THE ROLE OF AUTHENTICITY CONSTRAINTS AND GEOGRAPHICAL COMMUNITIES ON ENTREPRENEURSHIP: EVIDENCE FROM THE FRANCONIAN BEER INDUSTRY 1989-2012

by

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A dissertation submitted in partial fulfillment of the requirements for the degree of

Doctor of Philosophy

Institute of Management (IMA)

Università della Svizzera italiana (USI)

Lugano, Switzerland

July, 2016

To Andreas

For the freedom to break with traditions

ACKNOWLEDGEMENTS

I feel enormously lucky to have been able to join the Institute of Management (IMA) and its vibrant community of faculty and students in 2011. Being part of this community allowed me to take part of multiple arenas of interaction where incredibly smart and rigorous people helped shaping the ideas throughout this dissertation.

I am primarily thankful to my advisors, Nikolaus Beck and Filippo Carlo Wezel, whose constant support and sincere advice has been essential in the process of advancing this dissertation and the next academic steps. I am grateful to Nikolaus Beck for giving me the freedom and autonomy to follow my ideas, for his constructive attitude and also for teaching me the values of being authentic and persistent in academia. I am thankful to Filippo Carlo Wezel for teaching me to be always rigorous and encouraging me to think out of the box. His advice has also been immensely valuable in understanding how to navigate the academic world and becoming a good citizen within the academic community. I am also deeply grateful to Gianluca Carnabuci. His constant and unconditional mentorship became an important anchor throughout my dissertation, particularly, in the last and most challenging phases. Thanks for your dedication and commitment to the well-being of students and their careers. I would also like to thank the external members of my evaluation committee, Peter Walgenbach and Francesco Chirico, for dedicating time to read my dissertation and help pushing it forward. It is an honor to have you all as part of my committee.

An important mention goes to all faculty and students who have made part of the IMA community. Each one of you has enriched this path. I feel immensely grateful to Erik Larsen for sharing his bright understanding of the world and always having a good advice no matter about what. You have become a true role model to me. Thank you Balazs Kovács, Dirk Martignoni, and Matteo Prato for showing a sincere interest in my progress and being always available to talk about authenticity, communities, or beer. I also want to thank all my IMA colleagues and friends who made this journey more amusing: Martina Montauti thanks for being always there and sharing both good and difficult moments throughout these years. You have become a strong intellectual anchor in this journey. I have also been blessed with the best senior colleagues one can dream of: thank you Martin, Chanchal, Jaime, Marco, Min,

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1. INTRODUCTION

1.1. BACKGROUND

"Authenticity. You see and hear it in all manner of places these days. My friend says she owns an authentic Afghan killim. Our neighbors ate last night at a restaurant that they claim served authentic Oaxacan food. A colleague returned from what he says was an authentic vacation among the Padaung tribe of Red Karen in northern Myanmar. (...) The chain restaurant Romano's Macaroni Grill uses a simple print advertisement that states plainly in bold letters: Fresh. Simple. Authentic."

(Carroll, 2015; p. 2).

In recent years, consumption trends have shown a growing interest in authentic products and services. In domains as diverse as food and dining, wine and beer, handcrafts, music, watchmaking, among others, consumers increasingly favor producers and offerings that come across as authentic. The concept of authenticity has become so relevant that authenticity has proven powerful in influencing organizations' welfare both in a beneficial and restricting way. For instance, contemporary studies in the field of organization theory show that failing to satisfy expectations on authenticity leads to negative consequences in the form of lower ratings and assessments (Kovács, Carroll, & Lehman, 2014; Negro, Hannan, & Rao, 2011; Negro, Hannan, & Fassiotto, 2014), higher costs and social sanctions (Ody-Brasier & Vermeulen, 2014), resistance from traditionalist groups (Negro et al., 2011; Weber, Heinze, & DeSoucey, 2008), and higher mortality rates (Beck, Swaminathan, Wade, Wezel, 2016; Carroll & Swaminathan, 2000). On the contrary, being authentic can bring unique advantages for organizations. In particular, in the presence of quality pitfalls and norm violations, consumers can be very forgiving with authentic organizations (Lehman, Kovács, & Carroll, et al., 2014).

