do my homework [. . .] Knowing that the sale price of bottles of Moët & Chandon or Dom Perignon is declining [. . .] that’s a very interesting piece of information. Who knows if tomorrow I won’t find bottles that should have been sold under the Moët brand and that end up sold at low prices under supermarket brand—because I will happen to notice that actually, it’s [supplied by] a subsidiary of Moët and I can find them at Carrefour.”

THEORY AND REVIEW

Identification and monitoring

Social identity theory informs much current thinking on organizational identification (Pratt, 1998). Identification is defined as the perception of oneness with or belongingness to an organization or group (Ashforth and Mael, 1989). While the identification process can take various forms, this paper is primarily concerned with identification through the recognition of one organization deemed similar to one’s self (Pratt, 1998). Put differently, the meaning of identifying is to “recognize”: actors identify with organizations that they believe have values and goals that are similar to their own (Pratt, 1998: 173). Identification denotes the perceived consistency between attributes of the organizational and individual identity (Golden-Biddle and Rao, 2004). According to Scott and Lane (2000: 48-49), actors have prior beliefs about

their values and goals. They interpret presented organizational images and, from these data, construct a cognitive image of other organizations. If they perceive an overlap between their self-concept and their cognitive image of an organization, they identify with that organization. For example, animal-rights supporters often identify with The Body Shop because they feel this organization shares their values and goals (Scott and Lane, 2000). Similarly, an organic farmer is likely to identify with Whole Foods Market more than with Aldi or Wal-Mart: between these grocery retailers, the former shows more overlap with the organic self-concept (“selling the highest quality natural and organic products” vs. “honest to goodness savings” or “save money, live better”).

Research shows that identification nurtures perceptions of trustworthiness (e.g. Elsbach 2002), an antecedent of trust-related judgments (Schoorman, Mayer, and Davis, 2007). As such, identification increases *one party's* confidence in the goodwill of another party (Lado, Dant, and Tekleab, 2008). Trust-related judgments are typically based on the perceived trustworthiness of another party, i.e. positive expectations about his/her intentions and behavior. Scholars argue that identification increases the level of trust an organization enjoys (e.g. Kramer, Hanna, Su, and Wei, 2001) and that the two are mutually reinforcing: not only does identification foster trust but in turn, trust strengthens identification (McEvily, Perrone, and Zaheer, 2003). Trust-related judgments based on identification reflect the extent to which one party “effectively understands and appreciates the other’s want” (Lewicki and Bunker, 1996: 122). Actors identify with organizations they feel similar to and, in turn, develop a higher level of trust in these organizations. This idea is consistent with the argument that trust is driven by value congruence (McEvily, Perrone, and Zaheer, 2003). When an actor perceives similarities with another in goals and values, she believes the other is more likely to behave in accordance with these values and that the other is more likely to care about goals

that are good for all (Williams, 2001: 382). Perceptions of trustworthiness typically go hand-in-hand with perceptions of integrity and benevolence (Schoorman, Mayer, and Davis, 2007).

Identification guarantees that actions will be consistent with common goals and values in the absence of external stimuli (Tompkins and Cheney, 1985). “Identification becomes an important means for removing or reducing those inefficiencies that are labeled by the terms ‘moral hazard’ and ‘opportunism’” (Simon, 1990: 41). While they may co-exist with other control mechanisms, identification processes are likely to act *in lieu* of such mechanisms when behaviors are difficult to observe. Perceptions of trustworthiness act as a frame of reference that allows actors to economize on cognitive resources (McEvily, Perrone, and Zaheer, 2003); perceived value congruence therefore they guide actors’ monitoring efforts, leading them to focus their limited attention on firms whose values and goals they perceive as conflicting with theirs. .

Identification as a perceptual cognitive process

Because actors identify with organizations that they perceive as similar to themselves, identification is a perceptual cognitive process (Ashforth and Mael, 1989). While the insider-outsider dichotomy is often misleading (Golden-Biddle and Rao, 2004) and while actors need not be members to identify (Scott and Lane, 2000; Pratt, 1998), scholars have noted that outsiders have a far from perfect knowledge of the organization in question (Alvesson, 2004). They develop an image of organizations from their idiosyncratic interpretations and from other available information obtained from secondary sources (Gioia, Schultz, and Corley, 2000). Images may significantly differ from the “objective reality” they are assumed to illuminate (Alvesson, 2004); the attractiveness of an image lies in the eye of the beholder (Glynn, 1998). “The relationship between an image and the reality it is supposed to cover is, at best, ambiguous [...] It floats somewhere between the imagination and the senses, between expectation and reality” (Alvesson, 2004: 165).

Scholars have recently called for more research on the potentially negative effects of organizational identification: “Much more is known about the positive side of identification than about its dark side” (Pratt, 1998: 185). Dukerich, Kramer, and Parks (1998) also proposed that identification may become dysfunctional for the actor who identifies and/or the organization. For example, disidentification may lead to automatic distrust by creating the assumption that all members of the organization are untrustworthy, whether or not there is such evidence (Dukerich, Kramer, and Parks, 1998). Conversely, identification may lead to automatic perceptions of trustworthiness and foster overconfidence in the organization. Actors may defer too readily to others and be unwilling to question or doubt the organization, its actions and its claims (Dukerich, Kramer, and Parks, 1998). Furthermore, actors’ information search processes are often biased: starting with Wason’s seminal work in this area (1960), a number of studies demonstrate a strong tendency for actors to seek confirming rather than disconfirming information. As a perceptual cognitive process (Ashforth and Mael, 1989), identification is subject to a number of biases.

If partners cannot easily observe a contested action—that is, if they tend to infer opportunism from visible outcomes (Pfeffer and Salancik, 1978)—the firms perceived as trustworthy are paradoxically in a better position to behave opportunistically. They have more strategic leeway because the lack of monitoring systems makes detection relatively unlikely—and firms perceived as trustworthy are typically monitored less. In the absence of trust, protection against opportunism involves a variety of monitoring mechanisms and well-defined contracts. The economic value of trust lies in lowering such transaction costs (Nooteboom, Berger, and Noorderhaven, 1997). For example, a large literature shows that trust reduces the use of rigid control systems and that trustors become increasingly reluctant to monitor relationships (Molina-Morales and Martínez-Fernández, 2009). Such reduced vigilance and safeguards

render the trustor less able to detect or pre-empt opportunism when it actually occurs (Gargiulo and Ertug, 2006).

Furthermore, firms perceived as trustworthy typically enjoy the benefit of the doubt when there is some ambiguity. McEvily, Perrone, and Zaheer (2003) argue that trust affects the perceived veracity of the information transferred. When information is received from a trusted source, the receiver is less likely to verify the information for accuracy and is more inclined to accept the information at face value (McEvily, Perrone, and Zaheer, 2003).

Trusted firms may benefit from the fact that suspicion is directed to other firms. The positive ingroup beliefs associated with identification tend to create a “deficit” with respect to positive perceptions of outgroup members’ benevolence and integrity (Williams, 2001). When actors infer firm behavior from observed outcomes, they are more likely to suspect and monitor firms with whom they do not identify. Whatever the truth of the situation, the difficulty of observing its behavior places the organization itself in the primary position for interpreting its activities to the various groups (Pfeffer and Salancik, 1978: 105). Firms with whom business partners identify are more likely to be believed when they deny engaging in contested actions than firms with whom business partners do not identify. This may help sustain a “crime of opportunity”: actors’ suspicion toward outgroup members prolongs a situation whereby firms perceived as trustworthy engage in behaviors that are beneficial to them but contested by their partners.

HYPOTHESES

I have proposed that the firms with whom actors identify are more likely to engage in contested actions when the latter are difficult to observe than firms with whom partners do

not identify. I thus expect that Champagne houses with whom suppliers identify are more likely to supply supermarket brands. How suppliers define their self-concept influences what sort of house they identify with, that is, the perceived overlap between their self-concept and the image they construct of different houses.

Suppliers' Self-Concept

In the wine industry, producers tend to perceive as traditional those firms that are loyal to the region's original, established values as opposed to those firms that are primarily focused on market competitiveness (Negro, Hannan, and Rao, 2011). In Champagne, suppliers perceive their identity as traditional—they often define “who they are” in terms of “who they have been”. Champagne grape suppliers maintain a high level of continuity, typically including references to history and tradition in their self-description. “I am of grower stock, I'm the 4th generation [. . .] our profession is fascinating. It involves observing nature, traditions—which doesn't mean we're always resistant to change . . . I make a point of living this profession fully, of remaining close to my vines, of staying in charge of wine making, of monitoring the vineyard [. . .]” (interviewed grower).

These actors have a fairly homogeneous sociological profile (Charters and Menival, 2008). Most of them are in the 50-65 age bracket and have been involved in grape growing for several generations. They are primarily focused on cultivating land; they define themselves as “farmers” (Charters and Menival, 2008). They are concerned with preserving and transmitting local norms and values; they have a long-term, patrimonial approach to management. They see their fate as tied to the Champagne industry, and their focus is on the industry's long-term prosperity rather than on short-term profits. “There is, on the one hand, an economic and industrial logic and on the other hand, the farming logic. As far as we are concerned, we are not in it for economic performances” (President of the growers' trade association in Claeys-Pergament, 2007).

This traditional self-concept explains why growers identify with some Champagne house and not with others: “For example, Moët, it’s all about volumes. Or Dom Perignon, it’s all marketing . . . I have the feeling they are far away from me. I feel Bollinger is closer to me” (interviewed grower). To construct a cognitive image of organizations, actors typically use “fairly gross categorization schemes (e.g. age, business/non business, approximate number of members, scope of activities and location)” (Albert and Whetten, 1985: 269). The following paragraphs describe a number of characteristics used by grape growers to assess the attractiveness of a house’s image and the degree of overlap with their traditional self-concept.

Identification Based on Management Type

The spectacular ascent of prominent family businesses such as the Rothschilds’ has prompted the popular perception that they embrace a longer-term approach to management (Bertrand and Schoar, 2006). Research confirms that active family management aims at preserving the firm as a legacy for later generations (Fiss and Zajac, 2006). Family firms are said to pursue “strategies of continuity” (Miller, Le Breton-Miller, and Lester, 2010). They tend to favor a long-term approach to management and a focus on stability and intergenerational pattern maintenance. In addition to influencing their partners’ view of “what type of organization is this?” the long-term nature of family ownership reduces social distance, as exchange partners tend to deal with the same governing bodies and practices for longer periods than when partnering with non-family firms (Anderson and Reeb, 2003). The family’s presence allows some relationships to build over successive generations. In sum, family firms are assumed to differ significantly in terms of governance (Villalonga and Amit, 2006).

In Champagne, many houses bear a traditional family’s name (e.g., Bollinger or Billecart Salmon) and many are still run by the founding family. The image of houses whose management remained within the founding family is particularly attractive to grape suppliers. These houses tend to be perceived by suppliers as “closer to them”; their perceived identity

overlaps with the latter. A grower I interviewed explains: “Family management is important, first in terms of human relations but also in terms of approach to our profession [. . .] [In some houses], the spirit of what we do doesn’t exist anymore. They have lost their soul, that is to say the soul of their founder. Some are able to keep this spirit, like Krug. But that’s because at Krug, there are still Krugs at the head” (please see table 2 for additional qualitative evidence). In sum, suppliers identify with firms that have active family management, and because of this perceived trustworthiness, they monitor them less. I thus predict that, paradoxically, this makes these firms behave opportunistically and engage more in the supply of supermarket brands:

Hypothesis 1 (H1): Firms managed by a descendant of the original founder are more likely to supply supermarket brands.

Identification Based on Educational Background

The image assigned to an organization is often rooted in idiosyncratic factors pertaining to organizational leaders (Albert and Whetten, 1985). They often are the most visible members of an organization and they give a face to an otherwise abstract entity, resulting in outsiders viewing leaders as the organization (Scott and Lane, 2000). An important characteristic of organizational leaders is their educational background. It acts as a strong normative and cultural marker (Strang and Soule, 1998): education is a form of socialization in which people are exposed to local norms and values (DiMaggio and Powell, 1983). The type of academic degree an individual holds has been shown to significantly influence his or her belief structures (Fiss and Zajac, 2004). In particular, business schools value scientific expertise as opposed to hands-on experience (Rumelt, Schendel, and Teece, 1994). They promote a professionalization of management and a specialization in functional expertise (Rumelt, Schendel, and Teece, 1994). Managers who went to business schools are more likely to be utilitarian, that is, “governed by values of economic rationality, the maximization

of profits, and the minimization of costs [. . .] by marginal utility, not by need” (Albert and Whetten, 1985).

Champagne houses that are managed by business graduates do not have an attractive image with grape suppliers. Extensive interviews with grape growers suggest that they primarily value hands-on experience. A grower explains: “My background is threefold. First, I have some technical training. A technical baccalauréat:⁸ that’s concrete stuff, concrete knowledge to stop believing in old sayings. Second, there’s my parents’ experience—experience of our land: watch out, here it tends to frost, here it’s sensitive to leakage, chardonnay likes it here but not Pinot Noir etc. Third, I learnt from experience, from my mistakes. I remember once, I used some weed killer and 48h later I could see insects dying at the surface. It was quite clear I had to stop.” As a result, growers tend to denigrate managers who have little hands-on experience. For example, many complain about managers who “ask if we can make more Champagne in February. You can’t harvest in February!”

In one of my interviews, a CEO with no formal business education suggested that his educational background generates some trust among suppliers. He reported a conversation where a supplier told him: “That’s because you are a technician Mr. [. . .]. Not a marketing guy. Not an industrial jerk.” Suppliers are quite remote from the utilitarian view of the firm that tends to be promoted at business schools: “These people [professional managers] are extremely competent at what they do but they bring a purely managerial perspective, a managerial view like what you’d see in any other industrial or commercial sector.

Champagne has its own cycle, which requires some long-term vision, some durability. I think these two visions are not compatible” (interviewed grower). Because suppliers identify with and perceive as trustworthy those firms whose CEOs did not go to business school, I predict that these firms are in fact more likely to behave opportunistically:

Hypothesis 2 (H2): Firms whose CEO did not go to business school are more likely to supply supermarket brands.

Identification Based on Local Origin

The extent to which organizational leaders are embedded in the local community is another determinant of identification-based trust. Network theorists have long suggested that embeddedness shifts actors' motivations away from the narrow pursuit of immediate economic gains toward the enrichment of relationships through trust and reciprocity (Uzzi, 1996). Actors often refer to an ingroup/outgroup divide to describe embedded relationships: "It is hard to see for an outsider that you become friends with these people [. . .]. You trust them and their work. You have an interest in what they're doing outside of business [. . .] They're part of the family" (Uzzi, 1996: 677). Empirically, studies confirm that trust tends to form in local, embedded social relations. It typically takes root in "neighborhoods" or "cliques" characterized by relatively dense interactions (e.g., Macy and Skvoretz, 1998). Actors who were born and raised within a community are often considered insiders—they are more trusted than strangers. For example, actors place higher trust in people from their own national or ethnic group than in those who do not belong in such groups (Huff and Kelley, 2003).

In Champagne, houses managed by a locally embedded CEO have an attractive image with grape suppliers. As farmers who are focused on land cultivation and on the *terroir*, grape growers very much value a local upbringing. An expert explains: "It's very difficult for supply relations unless you hire people with local knowledge and expertise. It is a very close community." Suppliers tend to perceive *Champenois* (i.e., people from Champagne) as more trustworthy than outsiders. A representative explains: "Champagne as a framework depends on complex interactions, both social and economic. Outside managers may not understand how these relationships work." In my interviews, a grower draws the following distinction

between two Champagne houses: “Both are newcomers. Yes, Bruno Paillard is a newcomer but this guy, he’s a *Champenois*. Whereas that other guy is Flemish. He’s brand new in Champagne.” The same Bruno Paillard, CEO of a large Champagne group, recently explained: “I am asking you: people who come from outside Champagne, are they better than us? [. . .] What have they brought to our region? Nothing. Who are these people who come in without knocking on the door? Because of unfortunate experiences, people from outside Champagne arouse the *Champenois*’ suspicion” (Marais, 2006). Because suppliers identify with and perceive as trustworthy those firms whose CEO was born and raised in Champagne, I propose that, paradoxically, these firms are more likely to supply supermarket brands:

Hypothesis 3 (H3): Firms whose CEO was born and raised in the local community are more likely to supply supermarket brands.

Identification Based on Firm Location

In a related manner, geographic co-location is a strong factor in identification processes. A look at almost any industry reveals such geographic agglomerations—for example, Italian textile manufacturers are still established in a number of small villages such as Como (Sorenson and Audia, 2000); Scottish knitwear producers are concentrated in the region of Hawick (Porac, Thomas, and Baden-Fuller, 1989). Prior work suggests that co-location strengthens identification-based trust (Kramer and Tyler, 1996). For example, Saxenian (1994: 30) describes the strong identity developed by Silicon Valley entrepreneurs. This phenomenon is facilitated by social similarity between members of the agglomeration: most of these entrepreneurs were white men in their early twenties, who had studied engineering at Stanford or MIT, had no industrial experience, had often grown up in small towns in the Midwest, and shared a distrust of the established East Coast institutions and attitudes. However, co-location also favors the emergence of a shared identity through increased interaction, information, and mutual awareness of involvement in a common enterprise

(Saxenian, 1994; Pouder and Caron, 1996). Research on communities of practice shows that interdependent actors working in a single context develop a social milieu and shared identity (Brown and Duguid, 2001). The sense of interdependence, common interest, and geographical identity is prevalent among members and helps nurture perceptions of trustworthiness.

In Champagne, some villages are considered original “bastions” and recognized as historical cradles of this regional industry. Firms located in these village have an attractive image because they are perceived by grape growers as “one of us,” as part of the ingroup. One could recently read about a new Champagne house: “To signal its belongingness [. . .], Vranken, a newcomer in Champagne, spared no expense and treated himself with two addresses in Epernay [a traditional Champagne village]” (Les Echos, 2010). For similar reasons, the further away it is located from a traditional village, the less attractive a house’s image. These firms are indeed less likely to be seen as part of the ingroup by grape growers. As the industry developed, houses located further away from traditional villages and ventured off to more remote locations within the Champagne region. This generated heated debates throughout the development of the industry: the authenticity of some locations was disputed, as they were considered by grape growers to produce second-zone Champagne. A grower I interviewed explains: “They [the houses] cannot expand in the traditional villages. It would have to be north of here [. . .] in regions where there are no vines, no tradition of vines.” House managers seem aware of the effects of this psychological distance; a CEO recently stated: “Relations [between houses and grape growers] are better maintained when actors remain within biking-distance of the cellars and vines [. . .].”⁹ Based on this evidence, I suggest that suppliers identify with firms located in traditional villages or close to traditional villages. I thus predict that these firms are seen as more trustworthy and are thus more likely to behave opportunistically:

Hypothesis 4-a (H4-a): Firms located in traditional Champagne villages are more likely to supply supermarket brands.

Hypothesis 4-b (H4-b): Firms located close to a traditional Champagne village are more likely to supply supermarket brands.

Identification Based on Firm Age

Firm age is one of the characteristics actors use to assess an organization's identity (Albert and Whetten, 1985). Actors with a traditional self-concept are likely to distinguish between incumbents, who have established a track record, and newcomers, who are typically relatively unknown. Because they raise less uncertainty, older organizations tend to enjoy a clearer cognitive image than their younger counterparts—the image actors construct depends on their familiarity with the firm. Arguments about the liability of newness (Stinchcombe, 1965) also suggest that older firms may be perceived as more trustworthy. The liability of newness implies that the survival properties of organizations are influenced by human and social capital, which relates to firm age. “New organizations must rely heavily on social relations among strangers. This means that relations of trust are much more precarious in new than old organizations [. . .] One of the main resources of old organizations is a set of stable ties to those who use organizational services” (Stinchcombe, 1965: 149). As a result, these partners know “how to use the services of the organization, have built their own social systems to use the old products or to influence the old type of government, are familiar with the channels of ordering, with performance qualities of the product, with how the price compares, and know the people they have to deal with—whom to call up to get action” (Stinchcombe, 1965: 169).

As suggested earlier, most suppliers in Champagne have been involved in grape growing for several generations. Official records indicate that there were 20,000 grape growers in

Champagne back in 1882, most of whom owned less than 1 hectare. This has not changed dramatically: today, the region features about 15,000 growers with, on average, estates of about 2 hectares. Similarly, many Champagne houses are centennial organizations; almost a fifth of them date back to the eighteenth century. Many of my interviewees referred to “a sense of history” as an attractive feature of Champagne houses. The “old-timers” are seen by grape growers as having contributed to building the name and fame of Champagne. By contrast, newcomers tend to be seen as opportunistic, having entered the industry after other houses had secured its prosperity. A grower explains: “Those who were here before us—people like my parents, who were barely making ends meet—they created the image Champagne enjoys today, together with the houses. They worked hard for this [. . .] Those who just show up, pretend to know everything and benefit from the system created by these people—that really, really annoys me.” Older Champagne houses are more likely to be perceived by grape growers as part of the ingroup, generating some positive trust-related judgments. A respondent I interviewed suggests: “The fairly senior players in mid-sized houses are still maintaining the principle: ‘We have two families, we are the houses and with the growers, we all work together.’” By contrast, newcomers are fairly mistrusted: “OK, this guy [a newcomer] is doing some good things. He completely renovated the Villa Demoiselle [an historic building] in Reims. It’s beautiful; he hired the best artisans from all over France to do that. He may have great ideas . . . But this guy has just arrived in Champagne. He arrived around 1980. He has become really big within 30 years, but it doesn’t compare with houses that are 300 years old” [interviewed grower]. If grape growers identify with older firms and perceive them as trustworthy, I propose that:

Hypothesis 5 (H5): Old, established firms are more likely to supply supermarket brands.

-----Please insert table 2 about here-----

METHODS & DATA

To test these hypotheses, I used a mix of qualitative data and statistical analysis. First, I conducted a number of on-site visits and in-depth interviews. I used the latter to understand why grape suppliers contest supermarket brands and what sort of Champagne houses they identify with (see tables 1 and 2 for sample quotes). I interviewed a total of 43 respondents, some of them on several occasions: 15 members of the relevant professional association and industry experts, 14 CEOs of Champagne houses, and 14 grape growers. The growers were selected so as to represent Champagne's four growing areas (Montagne de Reims, Vallée de la Marne, Côte des Blancs, Côte des Bars).

---- Please insert table 3 about here ----

I collected further qualitative data for my dependent and independent variables. For my dependent variable, I relied on *Rayon Boissons*, a trade publication focused on beverages in French retail. I collected biographical data on CEOs from a number of archival sources, including the French Who's Who, trade publications, and local and national newspapers. Finally, I collected financial data using two data sources: 1) DIANE, a Bureau Van Dijk database containing detailed financial information on over a million French companies; and 2) the National Registry of Trade & Companies, the official source of financial and legal information on French private and public companies.

Approximately 100 companies claim to be "Champagne houses," but only 66 were officially listed as members of their professional association (UMC) in 2008. Conversations with the UMC director and a careful examination of the firms excluded from the list reveal that most are *négociants* rather than houses, in other words, they sell Champagne but barely produce any wine. Data was incomplete for 2 Champagne houses due to their small size; however, I obtained complete financial data for 64 of the 66 houses, the study's unit of analysis. I

restricted the analysis to the period 1998–2007; I found no reliable data sources prior to this date on the identity of suppliers of supermarket brands, and financial data were difficult to obtain.

