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Appendix

A.1 The Agency Problem in the Financial Contracting Literature

The lack of empirical work testing the principal agent theory in the context of financial contracting may be driven by limited data availability: While it may be possible for researchers to observe ventures with external investors and even to obtain additional information on the project level (e.g. as in Kaplan & Strömberg, 2003 and Kaplan & Strömberg, 2004), there is generally little information on the corresponding and adequate reference group, i.e. the remaining ex ante possible investment opportunities that didn't receive the support of investors but were realized with other funds instead. This makes an empirical verification of adverse selection, moral hazard and hold-up difficult. The most established strand of literature with strong similarities to the co-financing phenomenon in the motion picture industry consists of studies regarding venture capital (VC) involvement.[224] But instead of exploring the outcome of principal agent relationships (e.g. performance differentials or agency costs), most research investigates whether or not the contracting parties behave in line with the predictions of the theoretical constructs, in particular whether the principals engage ex ante in screening activities, conclude contingent contracts and ex post monitor their engagements in order to mitigate agency problems (Reid, 1999; Norton, 1995). Hence, much of this literature aims at describing the practices employed by venture capitalists.

Screening

Studies show that prior to a commitment venture capitalists spent significant time and resources to screen potential investment opportunities[225] in order to identify signals that could foreshadow a commercial success, like market size, strategy, technology, customer adoption, third party referrals, ability of the entrepreneur and completeness as well as suitability of the management team (Kaplan & Strömberg, 2004; Macmillan, Siegel & Narasimha, 1985; Tyebjee & Bruno, 1984b). This process also entails the identification of potential risk (Reid, Terry & Smith, 1997; Fiet, 1995), with management risk[226] being the hazard that most strongly and consistently affects the design and the terms of VC contracts (Kaplan & Strömberg, 2004). The latter study also shows that the initial appraisal of the management team is related to subsequent performance: Ventures with strongly rated

224 In this setting the entrepreneur (investee) constitutes the risk averse but relatively well informed agent and the venture capitalist the risk neutral but relatively poorly informed principal. Herein, the venture capitalist is a type of financial intermediary (Chan, 1983) who handles funds for upstream clients (i.e. individual investors) who lack the necessary skills to engage in high risk/high return investment opportunities. Without such intermediaries, an oversupply of dubious business ventures would emerge, with the investees trying to exploit the individual investors' information deficits.

225 For the UK venture capital market, Reid, Terry and Smith (1997) estimate that less than one third of all proposals are actually reviewed by venture capitalists with the remainder being sorted out in the screening process. Only three percent of all proposals are eventually funded.

226 Fiet (1995) distinguishes between market risk and agency risk, with the latter basically being what in other studies is referred to as management risk.

K. H. Hofmann, *Co-Financing Hollywood Film Productions with Outside Investors,*
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management teams appear to be more likely to go public, partly legitimizing screening approaches, albeit such activities may be costly for investors.

Contracting

Concerning the design of VC contracts, Kaplan and Strömberg (2003) show that cash-flow rights, voting rights, board rights, liquidation rights, control rights and future financing rounds are allocated separately and typically are contingent on observable measures of financial and non-financial performance; e.g. giving the venture capitalist more control when the company performs poorly. In general, these findings are consistent with the existing theoretical predictions: Contractual clauses and staged financing are used to manage risk and mitigate moral hazard (Robinson & Stuart, 2007; Wang & Zhou, 2004). Nevertheless, the results also indicate that real world contracts are more complex, insofar that 'the allocations of cash flow and control rights and the use of contingencies are related in systematic ways' (Kaplan & Strömberg, 2003).