Authenticity has been broadly defined as an attribution (Carroll, 2015) that is granted to organizations, products, and people because of being true to their past, their identity claims, and to themselves (Frake, 2016). Authenticity also acts as classification or moral criterion (Carroll & Wheaton, 2009). As benchmark for *classification*, authenticity serves as a template to assess whether an object truly fulfills the specifications of the category to which it belongs (in which case we speak of type authenticity). A beer is classified as Rauchbier (smoked beer) when it contains a distinctive smoke flavor. In turn, complying with classification criteria might not be enough in the process of granting authenticity to a product or organization that embeds moral meanings. As a *moral* criterion, authenticity includes symbolic meanings that are rooted in idiosyncratic and historical elements that make a product or an organization unique and special in the eyes of audience members (e.g. consumers, critics, stakeholders). For example, the fact that Rauchbier has been produced in Bamberg (the cluster center of the Franconian beer industry) since the beginning of the 18th century-and ever since used malted barley dried over an open flame[1]- makes Franconian inhabitants proud and connected to this product in unique and historical ways. Thus, rather than simply having a smoky character, Rauchbier has a special meaning for Franconian stakeholders. In a similar line, a picture of a local inhabitant on a beer label and the use of local and environmental-friendly ingredients are idiosyncratic characteristics that reflect the moral authenticity of a producer in the local community. However, organizational offerings that lack such historical and idiosyncratic accounts are hardly perceived as truly authentic (Negro et al., 2011, 2014; Ody-Brasier & Vermeulen, 2014; Weber et al., 2008). The particular characteristic of moral authenticity is that disconnected consumers who do not have

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[1] The original method of brewing smoked beers and that almost entirely disappeared from the brewing world in the mid-19th century when the kiln drying of malt was first used.

knowledge about these stories or are not familiar with the idiosyncrasies of a particular firm might not appreciate features of this kind. In fact, they might even repel them (Carroll, 2015).

Nonetheless the efforts in distinguishing authenticity as type or moral authenticity (Carroll & Wheaton, 2009), this distinction builds on Weberian ideal types that are unlikely to be found in independent ways in a product or organization (Carroll, 2015). Rather, an organization or a product may simultaneously exhibit more than one kind of authenticity. For example, a product like Rauchbier may fulfill the standards of the category that it represents while it also embeds idiosyncratic and historical characteristics that enrich it with special meaning. Throughout my dissertation, I define authenticity as a *moral attribute* that indicates how true an organization or an offering is to the idiosyncrasies and local characteristics of the community that they serve (i.e. by for example sticking to traditional production methods, using age-related words or regional images in the labels, or including local ingredients), and which moral characteristics help *classifying* a focal organization or product as true of their kind. This definition is different to previous conceptualizations of authenticity (e.g. Carroll & Wheaton, 2009) in that it allows that classification and moral criteria co-exist and thereby eases the process of understanding and operationalizing authenticity.

This view on authenticity also provides an overarching construct that allows exploring the idiosyncratic market dynamics of the Franconian beer industry. In so doing, I delve into *instances* of moral authenticity such as *the traditional and local character* of an organization within a community, while I also explore characteristics such as smallness, localness, and history as minimum criteria that makes a Franconian brewery authentic in the eyes of audience members. The examples

provided above reveal that authenticity is likely to evolve from local interactions between market actors. Understanding this local dimension of organizations has become an important topic in the agenda of organizational studies in recent years (Drori, Höllerer, & Walgenbach, 2013; Jennings, Greenwood, Lounsbury, & Suddaby, 2013; Marquis and Battilana, 2009). Particularly, local relations continue to be important for organizations in a globalized age and some local characteristics – such as authenticity- have turn even more salient in the presence of globalization (Marquis & Battilana, 2009). For instance, consumers have revived interest in producers who are truly local, use resources from geographically proximate sources, and are connected to local market actors (Carroll & Torfason, 2011; Marquis and Battilana, 2009; Weber et al., 2008). Throughout my dissertation, I suggest that being authentic in the eyes of audience members has a lot to do with being local and traditional. From this point of view, *tradition and localness are instances of authenticity* that allow exploring the nature of local traditions and relationships between market actors and their influence in (i) shaping audience members' reactions towards organizations and their offerings, and (ii) entrepreneurial outcomes such as entry of new organizations, product diversification, and the introduction of novelty.

In addition, this standpoint on authenticity is likely to emerge within the boundaries of geographical communities, that is, *"a local level of analysis corresponding to the populations, organizations, and markets located in a geographic territory and sharing, as a result of their common location, elements of culture, norms, identity, and laws"* (Marquis & Battilana, 2009, p. 286). In particular, socialization of meanings, traditions, norms, and beliefs is likely to happen in geographical communities due to spatial proximity between market actors. Proximity allows for repeated interactions between producers and consumers and through

various contexts such as market transactions, local festivities, school events, and even social circles. Thus, expectations about producers and their offerings are likely to be imbued with idiosyncratic and historical accounts that impede the attribution of authenticity by audience members. Granting authenticity in geographical communities therefore requires that producers comply with local traditions. The idea that sentiments of authenticity –and instances of it such as tradition and localness- are packed in geographical communities finds support in contemporary studies (Audia & Rider, 2010; Audia, Freeman, & Reynolds, 2006; Freeman & Audia, 2011; Negro et al., 2011; Weber et al, 2008). For example, Weber and colleagues (2008) show that local communities are more favorable and supportive towards the emergence of grass-fed meat and dairy producers because they look morally authentic in their eyes, e.g. they use slow and old growing techniques, they are proximate to end-customers, they are small and family-owned as opposed to large meat producers. Communities around the Piedmont area in Italy showed sympathy for producers who remained loyal to traditional ways of producing Barolo wine, while becoming hostile towards modernist producers who modified the main characteristics of the industry (Negro et al., 2011). In a similar vein, alignment with local values and traditions was a key element for local communities to support the entry of new banks in the American banking industry (Freeman & Audia, 2011; Marquis & Lounsbury, 2007).