Dependent Variable

The data on supermarket brands were obtained from *Rayon Boissons*, a trade publication on beverages in French retail (Declerck, 2005). These are not data that grape suppliers would have easy access to. *Rayon Boissons* sells approximately 7,500 copies annually; its audience includes “buyers specialized in drinks for retail, supermarket directors, drinks manufacturers, floor and aisle managers, wine traders.”¹⁰ This publication’s archives are not available online, and to the best of my knowledge, can only be found at the French National Library¹¹. I never saw a copy of *Rayon Boissons* at a grower’s or at the growers’ professional association. Most growers read a trade publication produced by their own professional association, *Champagne Viticole*. Dedicated to Champagne grape growers, this publication has existed for over 100 years and sells about 10,000 copies annually. It is described as *the* reference for Champagne grape growers, and it is the only trade publication I noticed during my on-site visits.

In addition to tracking deals between producers and French retailers, *Rayon Boissons* released special issues called “supermarket brand inventory.” To the best of my knowledge, these are the only public documents that list all products sold under supermarket brand in the Champagne category at major French retail chains: Auchan/ATAC, Carrefour Promodès, Géant/Casino, Champion, Cora, Les Mousquetaires, Leclerc, Match, Monoprix, Stoc, and Système U. For example, the inventory shows that in 1998, Carrefour Promodès had 4 Champagne Stock-Keeping-Units (SKUs) under the De Stael label—all were produced by the Duval Leroy house. In 2000, the inventory shows that the Boizel house started supplying 1 SKU under the De Stael label and 2 SKUs under a new label called Charles de Courance. SKUs sold under the same label tend to differ only marginally—for example, Boizel was

supplying the 1500 ml Brut De Stael bottle, whereas Duval Leroy was supplying the 750 ml and the 375 ml Brut De Stael bottles. In other words, the number of SKUs supplied is less relevant than whether a house supplies a given supermarket brand.

I used three different measures for my dependent variable. First, I followed prior studies on contested actions (e.g., Westphal and Zajac, 1994; Kraatz and Zajac, 1996; Westphal and Zajac, 1998; Sanders and Tuschke, 2007) and used a binary variable in my main analyses.

The variable was coded 1 if the house supplies at least one supermarket brand and 0 if it does not. Every year, about one firm out of five supplies at least one supermarket brand in my data.

For robustness checks, I created an ordinal variable that captures whether a house supplies more than one supermarket brand. Firms rarely supply more than 3 supermarket brands: 90% of the firms that supply at least one supermarket brand supply less than 3, with a sample average of 1.8. My ordinal variable is coded accordingly: 0 if the firm supplies no supermarket brand, 1 if it supplies one, 2 if it supplies two, and 3 if it supplies three or more.¹² Finally, I also used the number of supermarket brands supplied as a count dependent variable.

Independent Variables

Family management: I predicted that firms whose management remained within the original founder's family are more likely to engage in a contested action (H1). Consistent with prior studies (e.g., Anderson and Reeb, 2003; Villalonga and Amit, 2006), I defined active family management as firms whose CEO is the founder or a member of the founder's family by either blood or marriage. To account for the tenure of family management, or the number of generations at the head of the firm, I followed Fiss and Zajac (2004): if the family firm was more than 30 years but less than 60 years old, I categorized the firm as managed by the second generation. If the family firm was more than 60 years old but less than 90 years old, I categorized the firm as managed by the third generation, and so on (alternative cut-off points

yielded similar results). For example, Bollinger is managed by a descendant of the original founder and is about 170 years old; it thus received an 8. Cattier is also managed by a descendant but is about 80 years old; it thus received a 3. By contrast, Moët & Chandon received a zero, as its CEO has no connection to the original founder. The data for this variable were obtained from the French Who's Who, professional biographies compiled by French national newspapers (*Les Echos* and *Le Figaro*), and profiles in the local newspaper (*L'Union*). These were complemented with firms' corporate websites and crosschecked with the *Guide Curien*, a professional guide published every other year. The *Guide Curien* is described by insiders as "the Champagne bible" (Claeys-Pergament, 2009).

Business education: In hypothesis 2, I propose that firms whose CEO did not receive a business education are more likely to supply supermarket brands. I created a dummy variable coded 1 if managers received some business education and 0 otherwise. For example, the CEO of Ayala received a 1 because he graduated from ESSEC, a French business school. The CEO of Bollinger received a 0 because he holds a PhD in sociology from Université La Sorbonne. This dummy variable is also based on data collected from the French Who's Who, *Les Echos*, *Le Figaro*, and *L'Union*.

Local origin: Hypothesis 3 suggests that firms whose CEOs are embedded in the local community are perceived as more trustworthy and, thus, more likely to supply supermarket brands. My qualitative evidence suggests that CEOs are viewed as *Champenois* when they were born and raised in the region. To determine whether a CEO grew up in Champagne, I looked at where he/she was born and where he/she went to school. I created a binary variable coded 1 if the CEO was born and educated in Champagne and 0 otherwise. For example, the CEO of Billecart Salmon received a 1 because he was born in Mareuil-sur-Ay and holds a degree from Université de Reims. The CEO of Veuve Clicquot received a 0, as she was born

and studied in Paris. The CEO of Philipponnat received a 0 because he was born in Epernay but studied outside Champagne.¹³

Traditional village: In H4-a, I proposed that firms geographically located in traditional Champagne villages are more likely to supply supermarket brands. To test this hypothesis, I computed the relative density of houses in the various villages in Champagne: I collected location data for each house; I then computed the number of houses relative to the village's population (measured in hundreds). My qualitative evidence is what led me to treat high density as an indication of whether a particular village was a Champagne "bastion." Indeed, traditional villages are prime location in Champagne, and density is particularly high. For example, a grower explains: "In traditional villages like ours, everything is planted. There's nothing left. Nothing." Alternatively, I used dummy variables for houses located in villages considered traditional with similar results (e.g., Epernay, Reims, Les Riceys, Essoyes, or Hautvilliers). Building on the same logic, hypothesis 4-b further predicts that firms located close to traditional Champagne villages are more likely to supply supermarket brands. To test this hypothesis, I used the *driving distance* between the location of a Champagne house and the geographically closest traditional village. This information was collected from the *Guide Curien*: the latter reports the driving distance to the closest Champagne "bastion." I added 1 to this measure and took the natural logarithm, since I do not expect the influence of distance to be strictly linear: the difference between being 0 and 1 kilometer away may be perceived differently than the difference between being 29 and 30 kilometers away. Therefore, a house such as Laurent Perrier received about "2.5," as it is located 12 km away from Epernay, whereas Moët & Chandon received "0," as it is located in Epernay.

Firm age: My last hypothesis suggests that grape growers identify with old, established firms; paradoxically the latter are thus more likely to supply supermarket brands. I measured firm age by taking the current calendar year and subtracting the year of founding. Almost 20% of

my sample is over 200 years old; about 50% is over 100 years old. Since I do not expect the effect of age to be strictly linear (e.g., Benjamin and Podolny, 1999), I also took the natural logarithm of this measure.¹⁴

Control Variables

A number of variables may correlate with both my dependent and independent variables. I was particularly interested in controlling for the common view that firms retreat to supermarket brands when they experience difficulties or are on the decline. One may suspect that firms supply supermarket brands because it allows them to utilize excess capacity. To control for this alternative explanation, I included the variable *firm size*. The latter is a firm's annual sales in thousands of euros. One may also suspect that supermarket brands help firms get rid of excess stock when sales are declining. Put differently, houses may use supermarket brands if they are experiencing a decline in sales. I controlled for this possibility by including in the regressions *sales variations*, a measure of changes in the value of firm sales between year t and year $t-1$. It is also possible that firms supply supermarket brands because they are, on average, less profitable. A firm's urgent needs to generate revenues may thus be a driver of the supply of supermarket brands. I controlled for this alternative explanation by including *RoA* (return on assets), a measure of firm profitability. RoA measures the profits before taxes and extraordinary items divided by total assets (I also lagged this variable, with similar results).

It is possible, especially in markets for luxury goods, that low-status producers are more likely to supply supermarket brands. To control for this possibility, I created a *status* index composed of two separate measures: first, an official ranking of Champagne producers by the *Revue des Vins de France*, a leading publication for wine connoisseurs in France,¹⁵ and second, I asked an industry expert to rank Champagne companies according to their status. The expert ranking was highly correlated with the official ranking (corr. = 0.76). I mean-

centered the two measures and took their average: the final measure ranges from -1 for the lowest-status firms (e.g., Gardet & Cie) to 1.8 for the highest-status firm (Krug). In further analyses, I also used a square term for this status measure so as to test the hypothesis of middle-status conformity (Phillips and Zuckerman, 2001)¹⁶

Some firms may choose to focus on export markets and thus may rely less on sales in the French national market. This could influence how strategic it is for them to nurture relations with French retailers. As suggested earlier, supermarket brands are often viewed by producers as a means to increase their bargaining power with distributors and obtain additional product placement. I computed the *export ratio* by dividing the annual value of firm exports by their total sales. Whether a firm belongs to a corporate group or not may also influence its propensity to supply supermarket brands. When firms belong to a group, they tend to have greater access to sophisticated administrative-support functions than do stand-alone firms. The traceability and safety standards of French grocery retailers for their own brands may act as an entry barrier for Champagne houses that have little reporting experience. I controlled for whether a firm is independent or part of a *corporate group* with a binary variable. Finally, I controlled for the passage of time in all regression models with *year dummies*.

Modeling Approach

My main dependent variable is binary; I thus follow previous work on contested actions and use a binary choice model to estimate the likelihood of a given firm supplying supermarket brands in a given year (e.g., Westphal and Zajac, 1994; Kraatz and Zajac, 1996; Ahmadjian and Robinson, 2001; Fiss and Zajac, 2004; Sanders and Tuschke, 2007). More specifically, I use a probit model with the standard normal distribution¹⁷:

$$\int (\varepsilon_i) = \frac{\exp(-\varepsilon_i)}{[1 + \exp(\varepsilon_i)]^2}$$

My data consist of a panel of 64 firms observed over a period of 10 years. Because some firms supplied supermarket brands more than others, it is important to control for unobserved heterogeneity. If these differences were due to unmeasured firm-specific factors, the statistical tests for my coefficient estimates could be inaccurate. A potential issue with my data is that variation across groups is, on average, greater than variation within groups: most firms never supply supermarket brands, most firms don't change CEOs... A fixed-effect specification would systematically drop all time-invariant cases, creating an unacceptable bias in the estimation. By contrast, a random-effects specification allows the keeping of time-invariant variables while taking into account the individual-level differences between firms over time periods and capturing the heterogeneity in the error term. This model controls for individual influences on the dependent variable, with some constant effect drawn from a distribution of individuals including all individuals in the sample (Castilla, 2007). It can be expressed as follows:

$$Y_{it^*} = \beta \cdot x_{it} + u_i + \varepsilon_{it}$$

$$\text{with } Cov(x_{it}, u_i) = 0$$

where Y_{it^*} represents the probability that firm i supplies supermarket brands at time t , x_{it} is a set of covariates, and the error term is split between the firm-year component ε_{it} and the pure firm component u_i . As suggested by the second equation, a potential issue with random-effects models is that they assume there is no covariance between x_{it} and the time-invariant error term u_i . A Mundlak specification (1978) offers a middle-ground solution by proposing that the effects in the fixed-effects model are projected on the means of the time-varying regressors. With these additional instrumental variables, the model teases out the firm-specific variance caused by the time-varying regressors. These instruments are intended to replicate the “within” transformation of classic fixed-effects estimation with a random-effects

design (Reitzig and Puranam, 2009). The model can be expressed as follows:

$$Y_{it}^* = \beta_1 \cdot x_{it} + \beta_2 \cdot \bar{x}_{it} + \mu \cdot z_i + u_i + \varepsilon_{it}$$

where x_{it} is the set of time-varying covariates, z_i are the set of time-invariant covariates, and \bar{x}_i are the Mundlak instruments. The error term is split between the firm-year component ε_{it} and the pure firm component η_i . This one-step estimation model allows me to take into account the individual-level differences between firms over time periods and to capture the heterogeneity in the error term. To determine whether the preferred framework is a random-effects model or a Mundlak model (1978), I follow Greene and Hensher (2010) and use a Wu variable addition test (1973). The likelihood ratio statistic of 13.33 is smaller than the critical χ^2 value of 15.09, with 5 degrees of freedom. This suggests that for these data, a random-effects model is appropriate. To show that my results hold when taking into account potential fixed effects for firms, I also display the results of the Mundlak model (1978).

I perform additional robustness checks using the binary, ordinal and count measures of my dependent variable. For the binary measure, I start with a pooled cross-sectional probit model with cluster correction:

$$y_{it}^* = \beta x_{it} + v_{it} + u_i$$

$$y_{it} = 1 \text{ if } y_{it}^* > 0 \text{ and } 0 \text{ otherwise}$$

Since my data have repeated observations on firms, I specify that my observations are not independent with robust variance estimates. This allows me to relax assumptions of independence of observations and yields more efficient estimates, even when errors are heteroskedastic. Because it ignores the correlation across periods, this method may lead to underestimating standard errors. While it does not estimate β consistently, assuming that the data x_{it} are well-behaved, this method produces the appropriate estimator of the partial

effects in the random-effects probit. According to Greene and Hensher (2010), this establishes a case for estimating the pooled model with an appropriate cluster correction. Second, I perform Reitzig and Puranam's two-step residual estimation (2009). As suggested earlier, the small within variation in my panel precludes the use of a one-stage fixed-effects model. An alternative to account for possible firm fixed effects involves a 2-stage approach, which can be expressed with the following equations:

$$Prob_{it} = \alpha_{it} + \beta_1 \cdot x_{it} + \varepsilon_{it} + \eta_i \text{ (Stage 1)}$$

$$\hat{\eta}_i = const_i + \gamma \cdot z_i + controls_i + \mu_i \text{ (Stage 2)}$$

In the first stage, I estimate the fixed firm effects, which allows me to predict the pure firm component of the error term η_i . An obvious problem with this method is that it implies a linear probability model when probabilities should in fact lie between zero and one. However, Greene and Hensher (2010) suggest that notwithstanding this flaw, this model has been employed in numerous applications. To address issues of heteroskedasticity, I use robust variance estimators. In the second stage, I regress this firm-specific error η_i on my independent variable. This method allows me to tease out the firm-specific error and explain the variance of these errors across different firms (fixed-effects) as a function of my independent variables. The estimates obtained in the second stage are unbiased in the sense that they do not spuriously capture other elements of unobserved heterogeneity at the firm level (Reitzig and Puranam, 2009).

Using the ordinal measure of my dependent variable, I subsequently run a random-effects ordered probit model. This is a straightforward extension of the binary choice case (Greene and Hensher, 2010). The structure of this model is:

$$y_{it}^* = \beta'x_{it} + u_i + \varepsilon_{it}$$

$$y_{it} = j \text{ if } \mu_{j-1} \leq y_{it}^* \leq \mu_{it}$$

Again, the Wu variable addition test (1973) suggests that a random-effects model is appropriate for these data (1978).¹⁸ The advantage of this specification is that it allows the modeling of multiple ordered outcomes (4 in this case) while accounting for the panel nature of the data.¹⁹ A potential drawback is the implicit assumption that the intervals between adjacent categories are equal: the distance between “no supermarket brand” and “one supermarket brand” is assumed to be the same as the distance between “one supermarket brand” and “two supermarket brands,” and so forth.

To address this issue, I use my count measure of the dependent variable to run a random-effects tobit model, which can be expressed as follows:

$$y_{it}^* = \beta x_{it} + u_i + \varepsilon_{it} \text{ where } \tau = 0,$$

$$y_{it} = y_{it}^* \text{ if } y_{it}^* > 0 ; \text{ and } y_{it} = 0 \text{ if } y_{it}^* \leq 0$$

A corner solution model is appropriate here because my dependent variable has a cluster of observations that take on the value 0 with positive probability but is a continuous variable over strictly positive values (Bowen and Wiersema, 2004; Greene, 2003). An OLS specification on the whole sample or just on the uncensored sample would provide inconsistent estimates of β (Greene, 2003). A tobit model, which is similar in many ways to a probit, is thus more appropriate (Greene, 2003). This specification is also advantageous because it allows accounting for the panel nature of my data.²⁰

RESULTS

Descriptive statistics and correlations for all variables are presented in table 4. One correlation is above .5 but it only involves control variables, which could not lead to biased

estimates on my predictors (Wooldridge, 2003). Nevertheless, I computed variance-inflation factors (VIFs) for all the variables in the main model, and the average VIF was 1.68 with a maximum of 2.20. According to Greene (2003: 58), values in excess of 20 indicate a problem—other scholars use a cut-off of 10. Since computations were always under 10, I am confident that there is no multicollinearity problem.

-----Please insert table 4 about here-----

The results of my regression analyses are displayed in table 5. Models 1 to 8 correspond to my binary measure of the dependent variable, where I predict the likelihood of supplying supermarket brands. I start with a baseline including only control variables (Models 1, 3, 5, and 7). The full models test my hypotheses about firms with whom suppliers identify (Models 2, 4, 6, and 8). Further robustness checks are displayed in models 9 to 12. Models 9 and 10 correspond to the ordinal measure of the supply of supermarket brands (random-effects ordered probit specification). Models 11 and 12 correspond to the count measure of supermarket brands (random-effects tobit specification).

-----Please insert table 5 about here-----

Results of the random-effects probit, as displayed in the column labeled Model 2, offer strong support for my proposition that firms with whom suppliers identify are more likely to behave opportunistically when the behavior is hard to observe, that is, when suppliers tend to infer firm behavior from a visible outcome. A likelihood ratio test of the full model (Model 2) and the restricted model (Model 1) shows that the hypothesis that the coefficients for my variables of interest are jointly equal to zero can be rejected: 18.53 is larger than the critical χ^2 value of 16.81, with 6 degrees of freedom. In probit models, unlike linear models, the marginal effect due to a change in the independent variable is not the estimated coefficient.

Therefore, the effects reported below are the average predicted probabilities that I computed for the random-effects probit model.

H1 predicted that firms whose management remained within the original founder's family are more likely to supply Champagne for supermarket brands. All six specifications support this hypothesis. In the probit model, the random-effects estimator suggests that 47.57% would be the average probability of supplying supermarket brands if all firms in the data were treated as being managed by a 10th-generation descendant of the founder. By contrast, the probability would only be 19.84% if all firms were treated as being managed by a 5th-generation descendant. It would decrease even further if all firms were treated as managed by non-family CEOs: 8.13% would then be the average probability. In sum, family management has a substantial effect on the probability of supplying supermarket brands in my data.

Hypothesis 2 predicted that firms whose CEO did not go to business school are more likely to supply supermarket brands. This hypothesis is also supported: according to the random-effects model, the average probability of supplying Champagne for supermarket brands if all CEOs had some business education would be 5.13%. By contrast, the probability increases to 11.20% if no CEO in the sample had any business education. While the effect is significant in models that use the binary and ordinal dependent variables, it loses significance with the count dependent variable. In sum, CEO business education is a significant predictor of whether a firm supplies supermarket brands, but not of the exact number of supermarket brands supplied.

Hypothesis 3 predicted that firms whose CEO was born and raised in the local community are more likely to supply supermarket brands. The results of the random-effects model show that 7.05% would be the average probability of supplying supermarket brands if no CEO was born and raised in Champagne. By contrast, the probability rises to 46.18% if all CEOs were

born and raised in Champagne. The effect of local origins is thus important, and significant in all six specifications.

Hypothesis 4 looks at the impact of firm location on the likelihood of supplying supermarket brands. H4-a focuses on whether the firm is located in a high-density Champagne village: the random-effects estimator suggests that the average probability of supplying supermarket brands would equal 71.91% if all firms were located in the highest-density (i.e., most traditional) village. By contrast, it would reach just 7.87% if all firms were located in the most remote location. H4-b offers further support for the impact of location: if all firms were located in the closest traditional village, the average probability of supplying supermarket brands would be 10.79%, whereas it would be only 4.28% if they were all at least 30 km (about 19 miles) away—an interesting and important effect. H4-a and H4-b are supported in all six specifications.

The last hypothesis predicted that old, established firms are more likely to supply Champagne for supermarket brands. The random-effects probit model suggests that the average probability of supplying Champagne for supermarket brands would be 9.24% if all firms were treated as being 300 years old; it would go down to 8.34% if all firms were treated as being 10 years old. The effect of firm age is thus relatively small; furthermore it is not significant in the main model – only in the random-effects ordered probit and in models accounting for fixed effects (i.e. the Mundlak model and the two-step residual estimation). This suggests that the variance may exist within houses, rather than between houses—there may be an aging effect when comparing the probability of supplying supermarket brands in 1998 and 2007 (beginning and end of my period of observation). A possible explanation for this result pertains to the measure used for age. In further sensitivity analyses, I tested for a linear effect of firm age. Again, results were significant only in the three specifications. I also created a lateness-of-entry variable, coded 0 if the particular house was founded before 1960;

otherwise the variable would take on the value of year of entry minus 1960. I chose 1960 as a cut-off point because it is around this time that the industry took its present form; the French government adopted legislation in the early 1960s that, for instance, prevents houses from acquiring grower-owned vineyards. My interviews suggested that this was often seen as a crucial cut-off point, distinguishing newcomers from old-timers. However, results were also inconclusive. Therefore, this hypothesis receives only limited support.

DISCUSSION AND FURTHER ANALYSES

This paper investigates what sort of firm is more likely to engage in a contested action when the latter is difficult to observe for partners. I focused on partners' identification processes and proposed that, paradoxically, firms with whom partners identify are more likely to behave opportunistically. Building on the literature on identification and trust-related judgment, I argued this is because these firms are less scrutinized and make use of this leeway to engage in contested but difficult-to-observe actions. I investigated this proposition by looking at the supply of supermarket brands in the Champagne industry, drawing on rich qualitative and quantitative data. My analyses confirm that firms perceived as trustworthy by grape suppliers are in fact more likely to supply supermarket brands, a practice these suppliers perceive as detrimental and contest.

Why Do Firms Perceived as Trustworthy Do It?

My explanation emphasizes the potential dark side of identification-based trust: I argued that firms with whom suppliers identify are more likely to engage in a "crime of opportunity" because they are less scrutinized than firms with whom partners do not identify. If lower monitoring is not the reason why firms perceived as trustworthy engage more in contested actions, then these firms should also engage more in actions that are contested and easy to

observe. To test for this possibility, I focused on a situation where grape growers strongly contest a specific action and can easily identify who is responsible for it (i.e., little monitoring is required).

I collected further data on houses that increase their self-supply ratio by purchasing other Champagne houses that for historical reasons owned some vineyards.²¹ Ample qualitative evidence confirms that this practice is extremely contested by grape growers. It is perceived as an attempt by Champagne houses to alter the power balance in their favor, thus threatening the growers' economic interests: "The houses are trying to mess with the traditional equilibrium in Champagne: by trying to acquire vines, by trying to become land owners, by trying to own vines whatever the cost, they're destabilizing our collective organization."²² "The wraith of integration [. . .] That would simply lead to the vertical integration of the growers to the benefit of the houses . . . They want to destroy our structures and entirely self-supply for grapes."²³ As opposed to the supply of supermarket brands, it is easy for grape growers to know which firms acquired vines in Champagne: these transactions are reported both in the local newspaper (*L'Union*) and in the growers' trade publication (*Champagne Viticole*); furthermore, growers can observe every day who is working in the neighboring vineyards.