Monitoring

In a more general context, it has been argued that ownership concentration may increase firm value because the owners have stronger incentives to monitor and control managers (Shleifer & Vishny, 1986). The VC literature supports this notion and shows that venture capitalists – as concentrated owners – exert influence in the form of monitoring, advising, controlling as well as assisting and even actively influence decisions of the firms they are invested in (Kaplan & Strömberg, 2004; Lerner, 1995; Barry, Muscarella, Peavy & Vetsuypens, 1990; Macmillan, Kulow & Khoylian, 1988). Hellmann and Puri (2000, 2002) show that VC intervention may lead to shorter time-to-market intervals, faster adoption of stock-option plans and earlier hiring of external managers. Although these measures are not performance indicators per se, they may ultimately lead to elevated returns; the results point to the beneficial impact of VC involvement, at least for certain start-up firms. Kaplan and Strömberg (2004), however, conclude that due to limited resources of the venture capitalists (e.g. time) and the costs associated with the efforts, they do not intend to become too involved but rather (have and should) do so in times of weak management or missing performance in order to improve outcomes.

Those studies investigating the performance impact and possibly a value-added of VC involvement on the venture level have produced ambiguous results.[227] Furthermore, the findings always have to be interpreted with care and only with regard to the applicable and examined reference group. The majority of these studies typically compare the performance of venture capital-backed firms versus firms without such institutional financial backing, after their initial public offering (IPO) events. In this setting, two

[227] A distinct strand of literature is concerned with the performance impact of different entry modes when firms internationalize. Establishing wholly-owned subsidiaries versus founding joint ventures with local partners are two prominent but competing modes. In joint venture set-ups, agency problems may arise and potentially impact performance measures. The empirical evidence, however, is mixed, also because local partners may simultaneously add value to the venture: While some studies find joint ventures to be more profitable (e.g. Pan & Chi, 1999; Pan, Li & Tse, 1999), others associate wholly-owned subsidiaries with superior performance (e.g. Nitsch, Beamish & Makino, 1996; Woodcock, Beamish & Makino, 1994). The dominant explanation for the latter results is that joint ventures produce higher costs, e.g. for identifying partners, managing the venture, coordinating the interests and goals and monitoring the contributions of the parties involved.

concerns arise: Firstly, the reference group of non-VC-backed firms is blurred because it typically does not consistently contain businesses that were equally available for venture capitalists and secondly, the economic performance of the venture during the time period *before* the IPO is neglected. Nevertheless, most of this research agrees that VC involvement leads to lower underpricing of the securities during IPOs and to better post-IPO operational performance (Brav & Gompers, 1997; Megginson & Weiss, 1991).[228] However, more recent studies contradict the latter results and show that post-IPO performance is in fact inferior (Wang, Wang & Lu, 2003). The researchers explain this finding along the lines of adverse selection.

Furthermore, the empirical studies also indicate that the engagements of more established (i.e. older) venture capitalist firms perform better, pointing to the positive impact of investor experience.[229] This effect may either be driven by superior monitoring and intervention, for example by influencing the timing of an IPO (Wang, Wang & Lu, 2003) or by smaller information asymmetries and in consequence a more favorable selection of investments (Gompers & Lerner, 1998), or both. When conveying these findings to co-financing arrangements, it appears straightforward to expect that the more experienced investors, namely the financers, should outperform slate investors.[230]

The findings from the VC literature, however, are not perfectly transferable to the film co-financing environment because some fundamental differences exist. Studios may have sufficient funds to realize some projects alone, whereas the classical entrepreneur in the VC literature has an idea but lacks money (Hart, 2001). This situation exacerbates adverse selection. Moreover, in a typical VC contract control rights, voting rights, cash-flow rights to entrepreneurs and even future financing commitments are contingent; i.e. bound to observable measures of financial and non-financial criteria (Kaplan & Strömberg, 2003). This is not the case in co-financing because basically everything is fixed upon contract settlement with little room for ex post variation and the principals are in general constrained in their ability to exert influence. Moreover, the performance of a film project typically doesn't become observable until film production is completed and the movie is released, making contingency clauses difficult in this setting and hence, providing the agents with additional opportunities for moral hazard. On the other hand, the potential hold-up problem (Hart & Moore, 1994) between the financially non- or little involved entrepreneur whose human capital is critical for the realization of the venture and the financially involved investor is comparably small, if not absent because co-financers in motion pictures typically finance a maximum of 50 percent and when they enter a deal, the

228 Many of these studies explain the lower underpricing as a result of the certification of an IPO by a venture capital firm. The involvement may be interpreted as a quality signal by other outside investors who are interested in the securities of the firm. Although this constitutes a prime application of the principal agent framework, this particular relationship concerns a distinct 'downstream' relationship, namely between individual investors and the firm at the time of the IPO, with the venture capitalist representing a quality signal.