The following sections describe the main goals and structure of my dissertation as well as the major constructs used in each chapter.

1.2. AIMS OF THE DISSERTATION

1.2.1. Understanding the constraints of authenticity on entry of new organizations

With my dissertation, I first aim to understand the constraining role of authenticity on entry of new organizations. To reach this goal, I focus on tradition and producers' local attachment as instances of authenticity and build on contemporary research on organization theory about how authenticity influences organizational outcomes such as assessments and ratings (Negro et al., 2011), price setting (Ody-Brasier & Vermeulen, 2014), and community support (Weber et al., 2008). While these studies have widely portrayed authenticity as an asset that organizations can deliberately display to enhance empathy with audience members and increase performance (Carroll, 2015), my dissertation focuses on the negative aspects and challenges that authenticity imposes on new organizations. Chapter 1 particularly addresses the negative aspects of authenticity that arise when authenticity is imbued with traditions, history, and local norms that are, per definition, absent in a newly founded organization. In so doing, particular attention is given to the social construction of authenticity (e.g. Carroll & Wheaton, 2009; Wherry, 2006).

My dissertation also aims to clarify the conditions under which these negative aspects of authenticity on entry of new organizations are more likely to stand up. Following Marquis and Battilana's definition of communities (2009, p. 286), my dissertation outlines geographical communities as challenging contexts for new organizations mainly because they help breeding and maintaining traditions. However, variations in community characteristics such as residential mobility moderate the degree of adherence to community values and expectations (Jennings et

al., 2013) and therefore weaken authenticity constraints on entry of new organizations.

1.2.2. Understanding the constraints of authenticity on product diversification

Building on the constraints that authenticity imposes on entry of new organizations, the second aim of my dissertation is to explore how authenticity limits other organizational outomes, particularly organizational reactions to competition (e.g. product diversification). To reach this goal, I focus on geographical communities as defined by Marquis and Battilana (2009, p. 286) and highlight their role in the socialization and diffusion of cultural and normative elements like sentiments of authenticity between market actors. Based on this, my dissertation underlines that because geographical proximity between producers and audience members (i.e. consumers) breeds traditions and expectations on authenticity, audience members in geographical communities are likely to develop a cognitive imagery of organizations (Barsalou, 1985) based on instances of authenticity that are difficult to overrun even when competitive pressures urge producers to differentiate from the rest. Thus, deviating from audience members' expectations on authenticity by, for example, introducing non-authentic products can be highly sanctioned in geographical communities (Negro et al., 2011, Ody-Brasier & Vermeulen, 2014). Under these conditions, producers experience strong pressures to comply with authenticity and responding to competitive pressures by diversifying is a less likely option.

1.2.3. Understanding the resources that help producers overcome authenticity constraints

Finally, building on authenticity constraints on organizations, my dissertation aims at exploring how firms manage to overcome these constraints, in particular

when launching new products that lack tradition and authenticity. To reach this goal, this dissertation proposes multiple mechanisms. First, firm-ownership and in particular family owned firms enjoy an advantage over non-family businesses (Salvato, Chirico, & Sharma, 2010) with respect to authenticity challenges. Their attachment to local traditions, generational character, and socio-economic connections with members of the local community allow for this advantage. Namely, breaking with traditions and authenticity in family firms can be seen as an attempt to give continuity to the family business rather than a norm violation.

Then, building on contemporary research on the strategic use of product and organizational names (Khessina & Reis, 2016; Smith & Chae, 2015; Verhaal, Khessina & Dobrev, 2015; Zhao, Ishihara, & Lounsbury, 2013), my dissertation shows that this family advantage can be better materialized when firms make use of naming strategies in their newly introduced products. I focus on the role of traditional words on product labels as a vehicle that allows producers reifying their past and authenticity, while also introducing novel concepts into the industry. I then show that geographically distant communities benefit the most from these naming strategies because it helps them overcome their lack of direct knowledge of the producer and their record of authenticity given their spatial disconnection. Under conditions of uncertainty like these, audience members might rely on firms' signals that confirm their authenticity; therefore, naming strategies and, particularly traditional names, can become an important resource to overcome the constraints imposed by authenticity (Khessina & Reis, 2016; Smith & Chae, 2015; Verhaal et al., 2015).