Using data from the *Guide Curien* and local archives, I created a binary variable coded 1 if a firm acquires some vineyards in a given year and 0 otherwise. I used panel probit regressions using the new dependent variable and found that the identity variables become insignificant, with the exception of business education (p -value = .133). These findings provide further support for the explanation I am proposing in this paper: when it is easy for suppliers to identify who is responsible for an outcome, firms with whom they identify are not more likely to engage in the contested action.

-----Please insert table 6 about here-----

Contributions to Extant Literature

This paper contributes to the literature on organizational identification. Prior work on identification has largely focused on the shared beliefs held by organizational members. There is, however, a great paucity of work on the identification processes of actors who are not members of the organizations they assess (Elsbach, 1998; Scott and Lane 2000). This constitutes a gap because partners often identify with organizations of which they are not members (Scott and Lane, 2000); identification processes are thus crucial to our understanding of inter-firm relations. Furthermore, studies on interfirm relations have rarely investigated the role of suppliers' expectations. The constraints placed on firms by audiences such as investors or critics have been examined (e.g., Zuckerman, 1999), but other categories of partners deserve our attention (Fiss and Zajac, 2006). We know that the buyer-seller relationship may be characterized by identification (e.g. Bhattacharya, Rao, and Glynn, 1995), yet few studies have looked at suppliers' identification processes. Buyer-supplier relations are recognized as an important source of sustainable competitive advantage; a number of strategic and financial benefits can be derived from understanding and managing these relations. My paper furthers this literature by looking at buyer-supplier relations and showing how suppliers' identification processes create strategic opportunities for buyers.

My findings speak to an important debate in the field of organizational identity studies. According to Hatch and Schultz (2004: 87), there is much confusion in the literature over how to conceptualize organizational image. The original definition referred to the way members of an organization perceive that the others feel or think about them (Dutton and Dukerich, 1991). Some scholars have used this concept to describe fabricated and projected pictures aimed at different constituents, or the public's perception of an organization (Gioia, Schultze, and Corley 2000: 63). In this study, I found that the organizational image built by

outsiders may differ from the “objective reality” and that assessments of trustworthiness may be inaccurate or biased. Cognitive models of information processing explain how individuals selectively perceive, evaluate and interpret attributes of the external environment in terms of their meaning for the self (Scott and Lane, 2000). While actors generally learn about each other’s trustworthiness (Lewicki and Bunker, 1996), it may be easier for insiders to update their information than for outsiders. To paraphrase Ashforth (1998: 268), a newcomer may enthusiastically embrace an organization-affirming speech by the CEO but a year later, view a similar speech as cynical manipulation.

I show that firms may use their organizational image as a strategic resource. When there is some ambiguity as to who is responsible for a contested outcome, firms perceived as trustworthy are in a better situation to behave opportunistically; they are unlikely to be exposed as frauds given the lower level of scrutiny they enjoy. What is important to note is that managers are aware of the strategic advantages generated by their partners’ identification processes. For instance, a family CEO I interviewed explains: “It is obvious there is an advantage [in being the founder’s descendant]. For supply relations, there’s a significant advantage [. . .] my word is worth a contract” (interviewed family CEO). Similarly, a CEO born and raised in Champagne explains: “Being a local figure is very well perceived. It makes a huge difference compared with other firms, like Moët. That’s something we put forward in our discussions with growers.” Being aware of this advantage explains why these firms can act upon it. Indirectly, my results thus speak to the literature on strategic change. Prior work in this area suggests that the success of any strategic change depends not only on an organization’s ability to implement new practices but also on its ability to convey the new mission and priorities to its many business partners: “buy in” by business partners is crucial for change to succeed (Fiss and Zajac, 2006: 1173). What my findings highlight is that managers may leverage their image to implement strategic but contested change.

These findings add to existing research on the dark side of identification and trust. Looking at a specific category of actors—employees—identification scholars tend to highlight the benefit of strong identification for firms (Ashforth and Mael, 1989). My results provide some support for recent calls for a more balanced approach to the consequences of identification (e.g. Pratt, 1998; Dukerich, Kramer, and Parks, 1998). Similarly, trust scholars have largely emphasize the risks associated with “too little trust” while overlooking the “dark side of trust” (e.g. Gargiulo and Ertug, 2006). By definition, trust involves a greater willingness to rely on another’s actions in a situation involving the risk of opportunism (Schoorman, Mayer, and Davis, 2007). Opportunism neither is ubiquitous nor is it very unusual (Maitland, Bryson, and Ven, 1985: 64). There is an agreement “on the idea that trust can at times have negative consequences for one or more of the parties involved; however there is little conceptual clarity on how the effects of trust can become negative or on the nature of those negative effects. Mirroring this theoretical underdevelopment, there is also scant empirical evidence on the detrimental effects of trust” (Gargiulo and Ertug, 2006: 183). This paper responds to calls for further research on trust as heuristics and faulty assessments of trustworthiness (McEvily, Perrone, and Zaheer, 2003).

Another contribution of the paper lies in the explanation it provides for a paradoxical phenomenon. There are a number of explanations for why firms with whom partners identify are more likely to engage in actions contested by their partners, but in Champagne, the primary explanation lies in the observability of the action: managers can take advantage of the fact that they are monitored less. To quote one of them: “A happy life is a discreet one.” In other words, trust and lack of monitoring seem to be the primary explanations for why these firms can engage in the contested action. Discussing another contested action in the industry, an executive explains: “How we have done it? [. . .] I think it’s also because of where we have [done it]: very far away [. . .].” In this perspective, the paper speaks to the

literature that questions the accuracy of managers' perception (e.g., Mezas and Starbuck, 2003). An intriguing finding is that houses may be right to strategically use their identity. My qualitative evidence suggests that suppliers are not aware of who engages in the business of supermarket brands. At the very least, they are not aware that it is the firms they see as most trustworthy that are likely to engage in this activity. For instance, after emphasizing the problem of supermarket brands in Champagne, a grower comments on firms with active family-management: "Houses that have kept a family spirit, the spirit of Champagne . . . that's what really matters" (interviewed grower). Suppliers maintain their trust in firms they identify with; the latter are thus unlikely to be caught. By contrast, suppliers intensely monitor the "usual suspects," that is, firms that they do not identify with and which they are socially distant from. These firms are thus very likely to be caught and punished when they supply supermarket brands (Ody-Brasier and Vermeulen, 2011). A grower explains: "They [the houses] send us some information. We take the information we are given [. . .]. And then we cross-check the info. We see we were fooled, and we ask for explanations. Or we don't notice it, and then good for them [. . .] All houses are not the same. Some houses want to make us believe they have a relation with us, but it rings very hollow. In other houses, they want us to believe the same thing but it sounds true."

Consider the following examples. At one end of the spectrum, Cattier is a Champagne producer that grape growers trust and identify with. This firm is managed by the eponymous descendant of the founder; the CEO did not go to business school (he holds an oenology diploma), he was born and raised in the local community (he was born in Champagne and educated at the local university), the firm is located in a traditional Champagne village (density of 5.2 compared with the sample average of 2.6) and fairly old (85 years old). Yet, Cattier supplies supermarket brands over my period of observation (e.g., Aldi's Champagne Carlin). When asked whether he thought Cattier supplies supermarket brands, a grower

replies: “No. Cattier does not supply supermarket brands. No, it’s not Cattier [. . .] Cattier, it’s a beautiful, small house” (interviewed grower). At the other end of the spectrum, Vranken and Moët & Chandon are typical examples of the “usual suspects” for grape growers. Vranken is managed by an entrepreneur born and educated in Belgium who arrived in Champagne in the early 1980s. While considerably older, Moët & Chandon is not managed by a family CEO; the CEOs all went to business school and none was born or raised in Champagne. When asked about supermarket brands, growers tend to be wary of these firms: “What houses often do when they need cash is make up those imaginary brands. All sorts of weird *Veuves*.²⁴ Ridiculous names . . . And then under these names you see written ‘produced by code X.’ That way, you have no clue what house it is. You won’t see the word Moët, or Vranken [. . .]” (interviewed grower).

Limitations and Future Research

A potential limitation of the paper is that I defined trust as one party’s confidence in the goodwill of a partner. I chose this definition because it is well suited to the interfirm level of analysis and because it reflects an “identification-based” notion (Lado, Dant, and Tekleab, 2008). A drawback is that I only considered suppliers’ identification processes, ignoring the possibility that firms also identify with their suppliers. If the trust relation is reciprocal, that is, if suppliers identify with firms and if those firms also identify with suppliers, one may expect identification-based trust to limit opportunism. To paraphrase Lewicki and Bunker (1996), firms that reciprocate their suppliers’ trust and “effectively understand and appreciate suppliers’ wants” may behave a little less opportunistically, even if the action is difficult to observe. While I cannot directly test for this possibility, I used two indirect analyses to get a sense of whether that is indeed happening in my setting.

A few firms own vineyards for historic reasons. One could assume that these firms identify with grape growers to the extent that their activities overlap, in that they also grow grapes.

Based on this assumption, I created a dummy variable coded 1 if a firm owns a *historic vineyard* and 0 otherwise. I measured this variable by looking at whether the firm owned a vineyard prior to 1960, when Champagne houses were legally barred from buying up vineyards from growers. I ran the same panel probit analysis as in Model 2, adding the *historic vineyard* variable. As expected, my independent variables remain significant and in the expected direction. Furthermore the effects of historic vineyards are negative and significant (see table 6). In other words, firms that own a historic vineyard are less likely to supply supermarket brands. The random-effects estimator suggests that 5.78% would be the average probability of supplying supermarket brands if all firms in the data were treated as having a historic vineyard; the probability would be 8.38% if all firms were treated as having no historic vineyards.

A few Champagne producers started as grape growers. Again, one may assume that a common origin causes these firms to identify with grape growers to a greater extent than firms that started as Champagne houses. My qualitative evidence suggests it is possible: these firms seem to view their grape-growing origins as part of their self-identity, overlapping with the identity of grape growers. The CEO of one such house explains: “We have the soul of a grape grower. People often say we are the most ‘grower-like’ house in Champagne.” A grower adds: “Some houses come from the vineyard, like Paillard.” Based on this assumption, I generated a dummy coded 1 for firms with some *grower origins* and 0 otherwise. I created this variable using the *Guide Curien*, a professional guide that details the histories of all Champagne houses. For example, the following description was considered to indicate grape-growing origins: “The descendant of several generations of wine growers, Alain Soutiran broke with family tradition in 1997 by adopting the status of a house” (excerpt from the *Guide Curien*, 1998). Because very few houses began as grape-growing businesses (just over 10 firms), I created a subsample of the firms that have *no* grower origins and ran the same

panel probit analysis as in Model 2 using this subsample. My independent variables remain significant and in the expected direction; furthermore, the effects prove economically larger than in Model 2. For example, in this subsample, the average probability of supplying Champagne for supermarket brands if all CEOs were treated as born and raised in Champagne is 50.31% (vs. 46.18% in the full sample), and it drops to 10.42% if no CEO was born and raised in Champagne (vs. 7.05%). In sum, the hypothesized effects of my identity variables appear to be amplified for firms that do not have grape-growing origins. While clearly imperfect, these analyses point to a more nuanced theory for the effect of identification-based trust on firm behavior. At the very least, they suggest that accounting for the reciprocity of identification-based trust would be a fruitful avenue for future studies on the impact of identity processes on interfirm relations.

This paper suggests that firms are aware of the trust they enjoy and make strategic use of their identity with suppliers. A firm's identity claims tend to influence the image that external partners construct of the firm. In fact, identity claims are often attempts at managing partners' image of the firm. If firms do indeed make strategic use of their image with suppliers, it is likely that they use impression-management techniques. Impression management refers to any behavior that has the purpose of controlling or manipulating the attributions and impressions formed by others (Arndt and Bigelow, 2000). My qualitative evidence suggests that Champagne houses are not only aware of their partners' identification processes but may also try to influence the latter. For instance, many are particularly vocal about their commitment to suppliers: "The House nurtures solid, close relations with its growers" (excerpt from the corporate website²⁵). "(The house has) excellent partnership relations with our grape suppliers" (excerpt from the corporate website²⁶). In further analyses, I wanted to see whether the firms that are the most vocal about their concern for grape suppliers are ironically more likely to supply supermarket brands.

I created a count variable of the number of times a firm mentions its relations with suppliers in the *Guide Curien*. Because the guide provides all Champagne houses with an equal opportunity to describe their business, philosophy, products, and history, it is an ideal source of data to assess efforts at managing impressions. Even the smallest firms are represented in this guide, which is known to virtually all Champagne professionals. For example, the following firm received a count of “1” for the year 2006–2007 on the basis of this statement: “For fifty years Bernard de Nonancourt (CEO) has maintained constant and honest relationships with Champagne’s vine-growers that have enabled him to patiently build the reputation of the wines of his firm” (excerpt from the *Guide Curien*, 2006–2007). The variable ranges from 0 to 2 in my data. I added this count variable as a regressor in the panel probit model used earlier (please see table 6). My results suggest that firms do indeed make strategic use of impression-management techniques: the coefficient is positive and significant. After computing the average predicted probabilities, I find that if all firms were treated as making no claim to care about their relations with suppliers, the average probability of supplying supermarket brands would be 8.29%, whereas it increases to 16.50% if all made one such claim, and to 26.30% if they made two such claims. Going back to the very roots of the concept of organizational identity (e.g. Goffman, 1969), I believe these findings strengthen the paper’s argument and point to a number of exciting research questions at the intersection of the impression-management and identity literatures.

NOTES

¹ In their review of the construct, Wathne and Heide (2000) distinguish two definitions of opportunism. While Williamson (1975) originally referred to violations of explicit contracts, this “strong form” of opportunism was progressively augmented to include violations of social contracts, that is, norms and informal agreements between firms. In this paper, I adopt this broader definition and exclusively refer to “lawful opportunism” (Williamson, 1991), in other words, violations of norms and informal agreements.

² Comité Interprofessionnel des Vins de Champagne (CIVC). The CIVC encompasses two trade associations—the houses’ (UMC: Union des maisons de Champagne) and the growers’ (SGV: Syndicat General des Vignerons).

³ In fact, French grocery producers see their average profitability increase with the share of supermarket brand supply (Moati, 2008). A recent study shows that firms that do not supply supermarket brands have an average profitability of 7%, whereas the profitability of firms whose activity involves supermarket brands is twice as large—up to 17% for firms who dedicate more than 80% of their production to supermarket brand.

⁴ Each bottle costs this firm 7 euros to produce, they sell it to the distributor for 10 euros, and the bottle retails for 13.55 euros on the supermarket shelves. This compares with another producer who sells his own brand: each bottle costs this firm 10 euros, they sell it to the distributor for 13 euros, and the bottle retails for about 20 euros on the shelves (Capital, broadcast of December 12, 2010).

⁵ This is how Champagne is described both formally and informally by industry members. For example, this sentence is often used in communications by the Champagne Trade Association (CIVC).

⁶ Interestingly, this criticism remains in spite of evidence pointing to the quality of the Champagne supplied for supermarket brands (see Deluze, 2010).

⁷ While there is a perception that supermarket brands are mainly supplied by cooperatives of growers, this is in fact not the case. Figures from the CIVC suggest that in 2008, about 30% of all supermarket brands were supplied by a growers’ cooperative (1 supplier out of 9).

⁸ In the French education system, the baccalauréat is an examination sat in the final year of high school. The “technical baccalauréat” caters to students specializing in directly job-based subjects such as agriculture.

⁹ Ghislain de Montgolfier, CEO of Bollinger, at the 2006 meeting of Association Viticole Champenoise (AVC).

¹⁰ Data from *Rayon Boissons*, see <http://www.rayon-boissons.com/Informations-publicite>.

¹¹ These documents are only available in a section of the French National Library that is dedicated to researchers and academics. Therefore, individuals who wish to see these documents need to justify their request in writing and sit for an interview with a librarian prior to being granted temporary access. Furthermore, documents are delivered upon specific requests, which makes it impossible to simply go and “browse”.

¹² I obtain similar results with alternate cut-off points.

¹³ Results remain similar when I use an ordinal measure (0, 1, or 2); however, they are less significant.

¹⁴ Results are similar when I use alternate measures of age.

¹⁵ I do not have a ranking going from 1 to 66 because several houses were ranked as equal on the prestige scale.

¹⁶ I do not find an inverted U-shaped relationship between status and the supply of Champagne for supermarket brands. This result does not contradict Phillips and Zuckerman’s finding (2001): these authors argue that when a practice is particularly discrediting, high-status actors will stay away from it. In other words, one could draw a parallel between my results and the results Zuckerman and Phillips (2001) obtained in their analysis of the adoption of personal-injury law by law firms (2001).

¹⁷ Results also hold when I use a logit model, which relies on a standard logistic distribution.

¹⁸ The likelihood ratio statistic of 12.09 is smaller than the critical χ^2 value of 15.09, with 5 degrees of freedom.

¹⁹ To the best of my knowledge, it is not possible to estimate a multinomial probit model for panel data.

²⁰ The Wu Variable addition test (1973) confirms that it is appropriate to use a random-effects model: the likelihood ratio statistic of 4.512 is much smaller than the critical χ^2 value of 15.09, with 5 degrees of freedom.

²¹ While Champagne houses cannot legally buy up small grape growers, they can purchase other houses.

²² Patrick Lebrun, president of the growers’ association, at the 2006 general meeting of the AVC.

²³ James Clément, president of the Vallée de la Marne coop union, at the 2007 general meeting of the AVC.

²⁴ The term “Veuve” is stereotypical in Champagne, for example, Veuve Clicquot. As such, it is often used in supermarket brands, such as in “Veuve Emile” for French retailer Auchan.

²⁵ <http://www.champagne-henriot.com>

²⁶ <http://www.duval-leroy.com>

TABLES

Table 1

Sample Quotes Concerning Supermarket Brands

Supermarket brands	<p>“Anyway, supermarket chains are a public enemy for brands. And for luxury products. I’ve always said so. They’re image thieves; that will never change.” (a grower)</p> <p>“There is a risk for the image of Champagne. It’s the image of the product that’s devaluated [with] these low-priced Champagne released by supermarkets.” (a grower)</p> <p>“We’ll never create value with supermarket brands. Never. It will make a few people rich, some businessmen... they extract some value from it but they don’t share it [...] It’s not something I would facilitate. It’s not the right path for Champagne.” (an industry representative)</p> <p>“Supermarket brands... Please, I don’t want to become rude!” (a grower)</p> <p>“It’s extremely detrimental to the image of Champagne as a luxury product. If tomorrow you find a real Vuitton bag - not a counterfeit- for a trivial price, the product loses all credibility. There’s a psychological bottom-price in the consumer’s mind.” (a grower)</p> <p>“There are despicable people. Those who supply supermarket brands, who sell for cheap and who try to acquire our vines! [...]”(a grower)</p>
--------------------	--

Table 2

Sample Quotes Concerning Suppliers' Identification and Perceptions of Trustworthiness

Family CEO

"Family firms that keep the family spirit, the spirit of Champagne, that's what matters." (a grower)

"If you are a family business in the region, your overriding aim is the development and maintenance of your family business but within the context of a successful Champagne region." (an insider)

"Yes, it is obvious there is an advantage [in being the founder's descendant]. For supply relations, there's a significant advantage: a perceived stability for growers. They know I'm here for at least 30 years; my words are worth a contract. They see a leading figure at the head of the firm, someone who knows Champagne [...] that's a clear advantage." (a CEO)

"A beautiful house that remained a family house is Laurent Perrier. Even other houses that have lost a bit of their shine but have remained in the family, like Pol Roger. As a professional, I think these houses, tomorrow they may be bought by a group but so far, they belong to a Champenois family, they were built in Champagne, they have a sense of the product that's not limited to a price in euros." (a grower)

Business education

"We're not marketing and communications people. We care about production. Marketing and communications, these are radically different jobs [...]" (a grower)

"We are dealing with agriculture. We're not planting screws or bolts, this is an agricultural production. If you don't get that, it cannot work [...]. You can't have a good final product without good raw material and the raw material is grapes. This might be in the 20th century but it's still grapes [...]. For these people, production is a given: you just make what you want like handbags or vodka." (a grower)

"Some often talk about an industry. Personally, this word makes me cringe. I can't stand it. It's a word that does not belong in Champagne. Champagne is a luxury product; it's an artisanal product where the hand of men intervenes in all steps of production." (a grower)

"These financiers, when the money doesn't flow anymore, they throw away the business. I cannot stand this attitude. I hate these financiers." (a grower)

Local origin	<p>“[Being] a <i>Champenois</i>...that’s a clear advantage [with suppliers].” (a CEO)</p> <p>“We see managers coming from outside the region; before they were with Nestlé, later they will be with BMW [...]” (an insider)</p> <p>“Jean-Francois Rapeneau knows his trade perfectly. This means that this native from Champagne grew up in the vineyard and in winemaking.” (presentation of a Champagne house in the Guide Curien, 2006-2007).</p> <p>“That’s what we often ask from Moet. That they try to keep at least a bit of a <i>Champenois</i> fiber.” (a grower)</p> <p>“I raised the question 10 years ago! They told me I was from Burgundy and didn’t understand anything.” (a CEO)</p> <p>“You have to remember: Champagne is a region where you live and die. Literally.” (a CEO)</p>
Traditional village	<p>“I mean, come on! In some places, there have never even been any vines! Any tradition of wine.” (a grower)</p> <p>“Some large companies move their marketing teams from Champagne to Paris so that all their marketing teams can interact together. But by doing so, you’re cutting off people who may not have come from the region in the first place from the day to day understanding of the region, the growers. You are beginning to divorce the producers and their staff in a place where history and culture have shaped the way management and marketing work.” (an insider)</p> <p>“We’re in an ancient Champenois village in the Mountain of Reims; it dates to the 8th century [...] It’s a traditional village, one of the most beautiful villages in the Champagne region. Our vineyards are renowned, they’re listed among the first Champagne vintages.” (a CEO)</p> <p>“What’s really criticized is the absence of local decision-making. Some have simply moved to Paris. They are in Paris, live in Paris and have their office in Paris [...] That’s very poorly perceived here.” (a CEO)</p>
Oldtimer	<p>“The fairly senior players in mid-sized houses are still maintaining the “we have two families, we are the houses and with the growers, we all work together [...]” (an insider)</p> <p>“It’s a very beautiful house. It belongs to the history of Champagne.” (a CEO)</p> <p>“This is a beautiful firm. They have a history, a great legacy. It has taken them time and efforts to build the brand... a colossal amount of work. They have little to learn from anyone in the industry! I respect that.” (a grower)</p> <p>“Some of these firms, they come and go. Who knows for how long they’re here, where they’ll be in 5 or 10 years? They would leave tomorrow if they stopped making money. They don’t care about Champagne.” (a grower)</p> <p>“A perspective in time. It counts for a house. Where the house is going, how it’s managed, by whom.” (a grower)</p>

Table 3

Overview of Respondents Interviewed

Number of informants	Affiliation
3	Heads of Champagne industry associations (CIVC, UMC and SGV)
12	Industry experts
14	Grape growers
14	CEOs of Champagne houses

* Two industry experts and the head of the UMC were interviewed twice.

