



FACULTY & RESEARCH

Working Paper | HBS Working Paper Series | 2012

Risky Business: The Impact of Property Rights on Investment and Revenue in the Film Industry

by Venkat Kuppuswamy and [Carliss Y. Baldwin](#)

Abstract

Our paper tests a key prediction of property rights theory, specifically, that agents will respond to marginal incentives embedded in property rights when making non-contractible, revenue-enhancing investments (Grossman and Hart, 1986; Hart and Moore, 1990). Using rich project-level data from the U.S. film industry, we investigate variation in property right allocations, investment choices, and film revenues to test the distinctive aspects of property rights theory. Empirical tests of these key theoretical predictions have been relatively sparse due to the lack of appropriate data. The U.S. film industry deploys two distinct allocations of property rights, which differentially affect marginal returns on a particular class of investments. In many cases, films are both produced and distributed by studios that then take in the lion's share of revenue. In other cases, films are produced independently and distributed by studios under revenue sharing agreements, which give studios 30% to 40% of the revenue stream. Under either regime, the studio determines and pays for the allocation of scarce marketing resources. After accounting for the endogenous nature of property right allocations, we find that studio-financed films receive superior marketing investments compared to independent films and that these investments fully mediate the positive effect of vertical integration on film revenues. As a result, this study contributes to the empirical literature on property rights by showing that both of the predicted linkages (from marginal returns to investment and from investment to revenue) exist in a single empirical setting.

Keywords: [property rights](#); [Property](#); [Rights](#); [Investment](#); [Contracts](#); [Revenue](#); [Motivation and Incentives](#); [Motion Pictures and Video Industry](#); [United States](#);

Language: English Format: Print 47 pages [SSRN Read Now](#)

Citation:

Kuppuswamy, Venkat, and Carliss Y. Baldwin. "[Risky Business: The Impact of Property Rights on Investment and Revenue in the Film Industry.](#)" Harvard Business School Working Paper, No. 13-007, July 2012. (Revised August 2012.)

[Export Citation](#)

About the Author

[Carliss Y. Baldwin](#)

William L. White Professor of Business Administration, Emerita

[View Profile »](#)[View Publications »](#)