1.3. OUTLINE OF THE DISSERTATION

My dissertation consists of three empirical chapters in which I explore the role of authenticity and geographical communities on the founding of new organizations (**chapter 3**), product diversification (**chapter 4**), and the introduction of new products (**chapter 5**). The Franconian beer industry (Norther Bavaria, Germany) serves as empirical setting where I test the arguments put forth in these chapters. In **Chapter 2**, I provide an overview about Franconia and the different sources I relied on. Further chapter-specific information about the industry will be provided in each empirical chapter with the purpose to increase understanding of the specific constructs.

Chapter 3, *"Grown local: community attachment and market entry in the Franconian beer industry"*, is a working paper co-authored with Nikolaus Beck and Filippo Carlo Wezel. This chapter outlines the constraining role that geographic communities impose to entrepreneurs when entering to a traditional and geographically bounded industry like the Franconian beer industry. In this chapter, I explore instances of authenticity such as tradition and local attachment. **Chapter 3** suggests that when incumbent producers are highly attached to local traditions, geographic communities become hostile contexts for new entrants. The main argument is that because newcomers per definition lack tradition and long-standing relationships with the local community, they will have a hard time to keep up with locally attached producers; therefore, convincing community members about their authenticity can become very difficult for new organizations. This negative effect of incumbents' local attachment on market entries is even stronger when community inhabitants display a high degree of residential stability because stability reinforces the connectedness between community members and organizations. However, in the absence of locally attached producers, communities with high residential stability

may instead promote new entries as newcomers can revive community local values and authenticity like in the case of the microbrewery and grass-fed meat movements in USA (Carroll and Swaminathan, 2000; Weber et al., 2008).

Chapter 4, "*Geography and authenticity: organizational responses to competition in the Franconian beer industry, 1989-2012*", is a working paper co-authored with Nikolaus Beck. **Chapter 4** builds on the constraining role of tradition and local attachment –as instances of authenticity- on market entries (**Chapter 3**), and explores the effect of authenticity on other organizational actions. **Chapter 4** delves into how tradition and particularly authenticity constricts organizational responses to competition. This chapter focuses on how the degree of authenticity that audience members (e.g. consumers, critics, stakeholders) desire limits the implementation of differentiation strategies in traditional and geographically bounded industries. The main argument is that when expectations on authenticity are high, organizational authenticity becomes a norm –rather than an asset- to which producers need to comply by decreasing participation in non-traditional segments of the market and avoiding diversification strategies -even under conditions of competition. In this chapter, I use geography as a relevant dimension in the process of facilitating the emergence of sentiments of authenticity and thereby hindering the extent to which producers can differentiate in the presence of competition. While geographical competition usually leads to larger product niches (Baum & Haveman; 1997; Swaminathan & Delacroix; 1991) and lower engagement in authentic goods, producers find it difficult to diversify when spatially proximate consumers have a high quest for authenticity. In this case, consumers are knowledgeable actors who care about how truly organizations match community traditions and values.

Chapter 5, "*Building on the past to create the future: family advantage and naming strategies in the introduction of new products in the Franconian beer"*, is a single-authored working paper. Departing from the constraints described in **Chapters 3** and **4** that tradition and authenticity impose on organizations, in **Chapter 5** I explore the resources upon which firms can rely to break with authenticity constraints and industry traditions. Since novelty can endanger local traditions and decrease attachment to existing stakeholders (Negro et al., 2011; Ody-Brasier & Vermeulen, 2014; Rao, Monin, & Durand, 2005), introducing novel elements and products can result in an arduous task, in particular, in industries that value tradition. In this chapter, I suggest that pinpointing to firms' tradition, history, and identity can help in the process of introducing novelty. In this line of reasoning, **Chapter 5** explores the unique identity advantages that family firms enjoy in particular in traditional industries and their role on the introduction of new products. Because family firms are often seen as well-reputed and morally respected local actors, introducing novelty in family firms can come across as an attempt to ensure a legacy for upcoming family generations rather than as a deviation from traditional standards. **Chapter 5** then suggests that family firms are more likely to accompany such innovations by making use of naming strategies in their product labels that highlight how novel elements and offerings build on salient characteristics of their organization such as their tradition and history. Referring to tradition gives a sense of commitment to continue past-anchored traditions while it also opens room for introducing novelty. **Chapter 5** then posits that this family advantage to introduce novelty is more helpful when firms' products reach distant communities rather than local communities. Geographically disconnected communities are often uncertain about firms' offerings as they lack direct experience with it; therefore, they must rely on product labels as a way to

support their purchasing decisions. Table 1.1 summarizes main constructs for the empirical analyses (**Chapters 3-5**).

The last chapter (**Chapter 6**) brings together main findings and conclusions from the empirical studies of this dissertation. I also discuss scope conditions and limitations as well as avenues for future research in the concluding chapter.