** Industry experts include Masters of Wine (MW), a scholar from the Champagne Management Chair – Reims Business School, a UBS analyst for European Luxury Goods, the managing director of the Champagne Bureau in the UK, Champagne agents, oenologists and the former head of UMC

Table 4

Descriptive Statistics and Correlations (N=586)

Variable	Mean	S.D.	Min.	Max	1	2	3	4	5
1. Supermarket brand	0.17	0.38	0.00	1.00					
2. Family CEO	1.79	2.52	0.00	10.00	0.13				
3. Business education	0.31	0.46	0.00	1.00	-0.18	-0.10			
4. Local origin	0.08	0.27	0.00	1.00	0.21	0.33	0.09		
5. Traditional village	2.67	5.62	0.02	48.28	-0.04	-0.05	0.00	-0.03	
6. Distance to village (log)	1.20	1.23	0.00	3.43	-0.25	0.04	-0.20	-0.05	0.39
7. Firm age (log)	4.50	0.97	0.00	6.18	0.02	0.07	0.16	0.20	-0.26
8. Firm size	42240.58	93883.96	41.00	859998.00	0.07	-0.05	0.25	-0.03	-0.10
9. Sales variation	2230.15	15061.82	-112000.00	141046.00	-0.02	-0.01	0.07	-0.02	-0.03
10. RoA	4.56	6.14	-37.16	37.49	-0.05	0.08	0.18	0.02	-0.08
11. Status	0.00	0.94	-1.00	1.88	-0.26	0.19	0.31	0.14	-0.13
12. Export ratio	36.49	27.47	0.00	100.00	-0.21	0.09	0.30	0.02	0.09
13. Corporate group	0.55	0.50	0.00	1.00	0.11	-0.15	0.34	0.05	-0.22
Variable	6	7	8	9	10	11	12		
7. Firm age (log)	-0.40								
8. Firm size	-0.28	0.27							
9. Sales variation	-0.08	0.08	0.42						
10. RoA	-0.03	0.19	0.29	0.17					
11. Status	-0.14	0.46	0.16	0.09	0.31				
12. Export ratio	-0.04	0.28	0.28	0.09	0.36	0.62			
13. Corporate group	-0.50	0.41	0.31	0.11	0.24	0.34	0.20		

Table 6

Further Panel Probit Regression *

	Full sample	Full sample	Subsample: no grower origin	Full sample
Variable	DV: Acquisition of Vines	DV: Supply of Sup. Brands	DV: Supply of Sup. Brands	DV: Supply of Sup. Brands
Historic vineyards		-2.715 • 1.531		
Claimed relations				1.974 • 1.092
Family CEO	0.008 0.057	1.073 *** 0.324	0.749 † 0.529	0.792 *** 0.211
Business education	-0.463 † 0.309	-4.630 ** 1.724	-13.553 *** 4.303	-2.832 • 1.292
Local origin	-0.358 0.558	9.721 *** 2.431	16.438 *** 4.172	5.648 *** 1.533
Traditional village	0.036 0.027	0.393 • 0.195	-2.696 † 1.852	0.176 † 0.118
Distance to village	0.034 0.147	-1.935 ** 0.659	-2.204 ** 0.925	-0.979 ** 0.357
Firm age (log)	0.199 0.203	0.019 1.024	-0.187 0.808	0.348 0.450
Firm size	0.000 0.000	0.000 0.000	0.000 0.000	0.000 0.000
Sales variation	0.000 • 0.000	0.000 0.000	0.000 0.000	0.000 0.000
RoA	0.019 0.020	0.083 0.081	0.121 0.086	0.021 0.045
Status	0.356 0.219	-8.001 *** 1.593	-7.818 *** 1.816	-4.719 *** 0.900
Export ratio	-0.007 0.006	0.012 0.031	-0.063 0.047	0.008 0.018
Corporate group	0.407 0.349	7.998 *** 1.688	2.400 2.104	5.013 *** 0.973
Constant	-2.180 • 1.032	-16.592 ** 5.916	-7.236 4.976	-11.326 *** 2.855
Year dummies	YES	YES	YES	YES
N	586	586	494	586
LL	-191	-40	-30	-41.861178
Goodness of estimation	Wald $\chi^2(20)=$ 46.63	Wald $\chi^2(21)=$ 127.13	Wald $\chi^2(20)=$ 41.98	Wald $\chi^2(21)=$ 122
Prob	0.001	0.000	0.003	0.000

*** p<.001 ** p<.01 • p<0.05 † p<.10, significance tests are one-tailed for predictors;

* Heteroskedasticity-consistent robust standard errors are in bold, clustered by firm

CHAPTER 4 – CUTTING THEM SLACK: HOW IDENTITY MODERATES REACTIONS TO CONTESTED ACTIONS

ABSTRACT

Over the past decades, strategy scholars have examined the performance benefits associated with a variety of social approval assets, including a positive organizational identity. More recent studies posit that these assets may act as buffers that protect firms from negative events such as partners' reactions to violations of their expectations. This paper empirically investigates the moderating effect of a positive organizational identity in the Champagne industry. Drawing on research on social identity and social attribution, I theorize about the effects of Champagne houses' identity on grape suppliers' reaction to two cases of violations that are not only easy to observe but also result from clearly internal causes—the production of non-Champagne sparkling wine abroad and the acquisition of vineyards in Champagne. I find that, although the houses engaged in these actions tend to pay a higher price for the exact same grapes, the price increase is lower for those houses whose identity suppliers regard as positive. I argue this is because suppliers view negative actions as the result of situational factors rather than chronic dispositions when they involve firms toward which they hold affective predispositions. I discuss the implications of these findings for research on organizational identity and social approval assets in general.

INTRODUCTION

Recent organizational research has paid increasing attention to social approval assets, a class of assets associated with favorable collective perceptions of a firm (Pfarrer, Pollock, and Rindova, 2010). Acting as interpretative frames for other actors, these assets generate positive views about the firms that possess them. As such, they are often believed to be a source of sustainable competitive advantage. Several empirical studies document the performance benefits associated with different types of social approval assets, including high legitimacy (e.g. Ruef and Scott, 1998), a positive reputation (e.g. Roberts and Dowling, 2002), high status (e.g. Stuart, Hoang, and Hybels, 1999) or a positive identity (e.g. Voss, Cable, and Voss, 2006; Craig, Dibrell, and Davis, 2008)

This paper concentrates on organizational identity and investigates a research question that, to date, has received little scholarly attention: when a firm violates key partners' expectations, does a positive identity act as a buffer or does it, instead, exacerbate negative reactions?

Social approval assets are often posited to protect firms from negative events, including partners' negative reactions to violations of their expectations (Pfarrer, Pollock, and Rindova, 2010). However, research in this area tends to focus on a limited range of assets, in particular reputation and status. Furthermore, there is only mixed empirical support for the moderating effect of these assets: while some researchers find generally positive buffering effects (e.g. Jones, Jones, and Little, 2000; Schnietz and Epstein, 2005), others have shown that these assets can in fact intensify negative reactions (e.g. Wade, et al., 2006). For instance, Pfarrer, Pollock and Rindova (2010) recently found that high-reputation firms experience smaller market penalties when they violate other actors' expectations whereas Rhee and Haunschild (2006) showed the exact opposite, suggesting a good reputation proves a liability.

An explanation for these contradictory findings lies in the varying nature of the negative events being investigated (Pfarrer, Pollock, and Rindova, 2010). For example, the violation studied by Rhee and Haunschild (2006) -product recalls- tends to result from internal causes whereas the violation studied by Pfarrer and colleagues (2010) -negative earnings surprises- can result from external causes beyond a firm's control. This distinction matters because, as actors make sense of a violation, attribution effects are likely to vary substantially depending on the extent to which a firm is perceived as blameworthy. Blame attributions are typically made only when the actor is seen as intending to produce an outcome, that is, achieving this outcome was the actor's purpose (Fiske and Taylor, 1991: 84). They are reserved for cases in which the actor is regarded as subject to punishment (Fiske and Taylor, 1991: 84). Scholars interested in building a coherent body of knowledge on the moderating effects of different social approval assets have thus called for more research on violations that result from clearly internal causes (Pfarrer, Pollock, and Rindova, 2010).

In an attempt to answer these calls, this study looks at a specific asset, i.e. a positive organizational identity. I draw on research on social identity and social perception to theorize about the effects of a positive identity on partners' reaction to violations of their expectations. My setting is the Champagne industry where I empirically test for the moderating effect of Champagne producers' identity on suppliers' reaction to two cases of violation: the production of sparkling wine outside Champagne (that is, the production of products perceived as competitors for Champagne) and the acquisition of vineyards in Champagne (that is, attempts at backward integrating by Champagne producers). These violations are not only easy to observe but clearly result from internal causes, thus limiting sources of variation for suppliers' attribution effects.

THEORY DEVELOPMENT

Organizational Identity as a Strategic Asset

It is generally agreed that a firm's assets can become a source of sustainable competitive advantage when they are valuable, rare and imperfectly imitable (Barney, 1991). In other words, strategic assets enable a firm to conceive or implement strategies that improve its efficiency and effectiveness; they are not possessed by large numbers of competitors and they are not easy to obtain for firms that do not possess them (Barney, 1991). Dierickx and Cool (1989) observe that some intangible assets cannot be traded; they can only be accumulated. They give as an example a firm's reputation for quality: "Th[is] strategic asset is the cumulative result of adhering to a consistent set of policies over a period of time" (Dierickx and Cool, 1989: 1506). Most social approval assets belong to this class; they derive their value from favorable collective perceptions built over time (Pfarrer, Pollock, and Rindova, 2010).

While identity research has been conducted from a variety of theoretical perspectives, the search for assets that can be the source of competitive advantage has encouraged many strategy researchers to become interested in the concept of identity (Stimpert, Gustafson, and Sarason, 1998: 87). In their pioneering work, Albert and Whetten (1985) defined organizational identity as shared beliefs about what is central, distinctive and enduring about an organization. Some scholars distinguish identity and image based on whether those who hold the beliefs are members of the organization (Dutton and Dukerich, 1991), there is however a general agreement that identity refers to shared beliefs about "who we are" and/or "who they are" (Albert, Ashforth, and Dutton, 2000). Identity and image are intertwined: identity becomes a major way in which organizations describe themselves to customers, employees, suppliers, and investors, and also the way these actors develop an image of these

organizations (Dutton and Dukerich, 1991). Therefore an identity that creates a distinctive and attractive image in the minds of other actors is a source of sustained competitive advantage (Stimpert, Gustafson, and Sarason, 1998: 87).

As firms accumulate stocks of assets (Dierickx and Cool, 1989), the latter can act as reservoirs that buffer firms from negative events. Researchers have proposed that these buffers can protect firms from partners' negative reactions to violations of their expectations (Pfarrer, Pollock, and Rindova, 2010). The stock of social approval accumulated by a firm comes to play a crucial role as actors make sense of a violation; positive views about the firms cause firms that possess these assets to experience less negative reactions than firms without these assets (Pfarrer, Pollock, and Rindova, 2010). Interestingly, in their attempts to explain the role identity plays in the relationship of the firm with its environment, some strategy scholars have started to conceptualize identity as an interpretation device and as a buffer (Stimpert, Gustafson, and Sarason, 1998: 116). Social identity theory (SIT) provides concrete mechanisms to explain how a positive organizational identity can moderate negative reaction to violations.

Social Identity Theory

Rooted in Tajfel's work on social perception, SIT highlights a discontinuity between how actors behave when they relate to others on an intergroup basis as opposed to an interpersonal basis – a discontinuity that rests upon whether actors are socially categorized or not (Hogg and Abrams, 1999). Social categories are divisions of the social world into distinct perceptual groups that provide actors with a systematic way of defining themselves and others (Rao, Davis, and Ward, 2000). According to Tajfel (1982), social categories emerge not only when actors are aware of membership in distinct groups (i.e. cognitive condition) but also when this awareness is related to some value connotations (i.e. affective condition).

Actors often hold affective predispositions toward certain groups; that is, they can be biased in favour or against certain groups (e.g. Jussim, Nelson, Manis, and Soffin, 1995). Social categories are rarely neutral in the sense that they are associated with preferences for one category over another, with one category being “bad” and another “good”, or one being “better” than another (Tajfel, 1982: 154). This bias is stronger when the observer falls within one category because comparisons have implications for self (Hogg and Abrams, 1999). Lab experiments consistently show that actors strive to preserve a positive social identity by discriminating in their decisions in favor of ingroup and against outgroup members (Turner, 1980).

Based on the idea that, like individuals, organizations have an identity (Albert and Whetten, 1985), strategy scholars have fruitfully applied the arguments of SIT to the organizational level of analysis (Dutton and Dukerich, 1991; Elsbach and Kramer, 1996; Gioia, 1998; Rao, Davis, and Ward, 2000). Following this stream of research, the present paper suggests that, as partners make sense of a firm’s actions, they draw on its identity as an interpretative frame so that identity influences attributions of blame.

Social Attribution of Blame

Research on social perception highlights a fundamental attribution error whereby actors tend to view their own behavior as largely determined by the situation but regard other parties’ behavior as driven by chronic dispositions, such as traits or motives (Ross, 1977). This natural tendency extends to explanations offered for the behavior of one’s intimates, close friends and other groups with which one is allied (Fiske and Taylor, 1991). Building on SIT, a number of scholars have drawn attention to the social determinants and functions of attribution processes (Tajfel, 1982).

Empirically, they show that actors largely attribute the behavior of others on the basis of the social category to which they belong (Tajfel, 1982). When actors perceive what they regard as a negative action, they are more likely to attribute it dispositionally if the perpetrator is an outgroup member than if it is an ingroup member (Pettigrew, 1979; Hewstone, 1990). In other words, actors tend to view the same negative action as the result of situational constraints when it involves members of groups with which they are associated. Members of these groups are typically less blamed for the action since they are not seen as having purposefully intended to produce the negative outcome (Fiske and Taylor, 1991: 84).

This effect is documented in a number of settings, starting with Taylor and Jaggi's study of Hindus and Muslims in South India (1974): they find that Hindus make external attributions of ingroup members performing socially undesirable acts and internal attributions of Muslims performing the same behaviors. In a related study of "double standards", Oskamp (1965) shows that if the USA engages in a warlike action, it is perceived more favorably by US respondents than if the USSR engages in the exact same action. In sum, the tendency towards attribution biases that rationalize the actions of different groups is well documented and also applies to organizational behavior (Ashforth and Mael, 1989).

This paper's prediction is based on the core theoretical argument that, when firms violate partners' expectations, partners may react less negatively toward those firms whose identity they regard as positive. This is because partners tend to view negative behaviors as the result of situational factors—such as social context, norms, roles or background pressures—when they involve firms towards which they hold affective predispositions. Consider this anecdotal example: "Despite the release of a slew of reports and articles regarding [labor law infringements in China], Apple's share price remained unaffected and even soared up to \$500 apiece in the recent weeks [...] The company has "Apple Immunity" [...] Apple is in a completely different domain than companies like Nike, Dell, HP, much less the oil

industry.”¹ Building on this intuition, the paper’s key proposition is that firms with a positive identity will experience less negative reactions when they violate partners’ expectations than firms with a less positive identity.

RESEARCH SETTING: THE CHAMPAGNE INDUSTRY

Champagne Houses and Their Exchange Partners

Champagne is a precisely defined geographical area in France (the so-called *Appellation d’Origine Controlée*, or AOC). Only sparkling wines made from grapes grown in that region can legally be called Champagne. Champagne grapes are grown in vineyards by grape growers and are generally sold to Champagne houses—such as Bollinger or Moët & Chandon—who use them to produce the sparkling wine. There are about 15,000 growers and 65 Champagne houses. They are often referred to, by industry insiders, as the two families within Champagne. There is one combined Champagne Trade Association (the CIVC) for both growers and houses,² but it is headed by two co-presidents; one representing the growers and one representing the houses.

Although there are many more growers than houses, the growers largely act as price-setters for various reasons.³ The AOC legal framework limits the amount of land that can be cultivated, as well as the yield of the vines. The region has reached peak production (Besse, Tegner, and Wilkins, 2006); it is fully planted, and vineyard productivity is at its maximum.⁴ Although historically some houses own vineyards—the grape growers own 90 percent of the vineyards and the Champagne houses about 10 percent—since the 1960s French law forbids houses to vertically integrate and acquire vineyards from growers. As a consequence, most Champagne houses have very low self-supply ratios, so that they depend on growers for the vast majority of their supplies. In contrast, the growers are not so dependent upon

Champagne houses for distribution: they can potentially forward-integrate. In fact, although growers are relatively small in terms of total size, about one in three is already involved in the production of Champagne.

Where grape supply is limited, demand for Champagne is booming. While the domestic market remains strong, international demand—especially from countries such as Russia and China—has risen dramatically over the past two decades.⁵ This has made the grapes a very scarce resource. In what people in the industry refer to as the supply race, Champagne houses compete fiercely to secure supplies: “All that is required to sell unallocated Champagne grapes is a 30-second telephone call. They’ll be bought, unseen with gratitude and alacrity [...] They all need grapes—desperately [...] each house tries to outdo the other both psychologically and financially to attract and keep hold of the grapes” (Jefford, 2008). In this context, it is easy to see why grape suppliers are key exchange partners for Champagne houses. One CEO confirms: “In our accounting books, the growers may appear as *suppliers* but really, we have to treat them as *clients*.”

Expectation Violations and Partners’ Reaction

Two contested actions violate grape growers’ expectations and have causes that are clearly internal to the Champagne houses involved in them. These violations are easy to observe for grape growers and thus, easy to punish: Ody-Brasier and Vermeulen (2012) show that grape growers react negatively toward firms that engage in these two actions by charging them higher prices for the exact same grapes. Table 1 provides further qualitative evidence with regard to these expectation violations.

The first violation consists in producing (non-Champagne) sparkling wine in foreign subsidiaries. Grape growers perceive this action as a threat to the distinctiveness of Champagne wines and, with it, to the economic interests of the industry as a whole. These

foreign subsidiaries make wines that could be seen by consumers as a substitute for Champagne. Although the appellation itself is not used to brand the foreign wines,⁶ the name of the house often is. As suggested by one CEO of a Champagne house: “Come on, Moët & Chandon and Chandon [Napa]? It’s really, really similar, right?” A grape grower commented, “I think it’s dreadful when our own people, our own Champagne companies, go to other countries and set up production facilities for sparkling wine in these countries that is going to compete with Champagne.”⁷ In sum, releasing such products is perceived as disloyal because it involves taking winemaking expertise outside the region while exploiting the brand name of Champagne, thus threatening the economic interests of the industry.

The second action challenges the status quo within the industry, potentially affecting suppliers’ economic interests. This is when Champagne houses purchase vineyards within the region. French legislation may prevent houses from vertically integrating by buying up growers, but a house can increase its vineyard area by taking over other houses that owned land prior to the enforcement of the regulation (in the late 1960s). This action reduces the economic dependence of the particular house on grape growers, who strongly oppose it. The division of tasks—into vine growing and winemaking—is seen as a key factor of success for Champagne as a wine region. As one grape grower proclaimed, “Our organization is unique. We’re the only ones who were able to do that! Look at Cognac; it’s a mess.”⁸ Another one commented, “We are two families. We are on the same boat but let’s stick to our respective roles.” Backward integration—houses purchasing vineyards—openly challenges the established roles of the two families. It may not harm the economic interests of the region as a whole,⁹ but it challenges the growers’ role.

----- Please insert table 1 about here -----

The Moderating Effect of a Positive Identity

As shared beliefs about what is central, distinctive and enduring about a firm, organizational identity involves “fairly gross” characteristics such as firm age, scope, business/non business orientation or location (Albert and Whetten, 1985: 269). Characteristics that create an attractive image in the minds of other actors can be a source of sustained competitive advantage (Stimpert, Gustafson, and Sarason, 1998). In Champagne, certain characteristics match the traditional image of what a Champagne house should look like—grape growers display strong affective predispositions toward the houses that possess these characteristics. The following paragraph describes each of these characteristics and derives relevant hypotheses to test the paper’s key proposition.

The first characteristic I look at pertains to firm age. Newcomers who join a well established industry at a relatively late stage often will not be considered prototypical members of the category. They may be viewed as opportunistic, entering at a time when the established actors have secured the industry’s prosperity. Especially in an industry with strong traditions (Negro, Hannan, and Rao, 2011), entrants may be viewed with some suspicion as to whether they will conform to and honor the category’s traditions and practices. As proclaimed by many interviewees, a sense of history is a central characteristic of Champagne’s collective identity. Almost a fifth of all Champagne houses date back to the eighteenth century; 70 percent were founded before Champagne received the AOC recognition in 1926. Firms that entered several decades ago, after the industry took its present form, are often referred to as newcomers whereas houses that are seen as having contributed to building the name and fame of Champagne are referred to as “old-timers”. Because grape growers hold affective predispositions towards these firms, they tend view violations as the result of situational constraints when it involves *old, established firms*. While grape growers tend to punish violators with higher prices (Ody-Brasier and Vermeulen, 2012), I argue that “old-timers”

will experience lower price increases when they engage in the exact same violations. To summarize:

Hypothesis 1-a (H1-a): Old, established houses experience lower price increases when they produce (non-Champagne) sparkling wine in foreign subsidiaries.

Hypothesis 1-b (H1-b): Old, established houses experience lower price increases when they acquire vines in Champagne.

The second characteristic I look at relates to a firm's business orientation. Like many centennial industries, Champagne has developed traditions that are often as clashing with a purely commercial orientation (Porac, Thomas, and Baden-Fuller, 1989; Negro, Hannan, and Rao, 2011). The production of Champagne is still seen as an artisanal process. Artisanship is associated with the overall success of Champagne as a region, with symbols such as handpicking of the grapes or hand riddling of the bottles. One producer commented, "Some talk about the Champagne industry; it's a word that doesn't belong in Champagne. Champagne is a luxury product and an artisanal product; it relies on human skills, even if there is some mechanization of course." Honoring these practices has become central to Champagne's collective identity. A more commercial orientation often concerns larger corporations; accordingly large corporate groups, which own some of the Champagne houses, are poorly perceived by grape growers.¹⁰ One interviewee commented, "large financial groups do not share the collective vision." Typically, the co-president of the Champagne trade association (CIVC) recently advocated "remain[ing] artisans, artists, men of the vine and men of wine" and "not becom[ing] agro-food industrial groups." By contrast, the *independent houses* are perceived as part of the ingroup. As they enjoy a positive image in the mind of grape growers, I expect that they will experience less negative reactions when they violate the latter's expectations. In other words:

Hypothesis 2-a (H2-a): Independent houses experience lower price increases when they produce (non-Champagne) sparkling wine in foreign subsidiaries.

Hypothesis 2-b (H2-b): Independent houses experience lower price increases when they acquire vines in Champagne.

A third central characteristic of the identity of Champagne houses is *family management*. Many Champagnes bear a traditional family's name (e.g., Krug or Billecart Salmon), and many companies are still run by a descendant of the founder. Management by a founder's descendants is thought to distinguish Champagne from other French wine regions, in part because names are often tied to families and not just estates (e.g., Domaine La Romanée Contie in Burgundy). There is a perception that the region's prosperity is tied to the tradition that management is passed on from one generation to the next, and hence that the industry is inseparable from the families that made the region's name. As one grower commented, "Firms that keep the family spirit, that's what matters [...] That is to say, the spirit of the founder." Hence, family management is seen as a positive characteristic. Because houses whose CEO is a descendant of the founder are perceived as part of the ingroup, I argue the following:

Hypothesis 3-a (H3-a): Houses managed by descendants of the original founder experience lower price increases when they produce (non-Champagne) sparkling wine in foreign subsidiaries.

Hypothesis 3-b (H3-b): Houses managed by descendants of the original founder experience lower price increases when they acquire vines in Champagne.