229 Recent studies support this finding and even show that the investments of more specialized venture capital firms are more successful (Gompers, Kovner & Lerner, 2009). Generalists suffer from an inefficient allocation of funding across industries and also from a poor selection of investments within industries.

230 In the empirical analyses of Sections 6 and 8, I intend to distinguish between the detrimental effects of adverse selection and moral hazard. As will be shown, the more experienced financers are less affected by moral hazard, lending support to the idea that experience facilitates monitoring activities and thus curbs agent opportunism.

completion of the motion picture is agreed upon. Thus, principals should be less concerned about agents threatening to leave or abandon a film project.

A.2 Summary Statistics (Financer Sample)

Variable	Obs.	Mean	St. Dev.	Min.	Max.
BUDGET	377	45.54	38.69	0.07	204.48
DAYBUDGET	184	0.48	0.31	0.02	2.73
PACOSTS	374	26.61	12.87	0.16	52.26
PARATIO	374	1.09	3.78	0.00	67.17
ROI	365	2.03	1.59	0.06	11.53
FINANCER	377	0.19	0.39	0	1
OSCARNOMS	377	0.54	1.60	0	11
METACRITIC	374	52.21	16.72	11	94
TRIBUNE	363	61.75	19.77	12	100
ADDPCOMPS	377	2.27	1.35	0	8
HOLIDAYRELEASE	377	0.22	0.42	0	1
ACTORNOM	377	0.39	0.49	0	1
DIRECTORNOM	377	0.14	0.35	0	1
WRITERNOM	377	0.21	0.41	0	1
BOOK	377	0.24	0.43	0	1
COMIC	377	0.03	0.18	0	1
ORIGINAL SCREENPLAY	377	0.49	0.50	0	1
REALLIFE	377	0.06	0.24	0	1
SEQUEL	377	0.13	0.33	0	1
TV	377	0.05	0.22	0	1
ACTION	377	0.16	0.37	0	1
ADVENTURE	377	0.09	0.29	0	1
COMEDY	377	0.32	0.47	0	1
DRAMA	377	0.20	0.40	0	1
HORRORTHRILLER	377	0.12	0.32	0	1
PGG	377	0.21	0.41	0	1
PG13	377	0.48	0.50	0	1
R	377	0.29	0.46	0	1
MINIDIST	377	0.25	0.43	0	1

A.3 Correlation Matrix (Financer Sample)