Table 1.1 Outline of empirical chapters

Chapter	Dependent variable	Main independent variables	Level of analysis	Theoretical focus
Chapter 3: Grown local: community attachment and market entry in the Franconian beer industry	Founding rates	Producers' local attachment	Community (county level)	Authenticity and community constraints on entry of new organizations
		Community stability		
Chapter 4: Geography and authenticity: organizational responses to competition in the Franconian beer industry	Product diversification	Geographical competition	Firm level	Constraints of authenticity on product diversification
	Grade of Membership in product categories	Community quest for authenticity		
Chapter 5: Building on the past to create the future: family advantage and naming strategies in the introduction of new products in the Franconian beer industry	Introduction of new products	Family-ownership	Firm level	Overcoming authenticity constraints
	Traditional names in new products	Local community		

2. EMPIRICAL SETTING AND DATA SOURCES

2.1. OVERVIEW

The empirical setting I use throughout my dissertation is the Franconian beer industry in Northern Bavaria, Germany. As one of the oldest industries in Europe, the Franconian beer industry has a long and reputable tradition in the region. It stands for the most authentic beer region in Germany, where unique products such as Rauchbier or Märzen are produced and breweries remain loyal to traditional ways of producing and storing beer. In Franconia, most breweries were founded more than 200 years ago – several of them are even older than 400 years- and are often small producers that serve audiences in geographical proximate areas. Because of their historical and local character, Franconian breweries have plenty of idiosyncratic experiences that connect them with the communities they serve in unique ways. They also play an important role in their community by, for example, sponsoring local events (i.e. folk festivals, school bazaars, sport events) and making use of community icons (e.g. rivers, churches, towers) in labels and beer mats. Franconian breweries also involve their local communities in events such as "brewing on your own", the "day of the open doors", and other cultural activities.

The vast majority of these breweries proudly highlight their tradition on product labels by, for example, mentioning their age and compliance to the German Reinheitsgebot or purity law of 1516.[2] It is also common to read the number of years in the administration of the same family on beer labels and etiquettes. For example, figure 2.1 shows a beer mat of Brauerei Hümmer, which reads "*in the hands of Family Hümmer for over 350 years*". Hümmer proudly highlights their family business

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[2] The Reinheitsgebot is a number of regulations that limits beer ingredients to hops, yeast, malt, and water. The most well-known version of the law was established in 1516 and is still used by breweries in their labels to show compliance with German beer tradition.

character as well as their tenure in Breitengüssbach. Franconian breweries are also proud of their local rootedness. For example, the first image that appears on the website of Brauerei Faust in Miltenberg -one of the oldest one in the region- reads *"Fully meaningless abroad. Second-tier nationwide. Regionally: absolutely amazing"* (see figure 2.2).

INSERT FIGURES 2.1 & 2.2 ABOUT HERE

Most of the beers offered in this region have been produced for centuries (e.g. bock and cellar beer) using the same kind of ingredients and always following the German purity law. Because of the traditional nature of the industry, Franconian breweries stick to traditional ways of doing things and non-Franconian beer types are less common. The maturity of the industry allows for numerous instances of authenticity that shapes audience members' expectations around the concept of traditional, local, and small breweries[3]. Nonetheless, some breweries offer beer types that are not fully typical and in recent years Franconia has experienced an increase in the number of new offerings. Some of these new beers align with popular beer types in other regions of Germany like Altbier (Old beer from Düsseldorf), however, an important proportion of these new brews are unknown to experts.

Most Franconian breweries own a pub where they serve typical Franconian food too. They mainly sell their beer at their own location at specific time and dates. Owners are often master brewers and only few people participate in the production process and sales (less than five people in most cases among which family members are also common). Owners of newly founded breweries are often enthusiast natives, who value

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[3] These dimensions are identified by experts as unique and authentic of the Franconian beer industry. More details about this on Chapter 3.

the Franconian beer culture and take over an entrepreneurial journey to continue the beer tradition of the region.

2.2. REGIONAL CHARACTERISTICS

Franconia has 37 counties or Landkreise spread across three sub-regions that differ in terms of founding events, type and number of breweries, consumer expectations, and community characteristics.

Upper Franconia is home to the industry cluster, Bamberg, and 13 more counties. Around this city, there exists an agglomeration of mainly traditional beer producers: over 85% of the breweries in Upper Franconia are over 100 years old (see figure 2.3a). This cluster possesses the world's highest brewery density and stands more than any other region in Germany for local and traditional production. About 80% of the breweries in Upper Franconia are family-owned businesses on their fourth family generation. Breweries in this region are small (their yearly output is on average 21,600 hectoliters) and distribute their product mostly in hometowns and neighboring counties (on a radius of 65 kilometers). While non-traditional beer types are prevalent in all regions in Franconia, Upper Franconia offers highly typical beer types that are rare in other parts of Franconia like Rauch (smoked beer) and Märzen. Consequently, traditional beer types are an important part of the composition of the beer portfolio of breweries in Upper Franconia (see figure 2.3b). Newcomers are typically small and family owned in Upper Franconia, and most of them offer food too.