The last identity characteristic I look at pertains to firms' geographic location. Co-location is a strong factor in identification, where different regions can be known for different industries,

such as textiles near Como in Italy (Sorenson and Audia, 2000) or knitwear around Hawick in Scotland (Porac, Thomas, and Baden-Fuller, 1989). Co-location leads to abundant inter-firm communication, which strengthens a collective identity (Tajfel and Turner, 1986). Similarly, some villages are considered the original “bastions” of Champagne, recognized as historical centers of this regional industry. As the industry developed, producers also located further away from these villages,¹¹ venturing off to other locations within the Champagne region. This geographical expansion generated heated debate throughout the development of the industry. For example, it gave rise to the so-called Champagne riots in the early 1900s, during which the authenticity of some villages was disputed, and they were considered to produce so-called second-zone Champagne. Today, some villages - where the relative density of Champagne houses is high - are still described as the cradles of the Champagne industry, central to its collective identity. Being located in traditional villages contributes to being seen as part of the ingroup, I thus expect the following:

Hypothesis 4-a (H4-a): Houses located in traditional villages experience lower price increases when they produce (non-Champagne) sparkling wine in foreign subsidiaries.

Hypothesis 4-b (H4-b): Houses located in traditional villages experience lower price increases when they acquire vines in Champagne.

DATA

Sources

I used a mix of fieldwork and quantitative analysis. I collected the qualitative data from archival sources (trade publications; local and national newspapers), a large number of in-depth interviews, and on-site visits. I used this information to understand the organization of

the industry; especially its price-setting mechanisms and grape suppliers' views in terms of expectation violations and organizational identities (table 2 provides further qualitative evidence). I interviewed a total of 43 respondents, some of them on several occasions: 15 members of the relevant professional association and industry experts, 14 CEOs of Champagne houses, and 14 grape growers (table 3 provides an overview). The growers were selected to represent Champagne's four growing areas (Montagne de Reims, Vallée de la Marne, Côte des Blancs, Côte des Bars).

----- Please insert tables 2 and 3 about here -----

The quantitative data were gathered from three data sources: 1) DIANE, a Bureau Van Dijk database containing detailed financial information on 974,000 French private and public companies; 2) the National Registry of Trade & Companies, the official source of financial and legal information on French private and public companies, and 3) the Guide Curien de la Champagne, a publication created in 1991 by Champagne experts that provides detailed information about Champagne companies. Insiders describe this as *the Champagne Bible* (Claeys-Pergament, 2009).

Sample

Approximately 100 companies claim to be Champagne houses, but only 66 are officially listed as members of their professional association (UMC). Conversations with the UMC director and a careful examination of the firms excluded from the list reveal that most are négociants rather than houses; that is, they sell Champagne but produce barely any wine. Because I am interested in investigating the role of identity in firms' relations with their exchange partners, I chose to focus on the 66 companies listed by the UMC. Data was unavailable for 2 of these firms due to their small size. However, I obtained complete financial data for 64 Champagne houses between 1998 and 2007, the study's unit of analysis.

I restricted the analysis to the period 1998–2007, because before this date, prices were not fully determined by market forces—the price of grapes was negotiated and fixed at the industry level between growers and houses¹²—and reliable data were difficult to obtain.

MEASURES

Average Price Paid for Grapes

The dependent variable is the average *price* that a house is charged for the raw materials it uses in its Champagne production in a given year. The grapes that a house purchases typically come from a large number of growers and therefore can potentially have a different cost price. For this reason, for each of the houses, in line with previous studies on winemaking (Benjamin and Podolny, 1999), I constructed this measure by dividing the annual purchase cost of raw material by the volume of grapes.¹³ Houses do not report the costs of grapes separately from the costs of other raw materials. However, production processes in Champagne are strictly controlled: yeast and sugar are the only other raw materials that can be added to make the wine. These materials are used in very small quantities, as compared to the grapes. Moreover, they are both commodities, which can therefore be expected to hardly vary in price between different houses. Hence, I use the average price of raw materials in a given year as a proxy for the costs of grapes that a house purchases.

Testing For the Moderating Effect of Identity

To test the proposition that identity moderates negative reactions to violations, I computed interactions between each of the two expectation violations (i.e. production of sparkling wine abroad and acquisition of vineyards in Champagne) and each of the four identity characteristics (i.e. old established house, independent house, family managed house and house located in a traditional village). I thus used a total of eight interaction terms. The

measures for the variables used to create these interaction terms—the main effects—are described below.

Expectation Violations

Foreign subsidiaries. Data on whether houses opened winemaking subsidiaries outside of France in a given year were collected as follows: First, I used DIANE and the French Registry of Trade & Companies to track all subsidiaries in each house's corporate structure. Second, I used the various national registries of trade to make sure only subsidiaries dedicated to the production of wine were included, excluding those dedicated to the mere distribution of wine. Some houses have had subsidiaries abroad for more than half a century. Therefore, for this variable, I computed the total increase in the number of subsidiaries a house owned outside of France between 1998 and 2007. The maximum increase in the number of foreign subsidiaries during this period for any given house was 2. Only one house closed more subsidiaries than it opened. Hence, it was assigned the value -1.

Vineyards acquired. To measure the acquisition of vineyards by houses, I used the Guide Curien as well as archival data to track the size of the vineyard owned by each Champagne house in a given year. Vineyards acquired refer to the cumulative number of hectares acquired by each house in Champagne during our sample period (1998–2007). I did not measure the total number of hectares of vineyard owned by each of the houses because, historically, some Champagne houses have owned their own vines. In line with my theory and interview data, I assumed that vineyards owned by houses for historical reasons (which they may have owned for centuries) do not violate suppliers' expectations per se since they are not seen as threat to the status quo. It is the more recent additions in terms of vineyard purchases that are contested. Hence, the variable used to test the hypothesis was measured as the cumulative number of vineyards acquired since 1998.

Identity Characteristics

Oldtimer. I measured the extent to which a Champagne house was an old-timer vs. a newcomer by means of a proxy that indicated to what extent a house was relatively early entering the industry. Exact founding dates of all houses are unknown since many of them have existed for centuries. Moreover, at some point, how long a house has been in existence seems to matter little to whether it is considered an old-timer; for example, whether a particular house is 200 or 300 years old seems to be irrelevant to its old-timer status. Therefore, I created a “promptness-of-entry” variable, coded 1 if the particular house was founded before 1960. For all newcomers founded after 1960, the variable would take on the value of 1960 minus year of entry. Thus, for example, a house entering the industry in 1965 would be assigned the value -5 for promptness of entry; a house entering in 1995 would be assigned the value -35. I chose 1960 as a cut-off point because around this time the industry took its present form; the French government adopted legislation in the early 1960s that, for instance, prevents houses from acquiring grower-owned vineyards. My interviews suggested that this was often seen as a crucial cut-off point, distinguishing newcomers from old-timers.

Independent firm. To distinguish between the Champagne houses that belong to a larger corporate group and those that operate independently, I created a binary variable coded 0 for the former and 1 for the latter. For example, Moët & Chandon was coded 0 (since it belongs to the LVMH group), whereas Pol Roger was coded 1 (since it is still operated as an organization). I used DIANE and the French Registry of Trade & Companies to track the houses’ corporate structure. When necessary, I cross-checked this information with firms’ corporate websites. Because no independent firm in my sample engages in the production of sparkling wine abroad, the variable *foreign subsidiaries* \times *independent firm* would equal zero, making it impossible to test H2-a empirically. Instead of dropping out this hypothesis all at once, I relaxed the definition of *independent firm* for the *foreign subsidiaries* \times *independent*

firm variable: I considered a correlated proxy, that is firms that are independent from a *listed* corporate group. While imperfect, this strategy allows to test H2-a and at least determine if the pattern of results holds.

Family CEO. Consistent with prior studies (e.g. Anderson and Reeb, 2003; Villalonga and Amit, 2006), I measured family management as firms whose CEO is a descendant of the founder by either blood or marriage. I created a binary variable coded 1 if that is the case and 0 otherwise. These data were obtained from firms' corporate websites, cross-checked with the French Who's Who and the Guide Curien.

Traditional village. I measured the relative density of houses in the various villages in Champagne by collecting location data for each house; I then computed the number of houses relative to the village's population (measured in hundreds). This information was collected from the Guide Curien. Because I treated high density as an indication of whether a particular village was traditional or not, alternatively, I also estimated my models with dummy variables directly indicating whether a house was located in a village considered to be one of the traditional Champagne locations (in particular, Reims, Epernay, Chalons en Champagne, Essoyes, Hautvilliers, and Les Riceys). This alternative variable produced near-identical results with my density variable.

Control Variables

In my models, I controlled for several variables pertaining to a particular house's demand. Size of the Champagne house was controlled for through its annual *volumes* of bottles sold. This also represents the amount of grapes purchased, because all producers need approximately 1.2 kilos of grapes to produce 750 ml of Champagne. I collected this data from the Guide Curien and a variety of company and industry reports. I did not have a particular expectation regarding the direction of its effect. Firms that require larger volumes may be

expected to receive discounts so that the price they are charged is lower. On the other hand, larger houses may have to pay higher prices to secure the larger volumes of grapes that they require. I also controlled for vineyard ownership, because this may affect a house's bargaining position vis-à-vis the growers, and potentially lower the price it pays for its grapes sourced through them. I measured the size of the *vineyard owned* by each firm by taking the natural logarithm of the number of hectares owned by the firm. Another control I included was firms' *return on assets* (roa). This variable was included because suppliers may potentially assess a firm's demand function according to its profitability and may try to price-discriminate against the most profitable firms. I also ran models with *return on capital* as an alternative control and obtained nearly identical results.

Prior studies suggested that the price a firm obtains from suppliers may also depend on its *status*, another type of social approval asset (Benjamin and Podolny, 1999; Uzzi and Lancaster, 2004). To disentangle the effect of status and identity, I created a status index composed of two measures: the first was obtained by asking an industry expert to rank Champagne companies according to their level of prestige. The second measure consists of an official ranking of Champagne companies by the *Revue des Vins de France*, a leading publication for wine connoisseurs in France. The expert ranking was highly correlated with this official ranking (correlation = 0.76). I mean-centered each measure and took its average, although using the variables independently led to nearly identical results.

Another control variable added was the *size of the growing area* of the village in which the house is located. As part of the AOC framework, the vineyard area is legally delimited in Champagne; each village is associated with a clearly defined growing area. For example, the village of Ay features a growing area of about 350 hectares. I had no particular expectations regarding the direction of the effect of this variable. On the one hand, one might expect that larger growing areas are associated with higher local supply, which could suppress prices.

However, it was also suggested to us that houses located in areas with little local supply are used to sourcing grapes from more distant areas, which enables them to obtain them for a relatively good price, whereas houses located in larger growing areas are more inclined to source their grapes locally, where there may be high demand and correspondingly high prices. This variable is time-variant because growing areas were sometimes revised during my period of observation. For example, the growing area in Ay was 356 hectares in 1998 (the beginning of our sample period) and 354 hectares in 2007 (the end of our sample period).

I also controlled for *grape quality*, which represented the average quality of the grapes purchased by a particular house in a given year. This is reported by each of the houses and is measured according to the “Echelle des Crus”; an official scale ranging from 80 to 100 used to measure the quality of grapes depending on their origin. According to my interviewees, grape-quality differences within Champagne are thought to be minor and to have relatively little influence, if any, on their price. However, if the quality of the wines produced by a house depends on the quality of the grapes it purchases, this variable may proxy for a firm’s reputation for quality – another type of social approval asset. Finally, since the harvest and year of sale may affect the price of grapes, I included dummy variables for each *year* in all of our models.

MODELING APPROACH

To account for changes in prices across firms and over time, I used panel-data estimation methods. A fixed-effect specification would systematically drop all time-invariant cases, creating an unacceptable bias in the estimation. By contrast, a random-effects specification allows the keeping of my time-invariant variables while taking into account the individual-level differences between firms over time periods and capturing the heterogeneity in the error

term. However, a potential issue with random-effects models is that they assume there is no covariance between the covariates and the time-invariant error term.

To assess the suitability of a random-effects specification, I performed a Hausman test (Wooldridge, 2003). Results reject the null hypothesis that there is a significant difference in the coefficients of our random-effect specification and a fixed-effect specification (prob. > $\chi^2 = .2885$). I also tested the assumption that the individual random component is zero: the χ^2 test I obtained in the sample was 99.68 (with one degree of freedom). This test rejects the null hypothesis (Castilla, 2007), supporting the use of random effects. The random-effects model can be expressed as follows:

$$Price_{it} = \alpha + \beta_1 EV_{it} + \beta_2 IC_{it} + \beta_3 EV_{it} \times IC_{it} + \beta_4 controls_{it} + u_i + \varepsilon_{it}$$

where $Price_{it}$ represents the price paid for grapes by firm i at time t , EV_{it} is the set of covariates representing expectation violations and IC_{it} , the set of covariates representing identity characteristics. Of particular interest are $EV_{it} \times IC_{it}$, which represent the moderating effects of identity characteristics on the price paid by a firm that violates partners' expectations. The error term is split between the firm-year component ε_{it} and the pure firm component u_i . I report the results in the text and table below.

RESULTS

Descriptive statistics and correlations for all variables are displayed in table 4. As one would expect, some correlations involving interaction terms are relatively high – two correlations reach a value of .80. Given my interest in interaction effects, multicollinearity is problematic as it could lead to biased estimates of my predictors (Wooldridge, 2003). I therefore introduce each interaction term individually, along with all main effects and controls. I also computed

variance-inflation factors (VIFs) for all the models presented, and the highest average VIF was 2.06 with a maximum of 3.71. According to Greene (Greene, 2003: 58), values in excess of 20 indicate a problem—other scholars use a cut-off of 10. Since computations were always well under 10, I am confident that there is no multicollinearity problem.

-----Please insert table 4 about here-----

The results of my regression analyses are displayed in table 5. Model 1 only includes the controls, model 2 introduces the four identity variables, model 3 adds the first expectation violation and model 8 adds the second expectation violation.

Model 4 to 7 test for the moderating effect of identity characteristics on the first expectation violation, i.e. the production of non Champagne sparkling wine abroad (H1-a, H2-a, H3-a and H4-a). Models 9 to 12 test for the moderating effect of identity characteristics on the second expectation violation, i.e. the acquisition of vineyards in Champagne (H1-b, H2-b, H3-b and H4-b). For completeness, model 13 combines all variables (main effects and interactions) for both expectation violations.

-----Please insert table 5 about here-----

Results in models 4, 5, 6 and 7 offer strong support for the moderating effect of identity on partners' reaction to violations of their expectations. Hypothesis 1-a predicted that old, established houses experience lower price increases when they produce (non-Champagne) sparkling wine in foreign subsidiaries. The model displayed in the column labeled model 4 shows that a house founded in 1960 pays about 1.34 euros more per kilogram of grapes if it produces sparkling wine abroad – however, if the house was founded before 1960, it only pays about 93 eurocents more per kilogram. In other words, H1-a is supported with old, established firms experiencing a price increase of about 41 eurocents less for engaging in the

same violation. More fine-grained calculations of the marginal effects confirm that as the “promptness of entry” increases from one standard deviation below the mean, through the mean and to one standard deviation above the mean, the slope of foreign subsidiaries on price gets smaller as does the intercept (see graph 1 for a visual representation). Hypothesis 2-a, which predicted that independent houses experience lower price increases when they produce sparkling wine abroad, is also supported. Model 5 shows that if a house produces sparkling wine abroad, it experiences a price increase of about 2.61 euros less if it is independent than if it belongs to a corporate group. The difference is economically significant for independent houses as it eliminates the price increase incurred for engaging in the violation (see graph 2). In hypothesis 3-a, I predicted that houses managed by descendants of the original founder experience lower price increases when they produce sparkling wine abroad. Once again, the model displayed in the column labeled model 6 supports this hypothesis – results suggest that houses managed by descendants of the original founder experience a price increase that is 2.21 euros less than other houses when they produce sparkling wine abroad - in other words, they end up paying only 11 eurocents more for the violation (see graph 3). Finally, hypothesis 4-a predicted that houses located in traditional villages experience lower price increases when they produce sparkling wine abroad. This hypothesis is supported: model 7 shows that a firm located in the most remote location in Champagne that produces sparkling wine abroad is charged 2.27 euros more per kilogram of grapes whereas the increase for a firm engaged in the same practice but located in a fairly traditional village (i.e. density at the sample mean) would be about 2.60 euros less – that latter would in fact offset the price increase incurred for engaging in the violation. Again, more detailed computations of the marginal effects confirm that as firm density increases from one standard deviation below the mean, through the mean and to one standard deviation above the mean, the slope of foreign subsidiaries on price gets smaller as does the intercept (see graph 4).

Results in models 10 and 12 also support the moderating effect of identity on partners' reaction to violations of their expectations. Model 10 shows that if a house acquires vineyards in Champagne, the price increase it experience is almost 10 eurocents less per kilogram of grapes if it is independent than if it belongs to a corporate group. Results thus support hypothesis 2-b, which predicts that independent houses experience lower price increases when they acquire vineyards in Champagne (see graph 5 for a visual representation). Similarly, hypothesis 4-b predicted that houses located in traditional villages experience lower price increases and is supported. The model displayed in the column labeled model 12 shows that a house located in the most remote location in Champagne is charged over 3 eurocents more per kilo whereas the increase for a firm engaged in the same practice but located in the most traditional village (i.e. maximum firm density) would be 7 eurocents less, thus more than offsetting suppliers' negative reaction: the firm would end up being charged almost 4 eurocents less per kilo. More fine-grained calculations of the marginal effects are displayed in graph 6 and confirm these effects. In hypothesis 1-b, I predicted that old, established firms incur lower price increases when they acquire vineyards in Champagne. The interaction term is in the expected direction in model 9: if a house acquires vineyards, the price increase it experiences is 1 eurocent less per kilogram if it was funded prior to 1960. However, this effect is economically small and not statistically significant. Similarly, model 11 does not provide strong support hypothesis 3-b, which predicted that houses managed by descendant s of the original founder experience lower price increases when acquires vineyards in Champagne. Results suggest that if a house acquires vineyards, the price increase it experiences is about 7 eurocent less per kilogram if it is managed by a family CEO; however these results are not statistically significant. In sum, models 9, 10, 11 and 12 offer moderate support for the proposition that identity moderates partners' reaction to violations of their expectations.

-----Please insert graphs 1 to 6 about here-----

FURTHER ANALYSES

I wanted to assess whether the full model (displayed in the column labeled model 13) significantly improves over a simpler model, without interaction terms. I therefore computed the Wald χ^2 statistic for the random-effect model regressing price on all controls, the two types of expectation violations and the four identity characteristics (i.e. restricted model). An incremental χ^2 test of the full model (Model 13) and the restricted model shows that the hypothesis that the coefficients for my interaction variables are jointly equal to zero can be rejected.

I also wanted to understand the lack of significance of the moderating effects of *oldtimer* (model 9) and *family CEO* (model 11) on the price paid by houses that acquire vineyards in Champagne. One possible explanation lies in the potential interaction between the proposed moderators: having a family CEO may be more important for vineyard acquirers that are old and established, than for those that were recently founded. Speaking of a family CEO, an interviewee suggests: “He may have great ideas but he’s brand new in Champagne. He arrived in the 1980s. He’s huge now but he’s been here for 30 years, compared to other houses that are 300 years old.” To further investigate this argument, I created a three-way interaction variable between *oldtimer*, *family CEO* and *vineyards acquired*. I then included this interaction in a random-effects regression predicting price, adding all lower-order interaction terms to the main effects and controls. Results are statistically significant and displayed in table 6: the model in the column labeled model 2 confirms that firms founded prior to 1960 and managed by a descendant of the original founder incur significantly lower price increases when they acquire vineyards in Champagne. Because three-way interactions

are difficult to interpret from the size of the coefficient, I computed the marginal effects and provided a visual representation in graph 7. If having a family CEO is indeed more important when the firm is old and established, this effect should also be visible when firms produce non-Champagne sparkling wine abroad. In additional analyses (not displayed here), I tested for a three-way interaction between *oldtimer*, *family CEO* and *foreign subsidiaries*: a perfect correlation between the three-way interaction and one of the lower-order interaction (*family CEO* × *foreign subsidiaries*) does not allow me to accurately compute results, however results display the same pattern as for vineyard acquisition.

-----Please insert graph 7 about here-----

DISCUSSION AND CONCLUSION

This paper built on social perception and social identity theory to propose that firms with a positive identity will experience less negative reactions when they violate partners' expectations. Looking at the Champagne industry, I developed four sets of hypotheses to empirically test this proposition. My results support the idea that partners react less negatively toward those firms whose identity they regard as positive. When they violate grape suppliers' expectations, Champagne houses are charged higher prices for the exact same grapes; however the price increase is lower for firms that display identity characteristics toward which grape growers hold affective predisposition, i.e. if they are old and established, if they are independent, if they are managed by a descendant of the original founder and if they are located in traditional village.

This paper contributes to recent efforts at building a coherent body of knowledge on the moderating effects of different social approval assets. First, I looked at two actions that clearly result from internal causes, thus limiting sources of variation for partners' attribution

affects. This is important because attributions of blame, which influence punishment, very much depend on the perception that actors intended to produce the outcome (Fiske and Taylor, 1991). Looking at actions that may result from causes outside the control of organizations thus adds to the difficulty of explaining partners' reaction: if partners react less negatively toward an organization, it may be because of the moderating effect of a particular social approval asset, it may be because partners assume that the firm is simply not responsible for the outcome, or it may be because of both. One such example is poor firm performance, which may be caused by internal causes, external causes or a combination of both. Wade, Porac, Pollock and Graffin (2006) find that celebrity CEOs are more punished when their firm's performance is poor and argue this is because they cannot deflect blame onto external causes. By contrast, Pfarrer, Pollock and Rindova (2010) find that celebrity firms experience lower market penalties when their performance is poorer than expected and argue this is because the affective basis of celebrity increases the likelihood that discrepant information is evaluated differently by partners. Focusing on actions that clearly result from internal causes thus helps reduce problems of overdeterminacy.

Keeping partners' attribution effects in mind, it is interesting to note that when a violation clearly results from internal causes, Rhee and Haunschild (2006) find a positive reputation acts as a liability. They propose this is because of the expectancy violation effect: partners see the negative action as a breach of implicit promises and react more strongly to actions that violate their previous expectations of how the firm is likely to behave. My results suggest that a positive reputation and a positive organizational identity have very contrasting results – namely a positive organizational may help firms soften partners' reaction. Extending social identity theory to the organizational level of analysis, I developed theoretical arguments to explain this puzzling phenomenon. I proposed this is because actors tend to assume that the negative behavior of firms whose identity they regard as positive is the result of situational

factors rather than the firm's original purpose. While I cannot directly test for the validity of this mechanism, my qualitative evidence suggests it is indeed at play. In Champagne, an interviewee describes such situational factors for specific houses: "Houses like Taittinger, Roederer, Deutz, have been investing more and more in other parts of the world outside Champagne. It probably started 25 years ago. Because the champagne region is finite in terms of how much it can produce. If a champagne house wanted to grow its business, really the only way it can do so is either by changing the product - i.e. producing a more luxury product, the higher price products- or by making wine in other parts of the world where there are no restrictions on quantities." My results open interesting avenues for future research on social identity and social attribution dynamics in organizational settings.