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(1) LNBUDGET																				
(2) PACOSTS	**0.74**																			
(3) PARATIO	**-0.42**	-0.10																		
(4) LNROI	0.10	**0.41**	0.08																	
(5) FINANCER	-0.04	**-0.17**	-0.05	**-0.17**																
(6) OSCARNOMS	**0.11**	**0.11**	-0.02	**0.32**	-0.02															
(7) METACRITIC	**-0.11**	**-0.10**	0.00	**0.39**	-0.04	**0.48**														
(8) TRIBUNE	-0.05	-0.10	-0.06	**0.22**	0.06	**0.39**	**0.69**													
(9) HOLIDAYRELEASE	0.10	0.00	-0.06	**0.13**	-0.02	**0.23**	**0.15**	**0.11**												
(10) ACTORNOM	0.10	-0.02	-0.08	-0.04	0.07	0.10	**0.13**	**0.18**	0.04											
(11) DIRECTORNOM	**0.13**	-0.01	-0.06	0.10	0.06	**0.31**	**0.25**	**0.29**	0.10	**0.18**										
(12) WRITERNOM	**0.21**	0.08	-0.07	**0.16**	0.00	**0.29**	**0.24**	**0.26**	**0.18**	**0.20**	**0.26**									
(13) BOOK	0.08	0.00	0.06	0.00	0.00	**0.17**	**0.19**	**0.19**	0.06	0.06	0.10	**0.13**								
(14) COMIC	**0.13**	**0.12**	-0.03	0.04	0.07	-0.04	-0.07	-0.08	-0.02	-0.05	-0.03	-0.02	-0.10							
(15) REALLIFE	-0.09	**-0.14**	-0.02	-0.02	0.01	**0.15**	**0.12**	0.04	**0.12**	0.04	**0.11**	**0.11**	**-0.14**	-0.05						
(16) SEQUEL	**0.22**	**0.32**	-0.04	**0.19**	**-0.17**	-0.02	-0.03	**-0.11**	0.03	**-0.14**	-0.06	0.02	**-0.21**	-0.07	-0.10					
(17) TV	0.00	-0.02	-0.01	-0.01	-0.05	0.01	-0.02	-0.04	0.02	0.04	-0.02	-0.03	**-0.13**	-0.04	-0.06	-0.09				
(18) ACTION	**0.30**	**0.26**	-0.06	0.02	-0.03	-0.10	-0.10	-0.08	**-0.13**	-0.06	-0.06	-0.03	**-0.13**	**0.16**	-0.06	**0.22**	0.00			
(19) ADVENTURE	**0.23**	**0.19**	-0.05	0.05	-0.01	**0.15**	0.10	0.09	**0.19**	-0.08	0.09	**0.14**	**0.11**	0.05	-0.04	**0.10**	-0.07	**-0.14**		
(20) DRAMA	**-0.18**	**-0.37**	-0.05	-0.10	**0.17**	**0.27**	**0.28**	**0.24**	0.06	**0.19**	**0.23**	0.10	**0.17**	-0.05	**0.25**	**-0.17**	0.00	**-0.22**	**-0.16**	
(21) HORRORTHRILLER	-0.06	0.00	0.00	-0.05	0.10	-0.07	**-0.12**	-0.03	-0.08	0.03	-0.03	-0.06	-0.01	-0.02	-0.06	-0.04	-0.08	**-0.16**	**-0.11**	**-0.18**

Notes: Table displays pairwise correlation coefficients; bold figures indicate significant values with $p < 0.05$.

A.4 Summary Statistics (Slate Sample)

Variable	Obs.	Mean	St. Dev.	Min.	Max.
BUDGET	220	46.99	41.22	6.39	229.01
DAYBUDGET	88	0.51	0.30	0.01	1.36
PACOSTS	220	25.22	11.50	0.17	65.85
PARATIO	220	0.77	0.53	0.02	2.85
ROI	220	2.08	1.41	0.05	7.31
SLATE	220	0.25	0.44	0	1
FINANCER	220	0.18	0.39	0	1
OSCARNOMS	220	0.56	1.47	0	8
METACRITIC	219	54.20	16.79	17	96
TRIBUNE	195	61.67	17.57	12	100
ADDPCOMPS	220	2.38	1.55	0	10
HOLIDAYRELEASE	220	0.11	0.32	0	1
ACTORNOM	220	0.47	0.50	0	1
DIRECTORNOM	220	0.11	0.31	0	1
WRITERNOM	220	0.25	0.43	0	1
BOOK	220	0.24	0.43	0	1
COMIC	220	0.03	0.18	0	1
ORIGINAL SCREENPLAY	220	0.48	0.50	0	1
REALLIFE	220	0.07	0.26	0	1
SEQUEL	220	0.14	0.34	0	1
TV	220	0.05	0.21	0	1
ACTION	220	0.21	0.41	0	1
ADVENTURE	220	0.14	0.35	0	1
COMEDY	220	0.27	0.45	0	1
DRAMA	220	0.23	0.42	0	1
HORRORTHRILLER	220	0.15	0.36	0	1
PGG	220	0.23	0.42	0	1
PG13	220	0.40	0.49	0	1
R	220	0.35	0.48	0	1
MINIDIST	220	0.21	0.41	0	1