INSERT FIGURES 2.3a & 2.3b ABOUT HERE

The region of *Lower Franconia* equally produces beer and wine. Beer is primarily brewed in the east side of the sub-region, whereas wine growing can be found

much more often in the West, where wine production is highly appreciated. Although most breweries are 100 years plus, 41% of the producers in this region were founded in the last 50 years (figure 2.3a). In particular, 37% of the foundings that took place in Franconia during our observation period were established along the 12 counties of Lower Franconia. In addition, 68% of the breweries are family-owned and are on average on the second family generation. Non-traditional beers like pilsner and wheat beer are highly produced in the region while some producers also engage in experimenting with ingredients like honey, pumpkin, and rye. In fact, 76% of the beers offered in Lower Franconia are considered non-typical of the Franconian beer industry (figure 2.3b). Breweries tend to distribute their product over a radius of 80 kilometers and produce almost 24,000 hectoliters a year. Newcomers are small and local in Lower Franconia. With a radius of distribution of 7 kilometers on average, new breweries aim to serve mostly their neighbors. Consumers in Upper Franconia prefer to drink atypical beers like pilsner, pumpkin, as well as beer mixes with coke, lemonade, grapefruit, etc.

The region of *Middle Franconia* has a strong influence from both the Lower and the Upper parts of Franconia. In this region, about 60% of the incumbent breweries are over 100 years old; however, 30% of the producers are relatively new (<50 years) (see figure 2.3a) and about 33% of the newcomers in the last 24 years chose Middle Franconia for founding a brewery. In Middle Franconia, 69% of the breweries are family businesses and have been in the hands of the same family for about two generations. The 12 counties in Middle Franconia also offer diversity in terms of beer types. The region primarily produces pale beer, which is typically from Bavaria but less common in Franconia. One of the world's strongest beer is also produced in this sub-region.[4] In total, 80% of the output produced by breweries in Middle Franconia is in

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[4] Bock beer by Schorchbräu (Gunzenhausen).

non-typically Franconian beer types (i.e. bock, wheat, and pale beer. See figure 2.3b).

Breweries are on average larger in Middle Franconia (average yearly output is over

31,000 hectoliters) and newcomers tend to be slightly larger than in other parts of

Franconia -also in terms of beer types-. Consumers have also more diverse preferences

than in Upper Franconia but are less open than in Lower Franconia.

2.3. DATA SOURCES

I relied on multiple sources to test the different arguments in my dissertation.

These sources provided data on more than 300 breweries for a period of 24 years, from

1989-2012. The main archival sources were (i) several editions of the "Fränkische

Brauereikarte" (Franconian brewery map) by Stefan Mack (1989, 1990, 1991, 1992,

1993, 1996, and 1997), (ii) the first and second edition of The "Brauereiatlas" (brewery

atlas) by Boris Braun (2004 and 2010 correspondingly), (iii) the first edition of

Frankens Brauereien und Brauereigaststätten (Franconian breweries and brewpubs) by

Markus Raupach and Bastian Böttner, and (iv) das "Verzeichnis der Hausbrauereien"

2006 and 2011 by Die Förderergemeinschaft von Brauerei-Werbemittel-Sammlern. For

producers whose information was not comprehensive along the archival sources, I relied

on a structured survey with more than 200 beer producers. For missing information

concerning ownership, beer types and other important variables for our study, I focused

on reviews and historical information publicly available online. All these sources

provided information about beer portfolio, radius of product distribution, size, number

of sellers, type of ownership, and number of years in the hands of the same managing

family, among others. [5]

As a second source, I interviewed four beer experts and master brewers to have a better understanding of how traditional or novel beer types are[6]. These experts profiled as beer enthusiasts, promoters of the Franconian culture, directors of beer associations, as well as important actors in the beer industry. They generously helped me classify beer types in categories of "Franconianness" – i.e., how truly Franconian they are. To do so, I provided them with a list of 100+ beer types (the ones empirically observed) and asked them to assign each of them in one of the following categories: "*typical Franconian beer*," "*almost typical Franconian beer*," and "*non-typical Franconian beer at all*." Because some beer types were clearly new in the industry and did not fit in the previous categories, two more categories were created: "*fancy authentic names*" for beers that conveyed tradition through their names, though their content was unclear from the name (i.e. Fränkischer Urstoff, Old Rye). "*Other beers*" was created for beers whose content was not typical Franconian like organic and specialty grain beers. Among "other beers", experts also included beer types whose name did not recall tradition and their content was rather unclear (i.e. Mondbier, Beck'n bier, Trendbier)

To allocate beer types in one of these categories, experts relied on how representative they are for the region given their tenure and unique character (like in the case of Rauchbier) or how beloved they are by consumers. Per definition, new beers do not fall in any of the first four categories, as they are not exactly authentic but neither inauthentic. Thus, experts used the categories such as "fancy authentic names" and "other beers" to classify new beer types in the industry. In cases in which experts from the same region categorized beers differently, I used online reviews from beer-enthusiasts to solve discrepancies.