Prior studies on social approval assets have often given similar labels or measures to conceptually distinct assets, making it difficult to determine whether they study the same phenomena and leading to a fragmented body of work (Pfarrer, Pollock, and Rindova, 2010). As these authors argued, making clear distinctions in terms of the assets studied is critical to reconciling contradictory findings. Controlling for the effect of other types of assets (e.g. firm status and reputation for quality), my results suggest that a positive organizational identity not only provides positive buffers but can at times more than offsets partners' negative reactions. For example, I find that being an independent house in Champagne eliminates the price increase incurred for producing non-Champagne sparkling wine abroad (see the slope for independent firms on Graph 2). These findings provide further support for a fairly new idea in strategic management research, i.e. the idea that organizational identity acts as a strategic resource and therefore, is a source of sustainable competitive advantage for firms. Future studies could further investigate the role of identity as an interpretative device upon which actors draw to interpret firms' actions; one would expect such interpretative device to play a crucial role in situations where attribution effects occur.

NOTES

¹ Accessed March 8 2012 at <http://www.newspakistan.pk/2012/02/17/apple-agrees-labour-law-infringements-chinese-vendors-hires-fla-conduct-independent-audits-part-2/>

² Comité Interprofessionnel des Vins de Champagne. The CIVC encompasses two trade associations: the houses' (UMC: Union des maisons de Champagne) and the growers' (SGV: Syndicat General des Vignerons).

³ For example, the director of the Champagne business of Moët-Hennessy—although generally seen as the most powerful group within Champagne—commented, “Who holds the power when Champagne demand is strong? The growers do” (Passariello, 2008).

⁴ There are currently talks about a “revision” of the delimited area that can be used for growing Champagne grapes. However, most agree that this will not solve the grape shortage in the longer term. One interviewee commented, “It’s like putting a plaster on a wound.”

⁵ France is already the world’s largest exporter of wine in value, but the Champagne region represents *no less than a third of all exports (2.3 billion euros in 2007), while it covers only 4 percent of the French vineyard area. It sold 339 million bottles in 2007 (some 46 million more than in 1998) and exports have grown 116 percent in value since 1998 (twice as fast as the other French wine categories).*

⁶ The legal protection of the collective identity is guarded fiercely in Champagne. For example, at present, the Champagne trade association includes a department whose sole role consists of taking legal actions against companies (and sometimes countries) that use the appellation for products other than Champagne.

⁷ This is not a newly contested action. In 1962, the magazine *La Champagne Viticole* had already published the following: “Some may say it’s a private matter. But in our region, brand names are so intimately related to the [Champagne] appellation that they are of concern to all. Even if a brand is a purely private good, these [subsidiaries] are abusive because the prestige they are benefiting from only exists because the brand is associated with our region. So it is not acceptable for a brand to unilaterally sever this association for its own benefit or to the detriment of the region [...] We cannot agree with a Champagne house that associates its name (or a very similar name) and its technical expertise with another wine that unduly claims our appellation.”

⁸ This too is not a newly contested action. As far back as 1952, the co-president of the Champagne trade association drew “public attention to [houses’] attempts at monopolizing vineyard land” (SGV, 1952).

⁹ Many of the respondents I interviewed frowned on firms that challenge the existing role structure of the Champagne identity. Some even claimed that this practice is also detrimental to the quality of the end product and therefore threatens the economic interests of the category as a whole. As the CEO of a Champagne house explained, “When you see these houses that own vineyards and when you see in what shape these vineyards are... Let the growers grow vines. They grow vine, we make the wine, that’s how it works.”

¹⁰ Growers have also remained relatively small, independent, and honoring traditions. Official records indicate that in 1882 there were 20,000 grape growers in Champagne, most of whom owned less than 1 hectare. This has not changed dramatically: today, the region features about 15,000 growers with, on average, estates of about 2 hectares. Compared with other French wine regions, the average Champagne estate has remained relatively small (about 2 hectares vs. a national average of 7 hectares). The growers’ sociological profile remains fairly homogeneous: most of them are in the 50–65 age bracket and have been involved in grape growing for several generations. Their focus is primarily on land and cultivation (Charters and Menival 2008). One grower commented, “I am of grower stock, I’m the fourth generation [...] our profession is fascinating. It involves observing nature, traditions [...]”

¹¹ Location is therefore somewhat related to time of entry within the industry. For instance, a grower I interviewed said that newcomers today “cannot expand in the traditional villages. It would have to be north of here [...] in regions where there are no vines, no tradition of vines.” In my models, I control for the time of entry into the industry.

¹² This system was officially abandoned in 1989 to comply with EU regulations. However, some observers argue that a complete liberalization took several years longer to really take effect (Gaucher, Giraud-Héraud, and Tanguy, 2005).

¹³ By purchase cost, I refer to a firm’s annual expenditures on raw material—not to stocks—which consists largely of grapes.

TABLES

Table 1

Sample Quotes Concerning Expectation Violations	
Foreign wine-making subsidiaries	<p>"I think it's dreadful when our own people, our own Champagne companies, go to other countries and set up production facilities for sparkling wine in these countries that is going to compete with Champagne." (a grower, annual industry meeting, 2008)</p> <p>"Come on, <i>Moët & Chandon</i> and <i>Chandon [Napa]</i>? It's really, really similar, right?" (a CEO of a Champagne house)</p> <p>"These products are dangerous, they're competitors [...] I visited the facilities of [a Champagne producer] in Argentina... One must be realistic, it's quite good. It will be very competitive. From a qualitative standpoint, they're able to do nice things, it's undeniable." (a grower)</p> <p>"You can either [buy] more resources here in Champagne [...] or you can take your expertise and money elsewhere and develop something else [...] You have 15,000 people integrated in the production of Champagne and who are not happy... If you don't have them on board, what are the consequences going to be?" (an industry expert)</p>
Vineyard acquisitions	<p>"What's really at stake is the expropriation of growers by Champagne companies." (the president of the growers' association in Les Echos, <i>L'année de Presque tous les Records</i>, December 22 2004)</p> <p>"What's problematic is the house that [...] schemes to buy vineyards at prices we couldn't match." (a grower)</p> <p>"We are two families, the growers on the one hand and the houses on the other hand. That's how we've maintained the region's balance and success [...] We tell the growers: keep your vineyards, it has been with you for generations, you know your job inside out – we'll take care of making a wine worth your efforts." (a CEO of a house)</p>

Table 2

Sample Quotes Concerning Preferred Identity Characteristics

Oldtimer	<p>“The fairly senior players in mid-sized houses are still maintaining the “we have two families, we are the houses and with the growers, we all work together [...]” (an industry expert)</p> <p>“It’s a very beautiful house. It belongs to the history of Champagne.” (a CEO of a house)</p> <p>“This is a beautiful firm. They have a history, a great legacy. It has taken them time and efforts to build the brand... a colossal amount of work. They have little to learn from anyone in the industry! I respect that.” (a grower)</p> <p>“Some of these firms, they come and go. Who knows for how long they’re here, where they’ll be in 5 or 10 years? They would leave tomorrow if they stopped making money. They don’t care about Champagne.” (a grower)</p>
Independent firm	<p>“These groups, they do not contribute anything to the profession. They’re just interested in money.” (a grower)</p> <p>“A guy like Bernard Arnaud [CEO of LVMH, a large French conglomerate], I hate him. I hate this guy. I hate all these financiers. He doesn’t give a damn about us or about Champagne. Tomorrow, he’s sell everything if he stops making money.” (a grower)</p> <p>“M. Arnaud his fate is not tied to that of Champagne. If he gets a nice offer, he’s capable of letting go of this [Champagne] business. Actually, there have been some discussions over the last two years, we know there is some movement [...] There are houses that belong to large groups, to institutional investors, things like that. These houses, they may be beautiful structures, and they may belong to Champagne’s heritage but who knows what will happen in 1, 5 or 10 years depending on what the owners decide to do.” (a growers’ representative)</p> <p>“These large financial groups, they do not share a collective vision... that’s what happens as soon as shareholders come into the picture.” (a growers’ representative)</p> <p>“Can Champagne houses still envision Champagne in the mid to long term or do they plan on keeping their eyes fixed on the CAC 40 and on their cash ratios?” (Patrick Le Brun, president of the growers’ association in La Champagne Viticole, October 19 2009)</p>

Family CEO

“Family firms that keep the family spirit, the spirit of Champagne, that’s what matters.” (a grower)

“If you are a family business in the region, your overriding aim is the development and maintenance of your family business but within the context of a successful Champagne region.” (an industry expert)

“Yes, it is obvious there is an advantage [in being the founder’s descendant]. For supply relations, there’s a significant advantage: a perceived stability for growers. They know I’m here for at least 30 years; my words are worth a contract. They see a leading figure at the head of the firm, someone who knows Champagne and who’s *Champenois*, that’s a clear advantage.” (a CEO of a house)

“Champagne as a framework depends on complex interactions, both social and economic. Outside managers may not understand how these relationships work.” (an industry insider)

Traditional village

“I mean, come on! In some places, there have never even been any vines! Any tradition of wine.” (a grower)

“They cannot expand in the traditional villages. It would have to be north of here [...] in regions where there are no vines, no tradition of vines.” (a grower)

“We’re in an ancient Champenois village in the Mountain of Reims; it dates to the 8th century [...] It’s a traditional village, one of the most beautiful villages in the Champagne region. Our vineyards are renowned; they’re listed among the first Champagne vintages.” (a CEO of a house)

Table 3

Overview of Respondents Interviewed

Number of informants	Affiliation
3	Heads of Champagne industry associations (CIVC, UMC and SGV)
12	Industry experts
14	Grape growers
14	CEOs of Champagne houses

* Two industry experts and the head of the UMC were interviewed twice.

** Industry experts include Masters of Wine (MW), a scholar from the Champagne Management Chair – Reims Business School, a UBS analyst for European Luxury Goods, the managing director of the Champagne Bureau in the UK, Champagne agents, oenologists and the former head of UMC

Table 4

Descriptive Statistics and Correlations (N=636)

Variable	Mean	S.D.	Min.	Max.	1	2	3	4	5	6	7	8	9
1. Price	8.96	7.16	3.04	29.73									
2. Oldtimer	-3.45	9.55	-37.00	1.00	-0.12								
3. Independent firm	0.44	0.50	0.00	1.00	-0.22	-0.20							
4. Family CEO	0.43	0.49	0.00	1.00	-0.15	0.01	0.45						
5. Traditional village	0.26	0.55	0.00	4.83	-0.11	-0.17	0.24	0.04					
6. Foreign subsidiaries	0.03	0.28	-1.00	2.00	0.05	-0.04	-0.08	-0.13	-0.06				
7. Foreign subsidiaries × Oldtimer	-0.20	1.79	-15.00	2.00	-0.16	0.15	0.10	0.09	0.05	-0.28			
8. Foreign subsidiaries × Independent firm*	-0.01	0.14	-1.00	1.00	-0.02	-0.02	0.04	-0.05	-0.02	0.49	0.07		
9. Foreign subsidiaries × Family CEO	-0.01	0.14	-1.00	1.00	-0.02	-0.02	0.04	-0.05	-0.02	0.49	0.07	1.00	
10. Foreign subsidiaries × Traditional village	0.00	0.03	-0.26	0.09	-0.01	-0.04	0.07	-0.15	-0.01	0.54	0.04	0.80	0.80
11. Vineyards acquired	12.10	46.07	0.00	377.00	0.03	0.04	-0.17	-0.17	0.02	0.29	-0.14	0.01	0.01
12. Vineyards acquired × Oldtimer	-23.01	253.78	-3600.00	377.00	-0.11	0.21	0.05	0.08	-0.24	-0.19	0.56	0.00	0.00
13. Vineyards acquired × Independent firm	1.41	8.09	0.00	85.00	-0.11	0.02	0.20	-0.03	0.19	-0.02	0.02	0.01	0.01
14. Vineyards acquired × Family CEO	1.19	4.66	0.00	50.80	-0.02	0.10	-0.02	0.30	-0.04	-0.04	0.03	-0.01	-0.01
15. Vineyards acquired × Traditional village	3.54	26.86	0.00	313.79	-0.07	-0.11	-0.03	-0.10	0.70	0.01	0.02	0.00	0.00
16. Volumes	27.10	50.07	0.50	370.00	0.00	0.14	-0.33	-0.21	-0.05	0.35	-0.01	0.02	0.02
17. Vineyards owned	2.70	1.78	0.00	6.69	0.04	0.01	-0.06	-0.01	0.05	0.20	-0.09	0.00	0.00
18. Roa	4.55	6.08	-37.16	27.71	-0.04	0.09	-0.25	0.01	-0.07	0.15	0.08	-0.01	-0.01
19. Status	0.03	0.94	-1.00	1.88	0.02	0.35	-0.34	-0.08	-0.13	0.00	0.10	-0.06	-0.06
20. Grape quality	90.76	5.76	80.00	100.00	0.04	0.22	-0.28	-0.09	0.01	0.03	-0.06	-0.03	-0.03
21. Growing area size	215.07	140.85	4.00	564.00	-0.04	-0.16	0.40	0.24	0.17	-0.18	0.12	-0.15	-0.15
11. Vineyards acquired	0.16												
12. Vineyards acquired × Oldtimer	0.00	-0.15											
13. Vineyards acquired × Independent firm	0.01	0.14	-0.07										
14. Vineyards acquired × Family CEO	-0.15	0.04	0.04	0.16									
15. Vineyards acquired × Traditional village	0.03	0.24	-0.35	0.30	-0.01								
16. Volumes	0.19	0.73	0.09	-0.02	0.01	0.15							
17. Vineyards owned	-0.02	0.39	-0.06	0.13	0.28	0.12	0.38						
18. Roa	-0.02	0.18	0.06	-0.03	0.10	-0.02	0.26	0.30					
19. Status	-0.15	0.06	0.09	0.01	0.16	-0.05	0.09	0.35	0.32				
20. Grape quality	-0.11	-0.01	-0.04	0.05	0.06	0.00	0.03	0.07	0.12	0.56			
21. Growing area size	-0.12	-0.03	0.09	0.17	0.07	0.03	-0.19	-0.09	-0.15	-0.14	-0.11		

* No independent firm operates foreign subsidiaries, I thus used a correlated proxy and considered firms that are independent from *listed* groups.

Table 5

Random-Effects Regressions Predicting Price*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5 ^o	Model 6	Model 7
Oldtimer		-0.110 **	-0.105 **	-0.096 **	-0.101 •	-0.104 **	-0.104 **
		0.041	0.040	0.039	0.045	0.040	0.040
Independent firm		-5.025 ***	-5.102 ***	-4.933 ***	-0.075	-5.069 ***	-5.027 ***
		1.427	1.429	1.432	1.157	1.435	1.443
Family CEO		-0.509	-0.454	-0.432	-1.969 •	-0.469	-0.531
		0.963	0.976	0.973	0.959	0.978	0.991
Traditional village		-1.179 •	-1.129 •	-1.032 •	-1.617 ***	-1.118 •	-1.120 •
		0.608	0.602	0.609	0.457	0.599	0.607
Foreign subsidiaries			1.629 •	1.339 **	2.208 •	2.325 •	2.286 •
			0.810	0.492	1.205	1.084	1.000
Foreign subsidiaries × Oldtimer				-0.412 ***			
				0.090			
Foreign subsidiaries × Independent firm					-2.615 •		
					1.550		
Foreign subsidiaries × Family CEO						-2.214 •	
						1.205	
Foreign subsidiaries × Traditional village							-10.027 •
							5.085
Vineyards acquired							
Vineyards acquired × Oldtimer							
Vineyards acquired × Independent firm							
Vineyards acquired × Family CEO							
Vineyards acquired × Traditional village							
Volumes	-0.002	-0.015 •	-0.018 •	-0.016 •	-0.008	-0.019 •	-0.018 •
	0.008	0.008	0.008	0.007	0.010	0.008	0.008
Vineyards owned	0.164	0.460	0.443	0.375	0.166	0.435	0.426
	0.604	0.464	0.462	0.470	0.610	0.466	0.468
Roa	-0.135	-0.156 •	-0.157 •	-0.152 †	-0.138	-0.160 •	-0.159 •
	0.086	0.078	0.079	0.079	0.087	0.079	0.079
Status	0.385	-0.196	-0.166	0.036	0.548	-0.164	-0.179
	0.920	0.858	0.852	0.871	0.944	0.849	0.852
Grape quality	-0.005	-0.019	-0.024	-0.048	0.000	-0.027	-0.029
	0.130	0.098	0.097	0.099	0.112	0.097	0.097
Growing area size	0.000	0.005	0.005	0.006	0.002	0.005	0.005
	0.005	0.004	0.004	0.004	0.005	0.004	0.004
Year dummies	YES	YES	YES	YES	YES	YES	YES
N	636	636	636	636	636	636	636
Wald chi2 (d.f)	68.47(15)	108.29(19)	113.55(20)	1571.79(21)	117.23(21)	114.11(21)	118.67(21)
Prob	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

*** p<.001 ** p<.01 • p<0.05 † p<.10, significance tests are one-tailed for predictors; two-tailed for controls

* Heteroskedasticity-consistent robust standard errors are in bold, clustered by firm

^o Model 5 considers firms that are not part of a *listed* group

Table 5 (continued)

Random-Effects Regressions Predicting Price*						
Variable	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13**
Oldtimer	-0.105 ** 0.042	-0.104 ** 0.042	-0.094 • 0.042	-0.103 ** 0.042	-0.105 ** 0.042	-0.083 • 0.041
Independent firm	-5.074 *** 1.472	-5.006 *** 1.469	-4.486 *** 1.438	-5.168 *** 1.516	-5.475 *** 1.502	-4.776 ** 1.601
Family CEO	-0.451 1.017	-0.451 1.011	-0.767 1.059	-0.236 1.153	-0.418 1.022	-0.546 1.259
Traditional village	-1.216 • 0.596	-1.279 • 0.590	-1.133 • 0.527	-1.243 • 0.582	-0.384 0.762	-0.598 0.612
Foreign subsidiaries						1.957 • 0.849
Foreign subsidiaries × Oldtimer						-0.241 ** 0.094
Foreign subsidiaries × Independent firm						(omitted)
Foreign subsidiaries × Family CEO						-0.071 1.117
Foreign subsidiaries × Traditional village						-8.351 † 5.641
Vineyards acquired	0.029 *** 0.009	0.027 ** 0.010	0.031 *** 0.009	0.029 *** 0.009	0.032 *** 0.009	0.031 ** 0.011
Vineyards acquired × Oldtimer		-0.001 0.001				0.000 0.001
Vineyards acquired × Independent firm			-0.096 • 0.043			-0.080 † 0.056
Vineyards acquired × Family CEO				-0.074 0.074		-0.054 0.091
Vineyards acquired × Traditional village					-0.021 ** 0.007	-0.012 • 0.007
Volumes	-0.035 *** 0.010	-0.033 ** 0.011	-0.038 *** 0.011	-0.036 *** 0.010	-0.036 *** 0.010	-0.039 ** 0.013
Vineyards owned	0.347 0.484	0.335 0.482	0.480 0.469	0.407 0.511	0.373 0.482	0.453 0.510
Roa	-0.148 † 0.078	-0.148 † 0.078	-0.139 † 0.076	-0.144 † 0.076	-0.151 † 0.078	-0.140 † 0.075
Status	-0.164 0.859	-0.132 0.861	-0.261 0.838	-0.169 0.858	-0.184 0.862	-0.125 0.872
Grape quality	-0.021 0.100	-0.023 0.100	0.004 0.096	-0.019 0.099	-0.028 0.098	-0.026 0.098
Growing area size	0.004 0.004	0.004 0.004	0.005 0.004	0.004 0.004	0.004 0.004	0.005 0.004
Year dummies	YES	YES	YES	YES	YES	YES
N	636	636	636	636	636	636
Wald chi2 (d.f)	13.78(20)	122.03(21)	129.56(21)	115.65(21)	148.55(21)	4198.49(28)
Prob	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

*** p<.001 ** p<.01 • p<0.05 † p<.10, significance tests are one-tailed for predictors; two-tailed for controls

* Heteroskedasticity-consistent robust standard errors are in bold, clustered by firm

** Model 13 drops foreign subsidiaries × independent firm to consider firms that are not part of a group (listed or not).

Table 6

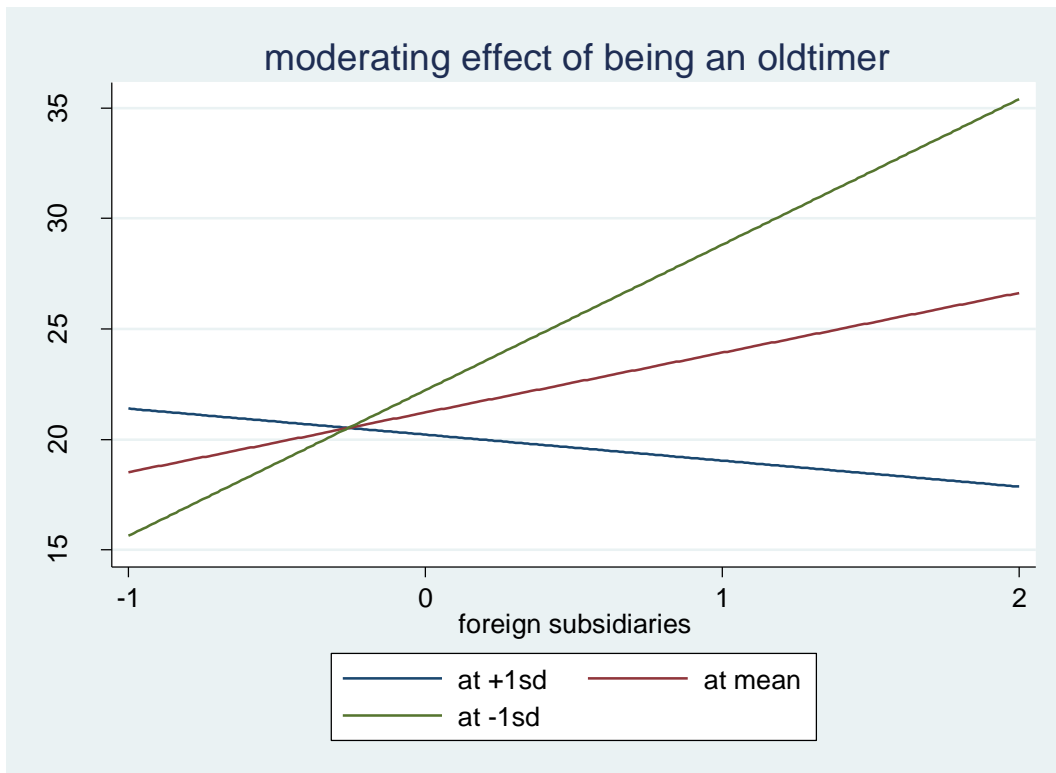
Random-Effects Regressions Predicting Price*		
Variable	Model 1	Model 2
Oldtimer	-0.121 †	-0.122 †
	0.078	0.078
Independent firm	-5.091 ***	-5.119 ***
	1.520	1.531
Family CEO	-0.148	-0.148
	1.227	1.228
Traditional village	-1.355 •	-1.341 •
	0.624	0.630
Vineyards acquired	0.028 **	0.028 **
	0.010	0.010
Family CEO × Oldtimer	0.037	0.044
	0.081	0.082
Vineyards acquired × Family CEO	0.000	0.000
	0.001	0.001
Vineyards acquired × Oldtimer	-0.074	-0.060
	0.075	0.071
Vineyards acquired × Family CEO × Oldtimer		-0.024 **
		0.010
Volumes	-0.034 **	-0.034 **
	0.011	0.011
Vineyards owned	0.386	0.379
	0.520	0.525
Roa	-0.144 †	-0.143 †
	0.076	0.076
Status	-0.121	-0.099
	0.887	0.891
Grape quality	-0.024	-0.024
	0.102	0.102
Growing area size	0.005	0.005
	0.004	0.004
Year dummies	YES	YES
N	636	636
Wald chi2 (d.f)	145.74(23)	153.78(24)
Prob	0.0000	0.0000