A.5 Correlation Matrix (Slate Sample)

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
(1) LNBUDGET																					
(2) PACOSTS	**0.74**																				
(3) PARATIO	**-0.55**	0.04																			
(4) LNROI	**0.35**	**0.56**	0.12																		
(5) SLATE	**0.23**	**0.16**	-0.09	-0.04																	
(6) FINANCER	0.11	-0.03	**-0.16**	-0.07	**0.21**																
(7) OSCARNOMS	0.06	-0.06	**-0.13**	**0.30**	-0.10	0.01															
(8) METACRITIC	0.02	-0.10	**-0.19**	**0.29**	-0.12	-0.04	**0.49**														
(9) TRIBUNE	-0.10	**-0.20**	-0.13	**0.19**	**-0.22**	-0.03	**0.45**	**0.69**													
(10) HOLIDAYRELEASE	**0.20**	0.10	**-0.15**	**0.14**	-0.01	-0.06	**0.17**	0.12	0.08												
(11) ACTORNOM	**0.14**	**-0.15**	**-0.31**	-0.13	0.07	**0.14**	**0.20**	**0.20**	0.13	0.12											
(12) DIRECTORNOM	0.10	-0.05	**-0.19**	0.01	0.03	0.06	**0.17**	**0.19**	-0.02	-0.03	0.11										
(13) WRITERNOM	0.10	-0.10	**-0.27**	-0.04	-0.02	-0.08	**0.16**	**0.21**	**0.18**	0.06	**0.18**	**0.17**									
(14) BOOK	0.00	**-0.21**	**-0.16**	-0.12	0.03	0.07	0.06	0.12	0.00	0.01	**0.15**	0.12	**0.19**								
(15) COMIC	0.00	0.04	-0.04	0.11	0.07	0.05	-0.05	0.00	-0.01	0.02	-0.12	-0.06	-0.10	-0.10							
(16) REALLIFE	-0.07	-0.08	0.00	0.01	0.00	0.05	0.01	**0.18**	**0.19**	-0.05	-0.05	0.13	0.00	**-0.15**	-0.05						
(17) SEQUEL	**0.36**	**0.40**	-0.10	**0.24**	0.07	0.09	-0.06	-0.13	-0.08	**0.15**	-0.06	-0.05	0.05	**-0.22**	-0.07	-0.11					
(18) TV	0.04	0.06	0.11	**0.14**	-0.08	-0.05	0.12	0.07	0.01	0.06	-0.08	-0.01	0.08	-0.12	-0.04	-0.06	-0.09				
(19) ACTION	**0.34**	**0.30**	**-0.15**	0.09	**0.26**	**0.16**	-0.01	**-0.15**	**-0.14**	**0.17**	-0.04	0.00	-0.09	-0.10	**0.16**	**-0.14**	**0.35**	0.05			
(20) ADVENTURE	0.10	0.13	-0.03	0.05	-0.06	-0.09	-0.05	0.05	0.04	-0.10	-0.04	**-0.14**	-0.02	0.06	0.00	-0.06	0.03	-0.09	**-0.21**		
(21) DRAMA	**-0.20**	**-0.45**	**-0.23**	**-0.24**	-0.07	0.05	0.12	**0.16**	**0.17**	0.05	**0.14**	0.09	**0.14**	**0.24**	-0.04	**0.22**	**-0.18**	-0.01	**-0.28**	**-0.22**	
(22) HORRORTHRILLER	-0.12	-0.05	**0.19**	0.02	-0.10	0.03	0.06	-0.02	-0.03	-0.11	-0.02	0.02	-0.03	-0.02	0.00	0.13	-0.02	-0.09	**-0.22**	**-0.17**	**-0.23**

Notes: Table displays pairwise correlation coefficients; bold figures indicate significant values with $p < 0.05$.