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gave me access to the data. I then complemented the observation period by collecting and coding data for all breweries for 2006-2012.

[6] Three more interviews were done as part of the SNSF project.

To capture consumers' preferences towards authenticity, I relied on a set of structured interviews using a questionnaire, involving 1,300 beer consumers in different sub-regions of Franconia.[7] We stratified Franconia along its 37 counties or Landkreise and randomly selected about five beverage stores and supermarkets in each county to run the interviews. The number of respondents varied across stores: in most of them, we obtained at least 10 responses, while in others only two or three customers participated in the interviews. With this survey, we predominantly obtained information on consumer preferences for, e.g., types of breweries, beer types, growth strategies, etc.

Additionally, to capture community dynamics I collected demographic data from the Bayrisches Landesamt für Statistik und Datenverarbeitung" (Bavarian Agency of Statistics and Data processing).

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[7] These interviews were conducted by a research assistant and coded by myself.

Figure 2.1 Family-owned Franconian brewery: 350 years in the same family

Figure 2.2 Local pride in Brauerei Faust

Figure 2.3 Breweries' characteristics: age (figure 2.3a) and beer portfolio (figure 2.3b)
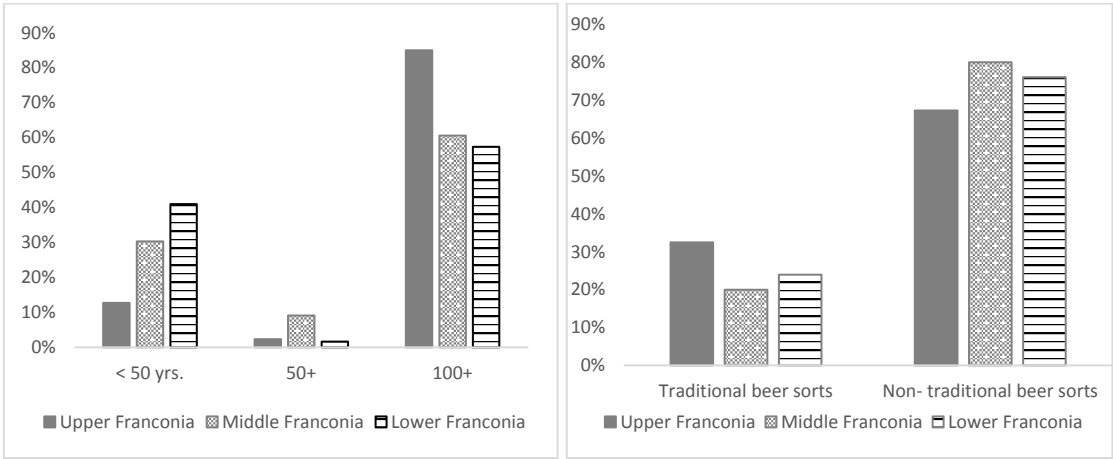
2.3a) Breweries' age

2.3b) Composition of beer portfolio

3. GROWN LOCAL: COMMUNITY ATTACHMENT AND MARKET ENTRY IN THE FRANCONIAN BEER INDUSTRY[8]

Abstract

Geographic communities are often thought to support new ventures particularly when newcomers are able to replicate incumbents' characteristics. This paper elaborates on the conditions under which geographic communities may hinder the action of newcomers. Particular attention is dedicated to the case in which incumbents' identities build on community traditions and strong connectedness with community inhabitants because these factors render emulation difficult for new entrants. We explore this question in the context of market entries in one of the most traditional industries in Europe, namely the Franconian microbrewery industry. The results of our empirical analyses confirm that geographic communities exert an unfavorable effect on the entry of new organizations when incumbents are strongly attached to the community and there is high stability in demographical patterns inside the community. Conversely, residential stability displays a strong positive effect on founding in communities marked by limited local attachment of incumbent breweries.

Keywords: market entry, geographical communities, demographical stability

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[8] Paper co-authored with Nikolaus Beck and Filippo Carlo Wezel

3.1. INTRODUCTION

"Bier braucht Heimat! (Every beer ought to reflect its local roots!)"
Owner of a Franconian brewery

In recent years, a growing trend for locally produced goods and services has directed attention to geographical communities and their relationship to local producers. Initiatives such as farmers' markets, the slow food movement, and local energy providers witness the support of communities in backing up the emergence of local organizations. Geographic communities are supportive to local organizations particularly in industries dominated by mass-producers, as in the case of microbreweries (Carroll & Swaminathan, 2000), local grass-fed meat and dairy products (Weber, Heinze, & DeSoucey, 2008) or electricity (Liu & Wezel, 2014).