*** p<.001 ** p<.01 • p<0.05 † p<.10, significance tests are one-tailed for directional hypotheses; two-tailed for controls

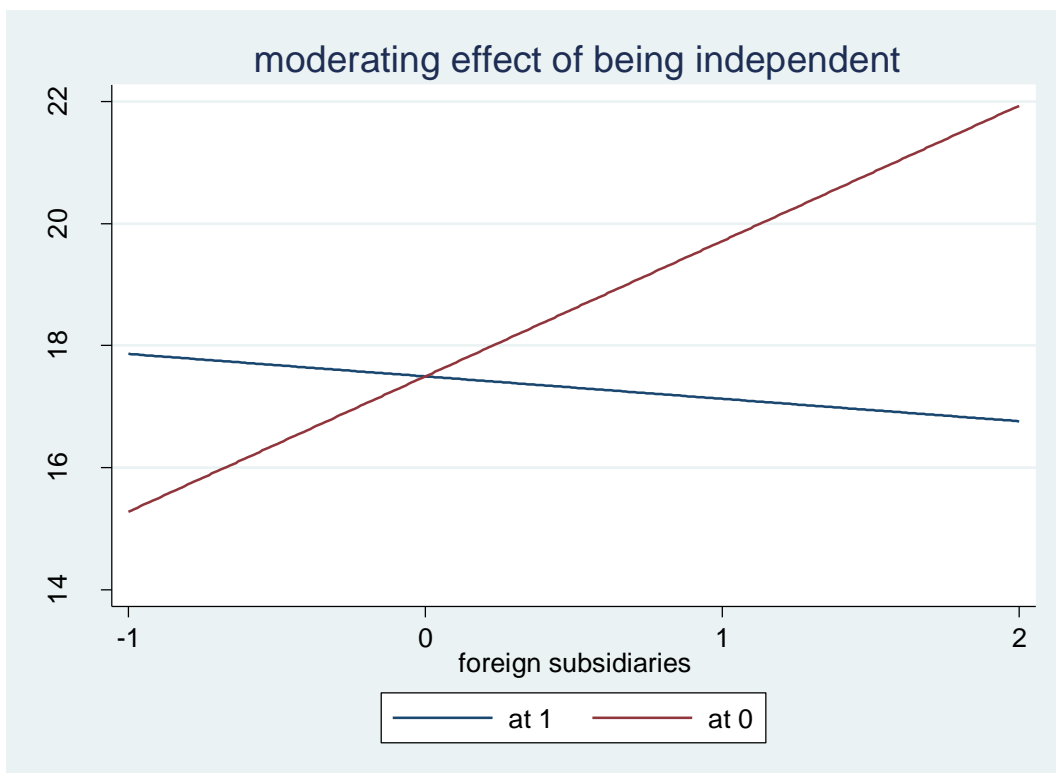
* Heteroskedasticity-consistent robust standard errors are in bold, clustered by firm

GRAPHS 1-4: Production on non-Champagne sparkling wine abroad

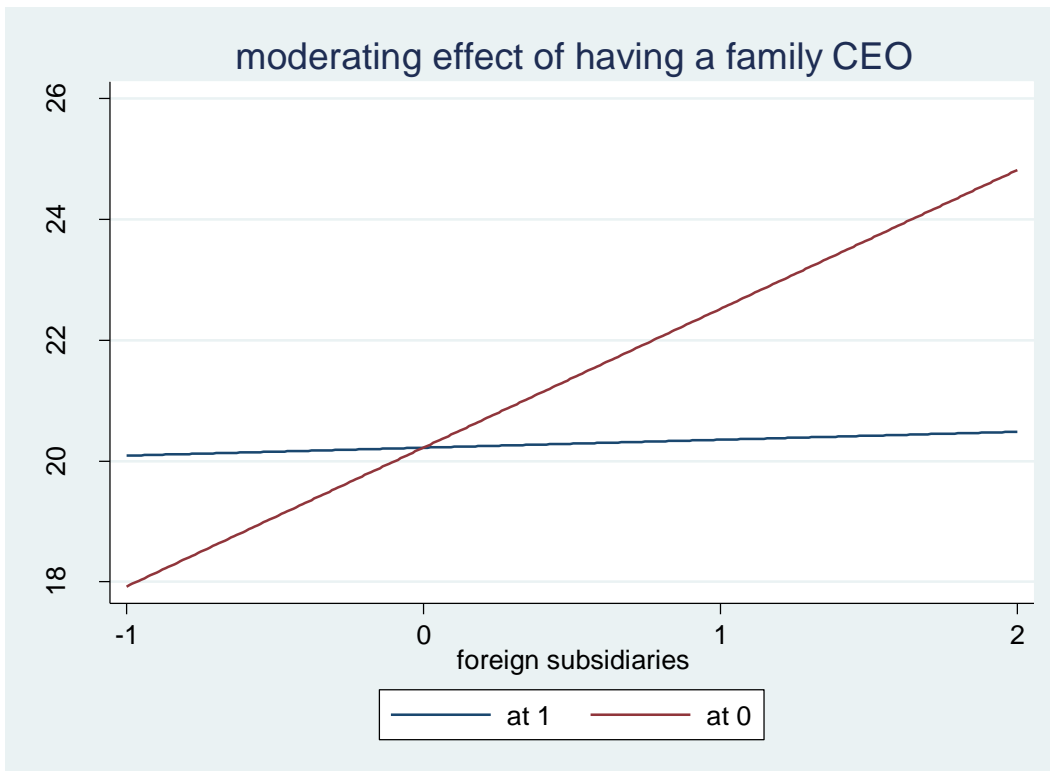
Graph 1



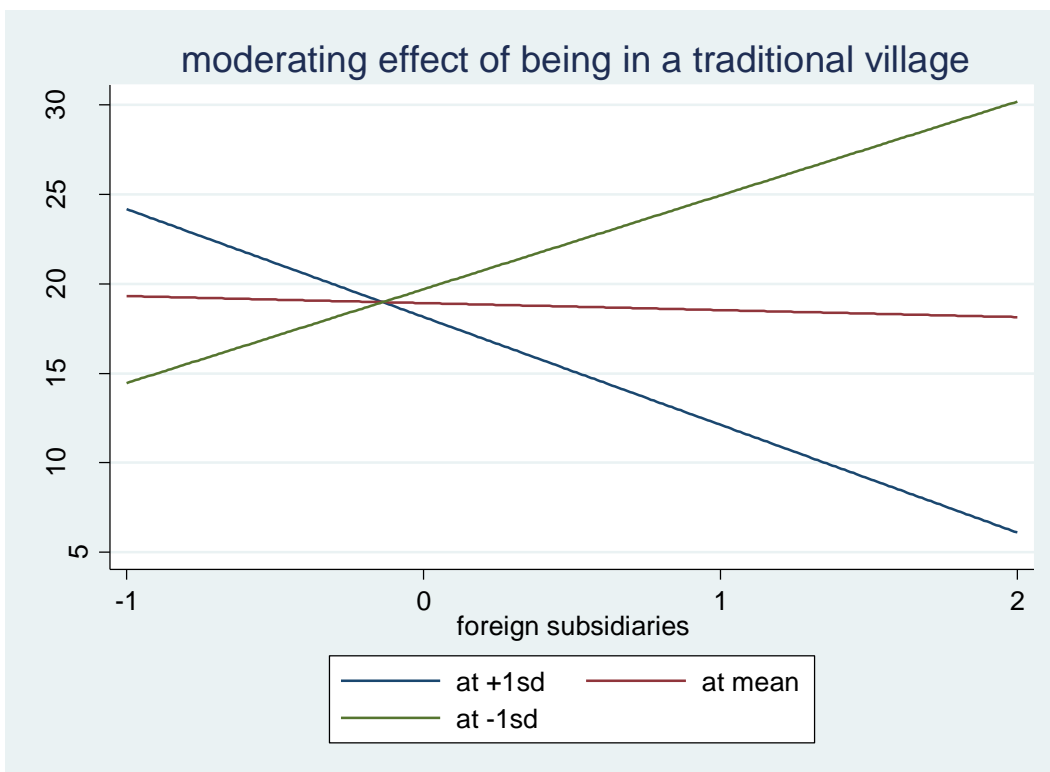
Graph 2



Graph 3

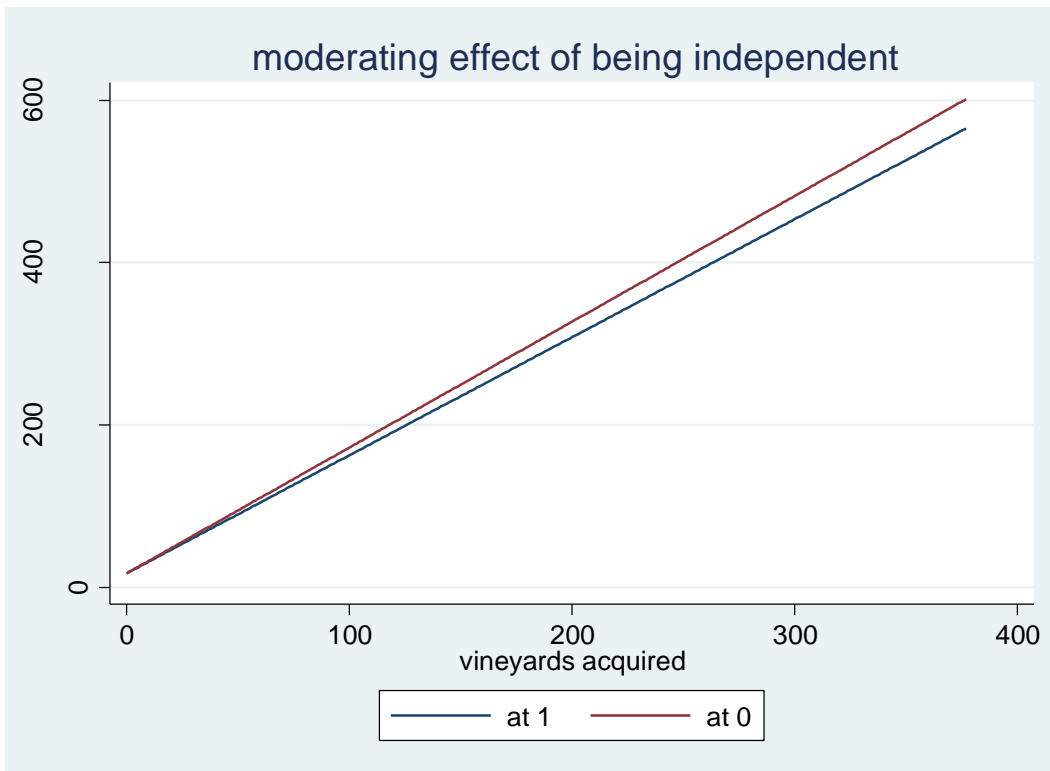


Graph 4

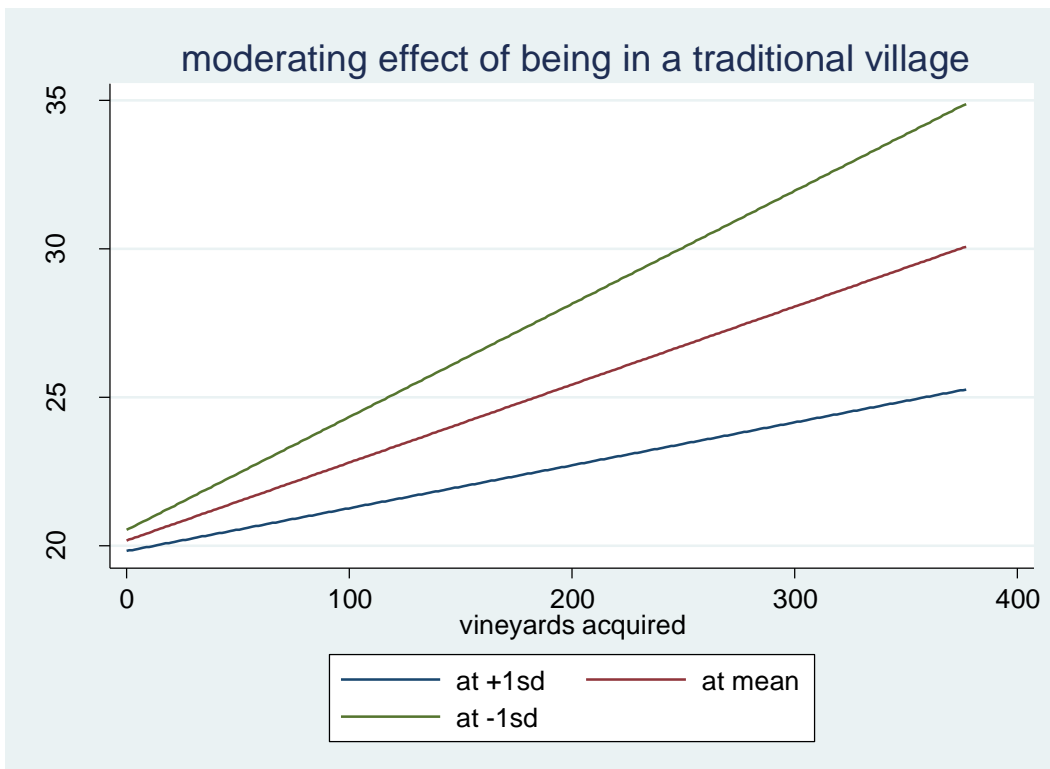


GRAPHS 5-7: Acquisition of vineyards in Champagne

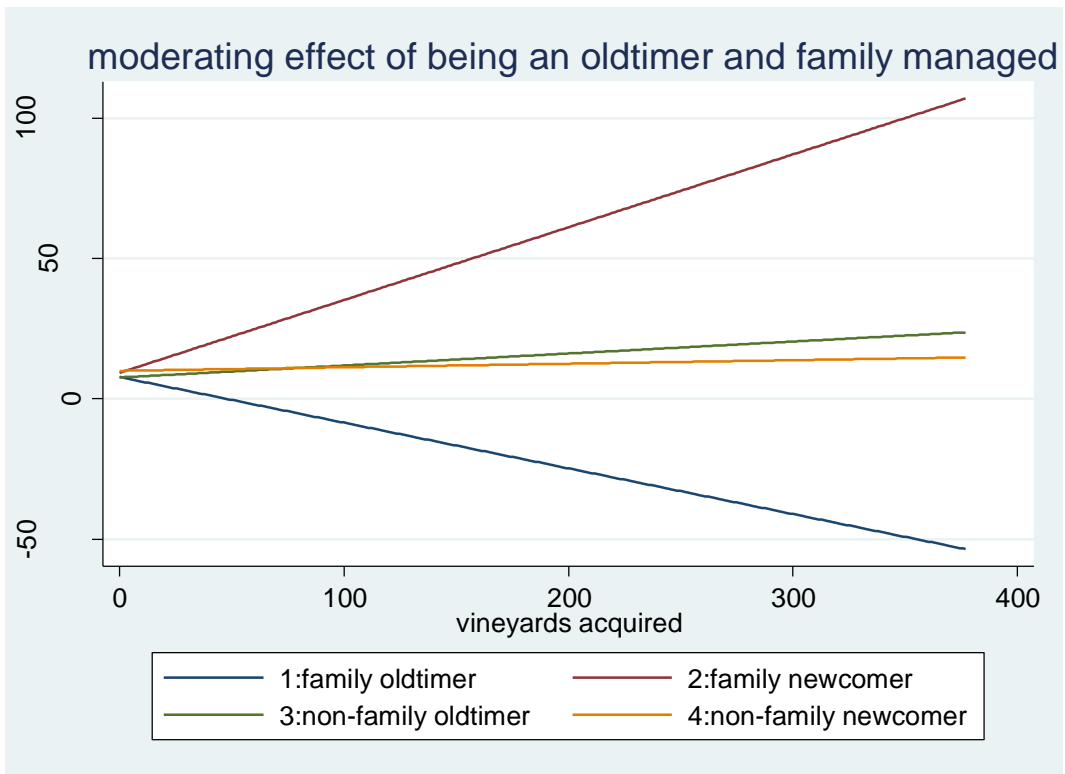
Graph 5



Graph 6



Graph 7



CHAPTER 5 - CONCLUSION

While this dissertation advances several streams of research, I would like to highlight two key contributions. First, my work furthers our understanding of social identity processes at the organizational level of analysis. The first essay shows that buyers engaged in identity-threatening actions are penalized by their suppliers. These results illustrate the social competition strategy described by Tajfel and Turner (1979) as a likely response to identity-threats. They also provide support, at the organizational level of analysis, for recent extensions of social identity theory—i.e. the idea that actors enforce conformity to norms of the category by derogating insiders who fail to comply with the standards of behavior ascribed to the category (Menon and Pfeffer, 2003). Furthermore, while the first essay highlights how social identity constrains organizational behavior, the second and third essay show how it can act as an enabler of strategic action. I illustrate how a positive identity tends to lower the level of monitoring a firm receives and moderate the punishment for engaging in contested actions. As a result, this work explains how a positive organizational identity can make it easier to engage in actions that are economically advantageous if socially unacceptable. Second, this dissertation has important implications for broad questions on the sociological foundations of market processes—particularly the formation of prices through exchange partners' interactions. While there is a large body of literature examining the economic consequences of stable relationships, very few studies have reliable price data and, among those who do, the issue of how pricing may be affected by partners' perceptions of each other's identity is seriously underexplored. The first and third essay in this dissertation explains how price differences can be significant even in a context where the product is extremely homogenous, relationships are stable and information asymmetries are low. Taken together, the insights from this dissertation raise new questions and may provide fruitful avenues for future research on the social construction of markets.

REFERENCES

- Ahmadjian, C. L., and P. Robinson
2001 "Safety in numbers: Downsizing and the deinstitutionalization of permanent employment in Japan." *Administrative Science Quarterly*, 46: 622–654.
- Akerlof, G. A., and R. E. Kranton
2010 *Identity Economics: How Our Identities Shape Our Work, Wages and Well-Being*. Princeton, NJ: Princeton University Press.
- Albert, S.
1998 "The definition and metadefinition of identity." In D. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations: Building Theory through Conversations*: 1–13. Thousand Oaks, CA: Sage Publications.
- Albert, S., B. E. Ashforth, and J. E. Dutton
2000 "Organizational identity and identification: Charting new waters and building new bridges." *Academy of Management Journal*, 25: 13–17.
- Albert, S., and D. Whetten
1985 "Organization identity." *Research on Organizational Behavior*, 7: 263–295.
- Alvesson, M.
2004 "Organization: From substance to image?" In M. J. Hatch, and M. Schultz (eds.), *Organizational Identity: A Reader*: 161–182. Oxford, UK: Oxford University Press.
- Anderson, R. C., and D. M. Reeb
2003 "Founding-family ownership and firm performance: Evidence from the S&P 500." *The Journal of Finance*, 58: 1301–1328.
- Arndt, M., and B. Bigelow
2000 "Presenting structural innovation in an institutional environment: Hospitals' use of impression management." *Administrative Science Quarterly*, 45: 494–522.
- Ashforth, B. E.
1998 "Epilogue: What have we learned, and where do we go from here?" In D. A. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations: Building Theory Through Conversations*: 268–272. Thousand Oaks, CA: Sage Publications.
- Ashforth, B. E., and F. Mael
1989 "Social identity theory and the organization." *Academy of Management Journal*, 14: 20–39.
- Barney, J.
1991 "Firm resources and sustained competitive advantage." *Journal of Management*, 17: 99–120.

- Baudouin, J.
2010 “Douze Champagnes d’hypermarchés dignes des grandes marques.” Capital. Gennevilliers, France. December 20th 2010.
- Becker, G. S.
1971 The Economics of Discrimination. Chicago, IL: University of Chicago Press.
- Beckert, J.
2011 “Where do prices come from? Sociological approaches to price formation.” Socio-Economic Review, 9: 757–786.
- Benjamin, B. A., and J. M. Podolny
1999 “Status, quality, and social order in the California wine industry.” Administrative Science Quarterly, 44: 563–589.
- Bergen, M., J. B. Heide, and S. Dutta
1998 “Managing gray markets through tolerance of violations: A transaction cost perspective.” Managerial and Decision Economics, 19: 157–165.
- Bernhard, H., E. Fehr, and U. Fischbacher
2006 “Group affiliation and altruistic norm enforcement.” American Economic Review, 92: 217–221.
- Bertrand, M., and A. Schoar
2006 “The role of family in family firms.” Journal of Economic Perspectives, 20: 73–96.
- Besse, A., P. Tegner, and S. Wilkins
2006 “Champagne: Play premium brands and solid financials.” Societe Generale Cross Asset Research. Paris.
- Bhattacharya, C. B., H. Rao, and M. A. Glynn
1995 “Understanding the bond of identification : An investigation of its correlates among art museum members.” Journal of Marketing, 59: 46–57.
- Bicchieri, C.
2006 The Grammar of Society. New York, NY: Cambridge University Press.
- Bowen, H. P., and M. Wiersema
2004 “Modeling limited dependent variables: Methods and guidelines for researchers in strategic management.” Research Methodology in Strategy and Management, 1: 87–134.
- Bowles, S., and H. Gintis
2004 “Persistent parochialism: Trust and exclusion in ethnic networks.” Journal of Economic Behavior & Organization, 55: 1–23.
- Brak, A. T., B. Deleersnyder, I. Geyskens, and M. G. Dekimpe
2011 “Sleeping with the enemy: Does supermarket brand production by national brand manufacturers create discounter goodwill?” Working Paper, Tilburg University.

- Breton, P.
2004 *Les Marques de Distributeurs: Les MDD Ne Sont Pas Que Des Copies!* Paris, France: Dunod.
- Brown, J.S., and P. Duguid
2001 “Knowledge and organization: A social practice perspective.” *Organization Science*, 12: 198–213.
- Carroll, G. R., and A. Swaminathan
2000 “Why the microbrewery movement? Organizational dynamics of resource partitioning in the US brewing industry.” *American Journal of Sociology*, 106: 715–762.
- Castilla, E. J.
2007 *Dynamic Analysis in the Social Sciences*. London, UK: Academic Press.
- Charters, S., and D. Menival
2008 “A typology of small producers in the Champagne industry.” 4th International Conference of the Academy of Wine Business Research. Siena, Italy.
- CIVC
2008 “Les expéditions de vins de Champagne effectuées sous des marques d’acheteur.” Epernay, France.
- Claeys-Pergament, S.
2007 “Champagne – Mais que veulent-ils?” *L’Union*. Reims, France. December 11th 2007.
2009 “Le guide Curien 2009–2010 est paru.” *L’Union*. Reims, France. July 7th 2009.
- Cool, K.O., and J.E. Henderson
2005 “Maintaining collective assets, the tragedy of the commons, and the supply chain performance: The case of the Champagne industry.” In K.O. Cool, J.E. Henderson, and R. Abate (eds.), *Restructuring strategy: New networks and industry challenges*: 17–43. Oxford, UK: John Wiley and Sons Ltd.
- Coughlan, A. T., E. Anderson, L. W. Stern, and A. I. El-Ansary
2006 *Marketing Channels*, 7 ed. Upper Saddle River, NJ: Prentice Hall.
- Craig, J. B., C. Dibrell, and P. S. Davis
2008 “Leveraging family-based brand identity to enhance firm competitiveness and performance in family businesses.” *Journal of Small Business Management*, 46: 351–371.
- Curien, J-M
1998 “Guide Curien de la Champagne.” Paris, France: SPRED.
- Declerck, F.
2005 “Typology and financial performance of Champagne makers according to distribution channel.” *International Food and Agribusiness Management Review*, 8: 1–22.
- Deluze, A.
2010 “Dynamique Institutionnelle et Performance Economique: l’Exemple du Champagne.” Unpublished doctoral dissertation. Université de Reims Champagne Ardenne.

- Dierickx, I., and K. Cool
1989 "Asset stock accumulation and sustainability of competitive advantage." *Management Science*, 35: 1504–1511.
- DiMaggio, P. J., and W. W. Powell
1983 "The iron cage revisited: Institutional isomorphism and collective rationality." *American Sociological Review*, 48: 147–160.
- Dunne, D., and C. Narasimhan
1999 "The new appeal of supermarket brands." *Harvard Business Review*, 77: 41–52.
- Dukerich, J. M., R. Kramer, and J. M. Parks
1998 "The dark side of organizational identification." In D. A. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations: Building Theory Through Conversations*: 245–256. Thousand Oaks, CA: Sage Publications.
- Durkheim, E.
1893 *De La Division du Travail Social*, 8 ed. Paris, France: Presse Universitaire de France.
- Dutton, J. E., and J.M. Dukerich
1991 "Keeping an eye on the mirror: Image and identity in organizational adaptation." *Academy of Management Journal*, 34: 517–544.
- Ellickson, R. C.
1991 *Order Without Law*. Cambridge, MA: Harvard University Press.
- Elsbach, K. D.
1998 "The process of social identification: With what do we identify?" In D. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations: Building Theory through Conversations*: 232–237. Thousand Oaks, CA: Sage Publications.
2004 "Managing images of trustworthiness in organizations." In R. M. Kramer, and K. S. Cook (eds.), *Trust and Distrust in Organizations*: 275–292. New York, NY: Russell Sage Foundation.
- Elsbach, K. D., and R. M. Kramer
1996 "Members' responses to organizational identity threats: Encountering and countering the Business Week rankings." *Administrative Science Quarterly*, 41: 442–476.
- Elsbach, K. D., and R. I. Sutton
1992 "Acquiring organizational legitimacy through illegitimate actions: A marriage of institutional and impression management theories." *Academy of Management Journal*, 35: 699–738.
- Fiske, S. T., and S. E. Taylor
1991 *Social Cognition*. New York, NY: McGraw-Hill.
- Fiss, P. C., and E. J. Zajac
2004 "The diffusion of ideas over contested terrain: The (non) adoption of a shareholder value orientation among German firms." *Administrative Science Quarterly*, 49: 501–534.

- 2006 “The symbolic management of strategic change: Sensegiving via framing and decoupling.” *Academy of Management Journal*, 49: 1173–1193.
- Fligstein, N.
1990 *The Transformation of Corporate Control*. Boston, MA: Harvard University Press.
- Fligstein, N.
1996 “Markets as politics: A political-cultural approach to market institutions.” *American Sociological Review*, 61: 656–673.
- Gargiulo, M., and G. Ertug
2006 “The dark side of trust.” In R. Bachmann, and A. Zaheer (eds.), *Handbook of Trust Research*: 165–186. Northampton, MA: Edward Edgar Publishing Limited.
- Gaucher, S., E. Giraud-Héraud, and H. Tanguy
2005 “Analyse économique du marché du raisin en Champagne en l'absence de régulation.” Working Paper. Ecole Polytechnique.
- Goffman, E.
2004 “The arts of impression management.” In M. J. Hatch, and M. Schultz (eds.), *Organizational Identity: A Reader*: 35–55. Oxford, UK: Oxford University Press.
- Golden-Biddle, K., and H. Rao
2004 “Breaches in the boardroom: Organizational identity and conflicts of commitment in a non-profit organization.” In M. J. Hatch, and M. Schultz (eds.), *Organizational Identity: A Reader*: 313–345. Oxford, UK: Oxford University Press.
- Gioia, D. A.
1998 “From individual to organizational identity.” In D. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations, Building Theory Through Conversations*: 17–31. Thousand Oaks, CA: Sage Publications.
- Gioia, D. A., M. Schultz, and K. G. Corley
2000 “Organizational identity, image, and adaptive instability.” *Academy of Management Review*, 25: 63–81.
- Glynn, M. A.
1998 “Individuals’ need for organizational identification (nOID): Speculations on individual differences in the propensity to identify.” In D. A. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations: Building Theory Through Conversations*: 238–244. Thousand Oaks, CA: Sage Publications.
- Goette, L., D. Huffman, and S. Meier
2006 “The impact of group membership on cooperation and norm enforcement: Evidence using random assignment to real social groups.” *American Economic Review*, 96: 212–216.
- Granovetter, M.
1985 “Economic action and social structure: The problem of embeddedness.” *American Journal of Sociology*, 91: 481–510.

- Greene, W. H.
2003 *Econometric Analysis*, 5th ed. Upper Saddle River, NJ: Prentice Hall.
- Greene, W. H., and D. A. Hensher
2010 *Modeling Ordered Choices: A Primer*. Cambridge, UK: Cambridge University Press.
- Hagen, J. M., and S. Choe
1998 "Trust in Japanese interfirm relations: Institutional sanctions matter." *Academy of Management Review*, 23: 589–600.
- Hardin, R.
2006 "The street-level epistemology of trust." In R.M. Kramer (Ed.), *Organizational Trust: A Reader*: 21–47. Oxford, NY: Oxford University Press.
- Hewstone, M.
1990 "The "ultimate attribution error"? A review of the literature on intergroup causal attribution." *European Journal of Social Psychology*, 20: 311–335.
- Hogg, M. A., and D. Abrams
1999 "Social identity and social cognition: Historical background and current trends." In D. Abrams, and M. A. Hogg (eds.), *Social Identity and Social Cognition*: 1–25. Oxford, UK: Blackwell Publishers.
- Homans, G. C.
1951 *The Human Group*. London, UK: Routledge & Kegan.
- Hsu, G.
2006 "Jacks of all trades and masters of none: Audiences' reactions to spanning genres in feature film production." *Administrative Science Quarterly*, 51: 420–450.
- Hsu, G., M. T. Hannan, and L. Polos
2009 "Typecasting and legitimation: A formal theory." Stanford University Graduate School of Business Research Paper No. 2010. Available at SSRN: <http://ssrn.com/abstract=1331663>.
- Huff, L., and L. Kelley
2003 "Levels of organizational trust in individualistic versus collectivistic societies: A seven-nation study." *Organization Science*, 14: 81–90.
- Ingram, P., and K. Clay
2000 "The choice-within-constraints new institutionalism and implications for sociology." *Annual Review of Sociology*, 26: 525–546.
- Ingram, P., and B. S. Silverman
2002 "The new institutionalism in strategic management." *Advances in Strategic Management*, 19: 1–32.
- Jefford, A.
2008 "Champagne power struggle." *Decanter.com*, (ed.). London, UK: IPC Media.

- Jones, G. H., B. H. Jones, and P. Little
2000 "Reputation as reservoir: Buffering against loss in times of economic crisis."
Corporate Reputation Review, 3: 21–29.
- Jussim, L., T. E. Nelson, M. Manis, and S. Soffin
1995 "Prejudice, stereotypes, and labeling effects: Sources of bias in person perception."
Journal of Personality and Social Psychology, 68: 228–246.
- King, A. A., and M. J. Lenox
2000 "Industry self-regulation without sanctions: The chemical industry's responsible care program." *Academy of Management Journal*, 43: 698–716.
- Kraatz, M. S., and E. J. Zajac
1996 "Exploring the limits of the new institutionalism: The causes and consequences of illegitimate organizational change." *American Sociological Review*, 61: 812–836.
- Kramer, R.M., B.A. Hanna, S. Su, and J. Wei
2001 "Collective identity, collective trust, and social capital: Linking group identification and group cooperation." In M. E. Turner (eds.), *Groups At Work: Theory and Research*: 173–196. Mahwah, NJ: Lawrence Erlbaum Associates.
- Kramer, R. M., and T. R. Tyler
1996 *Trust in Organizations: Frontiers of Theory and Research*. Thousand Oaks, CA: Sage Publications.
- Kumar, N., and J. Steenkamp
2007 *Supermarket Brand Strategy: How to Meet the Store Brand Challenge*. Boston, MA: Harvard Business Press.
- Lado, A. A., R. R. Dant, and A. G. Tekleab
2008 "Trust-opportunism paradox, relationalism, and performance in interfirm relationships: Evidence from the retail industry." *Strategic Management Journal*, 29: 401–423.
- Lecluse, S.
2009 "BCC joue la carte du low-cost pour s'imposer." *La Tribune*. Oradour-sur-Glane, France. November 25th 2009.
- Lenox, M.
2006 "The role of private, decentralized institutions in sustaining industry self-regulation." *Organization Science*, 17: 670–690.
- Les Echos
1999 "Vranken Monopole rejoint le peloton de tête." *Les Echos*: Paris, France. April 8th 1999.
- Letessier, I.
2009 "De célèbres industriels fabriquent parfois discrètement les produits MDD." *Le Figaro*: Paris, France. April 23rd 2009.

- Lewicki, R. J., and B. B. Bunker
 1996 “Developing and maintaining trust in work relationships.” In R. M. Kramer, and T. R. Tyler (eds.), *Trust in Organizations: Frontiers of Theory and Research*: 114–139. Thousand Oaks, CA: Sage Publications.
- Macy, M. W., and J. Skvoretz
 1998 “The evolution of trust and cooperation between strangers: A computational model.” *American Sociological Review*, 63: 638–660.
- Maitland, I., J. Bryson, and A. Van de Ven
 1985 “Sociologists, economists, and opportunism.” *Academy of Management Review*, 10: 59–65.
- Marieux, A.
 2008 “Duo de choc dans le Champagne.” *Challenge*. Paris, France. October 9th 2008.
- Marais, F.
 2006 “Bruno Paillard, PDG de la holding Boizel, Chanoine, Champagne.” *Champ'Eco*: 20–24. CCI: Reims, France.
- Markides, C. C.
 2008 *Game-Changing Strategies: How to Create New Market Space in Established Industries by Breaking the Rules*. 1 ed. San Francisco, CA: Jossey-Bass.
- McEvily, B., V. Perrone, and A. Zaheer
 2003 “Trust as organizing principle.” *Organization Science*, 14: 91–103.
- Menon, T., and J. Pfeffer
 2003 “Valuing internal vs. external knowledge: Explaining the preference for outsiders.” *Management Science*, 49: 497–513.
- Mezias, J. M., and W. H. Starbuck
 2003 “Studying the accuracy of managers’ perceptions: A research Odyssey.” *British Journal of Management*, 14: 3–17.
- Miller, D., I. Le Breton-Miller, and R. H. Lester
 2010 “Family ownership and acquisition behavior in publicly-traded companies.” *Strategic Management Journal*, 31: 201–223.
- Moati, P.
 2008 “L’envol des marques de distributeurs: une opportunité pour beaucoup d’industriels.” *CREDOC Study*, 211: 1–4.
- Molina-Morales, F. X., and M. T. Martínez-Fernández
 2009 “Too much love in the neighbourhood can hurt: how an excess of intensity and trust in relationships may produce negative effects on firms.” *Strategic Management Journal*, 30: 1013–1023.
- Mundlak, Y.
 1978 “On the pooling of time series and cross section data.” *Econometrica*, 46: 69–85.

Negro, G., M. T. Hannan, and H. Rao

2010 “Categorical contrast and audience appeal: Niche width and critical success in winemaking.” *Industrial and Corporate Change*, 19: 1397–1425.

2011 “Category reinterpretation and defection: Modernism and tradition in Italian winemaking.” *Organization Science*, 22: 1449–1463.

Nooteboom, B., H. Berger, and N. G. Noorderhaven

1997 “Effects of trust and governance on relational risk.” *Academy of Management Journal*, 40: 308–338.

O’Donnell, J. and C. Dugas

2007 “Discounted designer labels here to stay.” *USA Today*. McLean, VA. July 5th 2007.

Ody-Brasier, A. and F. Vermeulen

2012 “The price you pay: Markets, identity threats, and price as an enforcement mechanism.” Working Paper. London Business School.

Oskamp, S.

1965 “Attitudes toward U.S. and Russian actions: A double standard.” *Psychological Reports*, 16: 43–46.

Ostrom, E.

2000 “Collective action and the evolution of social norms.” *Journal of Economic Perspectives*, 14: 137–159.

Parsons, T.

1949 *The Structure of Social Action*, 2 ed. New York, NY: Free Press.

Papin, E.

2010 “Qui se cache derrière les marques de distributeurs?” CMA Press. Saint Etienne, France.

Passariello, C.

2008 “To rule Champagne market, LVMH courts grape growers.” *Wall Street Journal*. New York, NY. January 2nd 2008.

Peteraf, M. A., and M. Shanley

1997 “Getting to know you: A theory of strategic group identity.” *Strategic Management Journal*, 18: 165–186.

Pettigrew, T. F.

1979 “The ultimate attribution error: Extending Allport's cognitive analysis of prejudice.” *Personality and Social Psychology Bulletin*, 5: 461–476.

Pfarrer, M. D., T. G. Pollock, and V. P. Rindova

2010 “A tale of two assets: The effects of firm reputation and celebrity on earnings surprises and investors' reactions.” *Academy of Management Journal*, 53: 1131–1152.

- Pfeffer, J., and G. R. Salancik
1978 *The External Control of Organizations: A Resource Dependence Perspective*. New York, NY: Harper and Row.
- Phillips, D. J., and E. W. Zuckerman
2001 "Middle-status conformity: Theoretical restatement and empirical demonstration in two markets." *American Journal of Sociology*, 107: 379–429.
- Porac, J., H. Thomas, and C. Baden-Fuller
1989 "Competitive groups as cognitive communities: The case of the Scottish knitwear industry." *Journal of Management Studies*, 26: 397–416.
- Portes, A., and J. Sensenbrenner
1993 "Embeddedness and immigration: Notes on the social determinants of economic action." *American Journal of Sociology*, 98: 1320–1350.
- Pouder, R., and H. S. J. Caron
1996 "Hot spots and blind spots: Geographical clusters of firms and innovation." *Academy of Management Review*, 21: 1192–1225.
- Pratt, M. G.
1998 "To be or not to be: Central questions in organizational identification." In D. A. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations: Building Theory Through Conversations*: 171–207. Thousand Oaks, CA: Sage Publications.
- Rao, H., G. F. Davis, and A. Ward
2000 "Embeddedness, social identity and mobility: Why firms leave the NASDAQ and join the New York Stock Exchange." *Administrative Science Quarterly*, 45: 268–292.
- Rao, H., P. Monin, and R. Durand
2003 "Institutional change in Toque Ville: Nouvelle cuisine as an identity movement in French gastronomy." *American Journal of Sociology*, 108: 795–843.
2005 "Border crossing: Bricolage and the erosion of categorical boundaries in French gastronomy." *American Sociological Review*, 70: 968–991.
- Rao, H., C. Morrill, and M. N. Zald
2000 "Power plays: Social movements, collective action and new organizational forms." In B. M. Staw and R. I. Sutton (eds.), *Research in Organizational Behavior*, 22: 239–282. New York, NY: Elsevier.
- Reed
1998 "Up, up and away." *Reed Business Information*. London: UK.
- Reitzig, M., and P. Puranam
2009 "Value appropriation as an organizational capability: the case of IP protection through patents." *Strategic Management Journal*, 30: 765–789.
- Rhee, M., and P. R. Haunschild
2006 "The liability of good reputation: A study of product recalls in the US automobile industry." *Organization Science*, 17: 101–117.

- Roberts, P. W., and G. R. Dowling
2002 "Corporate reputation and sustained superior financial performance." *Strategic Management Journal*, 23: 1077–1093.
- Robinson, S. L.
1996 "Trust and breach of the psychological contract." *Administrative Science Quarterly*, 41: 574–599.
- Romanelli, E., and O. M. Khessina
2005 "Regional industrial identity: Cluster configurations and economic development." *Organization Science*, 16: 344–358.
- Ross, L.
1977 "The Intuitive Psychologist and his shortcomings: Distortions in the attribution process." In L. Berkowitz (ed.), *Advances in Experimental Social Psychology*: 173–220. New York, NY: Academic Press.
- Ruef, M., and K. Patterson
2009 "Credit and classification: The impact of industry boundaries in nineteenth-century America." *Administrative Science Quarterly*, 54: 486–520.
- Ruef, M., and W. R. Scott
1998 "A multidimensional model of organizational legitimacy: Hospital survival in changing institutional environments." *Administrative Science Quarterly*, 43: 877–904.
- Rumelt, R. P., D. E. Schendel, and D. J. Teece
1994 *Fundamental Issues in Strategy: A Research Agenda*. Boston, MA: Harvard Business Press.
- Sanders, W. M. G., and A. Tuschke
2007 "The adoption of institutionally contested organizational practices: The emergence of stock option pay in Germany." *Academy of Management Journal*, 50: 33–56.
- Saxenian, A. L.
1994 *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Cambridge, MA: Harvard University Press.
- Schnietz, K., and M. Epstein
2005 "Exploring the financial value of a reputation for corporate social responsibility during a crisis." *Corporate Reputation Review*, 7: 327–345.
- Schoorman, F. D., R. C. Mayer, and J. H. Davis
2007 "An integrative model of organizational trust: Past, present, and future." *Academy of Management Review*, 32: 344–354.
- Scott, S. G., and V. R. Lane
2000 "A stakeholder approach to organizational identity." *Academy of Management Review*, 25: 43–62.

Scott, W. R.

2001 *Institutions and Organizations*, 2nd ed. Thousand Oaks, CA: Sage Publications.

SGV

1952 “Compte-rendu de l’AG de printemps.” *Champagne Viticole*: 2–3. Epernay : Syndicat General des Vignerons (SGV).

2004 “ Les MDD en concurrence avec les vins de récoltants. ” *Champagne Viticole*: 20–22. Epernay: Syndicat General des Vignerons (SGV).

2006 “Champagne en grande distribution.” *Champagne Viticole*: 24–25. Epernay: Syndicat General des Vignerons (SGV).

Simon, H. A.

1991 “Organizations and markets.” *Journal of Economic Perspectives*, 5: 25–44

Simon, J.

1989 “Will the bubble burst?” *The Sunday Times*. London, UK.

Sorenson, O., and Pino G. Audia

2000 “The social structure of entrepreneurial activity: Geographic concentration of footwear production in the United States, 1940-1989.” *The American Journal of Sociology*, 106: 424–462.

Stimpert, J. L., L. T. Gustafson, and Y. Sarason

1998 “Organizational identity within the strategic management conversation: Contributions and assumptions.” In D. Whetten, and P. C. Godfrey (eds.), *Identity in Organizations, Building Theory Through Conversations*: 83–98. Thousand Oaks, CA: Sage Publications.

Stinchcombe, A. L.

1965 *Social structure and organizations*. In J. G. March (ed.), *Handbook of Organizations*: 142–193. Chicago, IL: Rand McNally & Company.

Strang, D., and S. A. Soule

1998 “Diffusion in organizations and social movements: From hybrid corn to poison pills.” *Annual Review of Sociology*, 24: 265–290.

Stuart, T. E., H. Hoang, and R. C. Hybels

1999 “Interorganizational endorsements and the performance of entrepreneurial ventures.” *Administrative Science Quarterly*, 44: 315–349.

Tajfel, H.

1972 “La catégorisation sociale.” In S. Moscovici (eds.), *Introduction à la Psychologie Sociale*: 272–302. Paris, France Larousse.

1982 “Social psychology of intergroup relations.” *Annual Review of Psychology*, 33: 1–39.

Tajfel, H., and J. C. Turner

1986 “The social identity theory of intergroup behavior.” *Psychology of Intergroup Relations*, 2: 7–24.

2004 “An integrative theory of intergroup conflict.” In M. J. Hatch and M. Schultz (eds.), *Organizational Identity: A Reader*: 56–65. New York, NY: Oxford University Press.

- Taylor, A.
2002 "Finally, GM is looking good." *Fortune*. New York, NY. April 1st 2002.
- Taylor, D. M., and V. Jaggi
1974 "Ethnocentrism and causal attribution in a South Indian context." *Journal of Cross-Cultural Psychology*, 5: 162–171.
- Tompkins, P K., and G. Cheney
1985 "Communication and unobtrusive control in contemporary organizations." In R. McPhee and P. Tompkins (Eds.), *Organizational Communication: Traditional Themes and New Directions*: 179–210. Beverly Hills, CA: Sage.
- Turner, J. C.
1980 "Fairness or discrimination in intergroup behaviour? A reply to Branthwaite, Doyle and Lightbown." *European Journal of Social Psychology*, 10: 131-147.
- Uzzi, B.
1996 "The sources and consequences of embeddedness for the economic performance of organizations: The network effect." *American Sociological Review*, 61: 674–698.
- Uzzi, B., and R. Lancaster
2004 "Embeddedness and price formation in the corporate law market." *American Sociological Review*, 69: 319–344.
- Villalonga, B., and R. Amit
2006 "How do family ownership, control and management affect firm value?" *Journal of Financial Economics*, 80: 385–417.
- Voss, Z. G., D. M. Cable, and G. B. Voss
2006 "Organizational identity and firm performance: What happens when leaders disagree about "Who We Are?"" *Organization Science*, 17: 741–755.
- Wade, J. B., J. F. Porac, T. G. Pollock, and S. D. Graffin
2006 "The burden of celebrity: The impact of CEO certification contests on CEO pay and performance." *Academy of Management Journal*, 49: 643–660.
- Wason, P. C.
1960 "On the failure to eliminate hypotheses in a conceptual task." *Quarterly Journal of Experimental Psychology*, 12: 129–140.
- Wathne, K. H., and J. B. Heide
2000 "Opportunism in interfirm relationships: Forms, outcomes, and solutions." *The Journal of Marketing*, 64: 36–51.
- Westphal, J. D., and E. J. Zajac
1994 "Substance and symbolism in CEOs' long-term incentive plans." *Administrative Science Quarterly*, 39: 367–390.
1998 "The symbolic management of stockholders: Corporate governance reforms and shareholder reactions." *Administrative Science Quarterly*, 43: 127–153.

Whetten, D. A.

2006 “Albert and Whetten revisited: Strengthening the concept of organizational identity.” *Journal of Management Inquiry*, 15: 219–234.

Williams, M.

2001 “In whom we trust: Group membership as an affective context for trust development.” *Academy of Management Review*, 26: 377–396.

Williamson, O. E.

1981 “The economics of organization: The transaction cost approach.” *American Journal of Sociology*, 87: 548–577.

Wooldridge, J. M.

2003 *Introductory Econometrics: A Modern Approach*, 2nd ed. Mason, OH: Thomson South-Western.

Wu, D.

1973 “Alternative tests of independence between stochastic regressors and disturbances.” *Econometrica*, 41: 733–750.

Zuckerman, E. W.

1999 “The categorical imperative: Securities analysts and the illegitimacy discount.” *American Journal of Sociology*, 104: 1398–1438.

Zuckerman, E. W., and T. Y. Kim

2003 “The critical trade-off: Identity assignment and box-office success in the feature film industry.” *Industrial and Corporate Change*, 12: 27–67.