In industries traditionally dominated by local producers, it is not opposition to mass producers that feeds entries, but rather the emulation of incumbents' local characteristics (Marquis, 2003). The emulation of incumbents' local features is a desirable strategy for entrepreneurs because it facilitates obtaining the support and the resources required to enter the market. Emulation is not always granted though if incumbents' identities are not easy to replicate for new entrants. The extent of attachment of incumbent organizations to a community with respect to shared experiences and reiterated connections with community members represents an instance of a difficult-to-replicate identity.

By building on this intuition, this paper elaborates on the opportunities and threats that new entrants face from geographic communities. On the one hand, we contend that geographic communities richly endowed with locally attached producers hinder market entries, as newcomers will find difficult to plausibly display a similar degree of local attachment. This negative effect of incumbents' local attachment on

market entries is even stronger when community inhabitants display a high degree of residential stability because stability reinforces the connectedness between community members and organizations. On the other hand, high residential stability coupled to a limited local attachment of incumbent organizations may instead promote new entries. Under these conditions, community openness towards newcomers is expected to be elevate, since stable residents sustain the emergence of local organizations that are scantly represented and revive their community values.

Conceptually, we define local attachment as the rootedness of incumbent organizations into community's culture and tradition and as their ability to form stable bonds with local inhabitants. Empirically, we operationalize local attachment with respect to organizational characteristics that indicate an operational orientation towards the local market. Our arguments are brought to test in the Franconian microbrewery industry (in northern Bavaria, Germany), one of the oldest geographically agglomerated industries in Europe. Franconia homes a cluster of traditional and local breweries where organizations and residents exhibit a vivid interest in preserving local values. This context suits well our needs because of its interesting variation across geographical space both in terms of producers and of residential stability. The determinants of 75 foundings spread over 37 counties during the period 1989-2012 are explored.

The paper proceeds as follows. We first offer a theoretical framework on geographic communities to set the arguments of our paper. In the next section, we will outline how local attachment and residential stability constrain and enable market entries. Next, we will provide an overview of the Franconian beer industry and a description of the methods and measures used in our quantitative analysis. The remaining sections will discuss our findings and its implications for the study of new organizations.

3.2. THEORY AND HYPOTHESES

3.2.1. Defining communities

Communities have often been defined as geographical areas where organizations interact, gain access to material and symbolic resources, and contribute to establish norms and traditions (e.g. Audia et al., 2006; Barnett & Carroll, 1987; Baum & Mezias, 1992; Freeman & Audia, 2011; Marquis & Lounsbury, 2007; Thornton & Flynn, 2003). As such, communities make available to newcomers legitimate and replicable templates of action that facilitate market entries (Freeman & Audia, 2011; Marquis & Lounsbury, 2007).

Consider, however, the case in which newcomers face incumbent organizations that are deeply rooted into the local community. Imagine for instance a community in which producers have been serving local audiences for long time and have taken an active role in community activities. For example, geographic communities in the region of Piedmont in Italy enjoy the presence of traditional wine makers, many of which represent outstanding icons because they reiterate important traits of the local culture (Negro, Hannan, & Rao, 2011). One of them is Bartolo Mascarello -a prime representative and endorser of the local traditions of production of Barolo wine (i.e. by using botti rather than barriques). The clash between botti and barriques philosophy of production was so severe that producers who adopted the use of barriques stopped taking part in community activities like attending the Sunday service at church because of being repudiated by community residents (Negro et al., 2011). Similarly, various local banks in Germany contribute to local fairs, music or theater performances to reinforce their bonds with the local population. Even when being willing to adopt these traditions, newcomers have a hard time finding a suitable spot in the tightly knit fabric that connects organizations to community inhabitants (Hibbert & Huxham, 2010).

Our examples indicate that to meaningfully progress in our understanding of the conditions under which geographic communities affect entrepreneurial action, we need to (i) focus on communities as composed by organizations and residents that may help or hinder the emergence of new organizations, and (ii) highlight the variation in the connection between these two parties as conceptually relevant. To reach this goal, we build on Marquis and Battilana's definition of communities (2009, p. 286) as defined in **Chapter 1**. Adopting this perspective provides two advantages for the purpose of this chapter. First, it meshes well with our claim concerning the degree of attachment of incumbent organizations to the community as being critical to the decisions of would-be entrepreneurs. A lasting and thick interaction between incumbent organizations and community inhabitants runs against newcomers. Second, this view allows elaborating on the different ways in which the relevant community actors (i.e. organizations and inhabitants) affect entrepreneurial action (Dorado, 2013).

3.2.2. Local attachment of incumbent organizations

Incumbent organizations play an essential function in geographic communities because they set up the standards expected by community members from new entrants (see Porac, Thomas, & Baden-Fuller, 1989). Recent studies on communities have indeed clarified the role played by incumbents in providing templates of action for newcomers (Marquis, 2003). The American banking industry provides an interesting example of this kind. For instance, Marquis and Lounsbury (2007) found that entry rates of local banks were contingent on the history of incumbent banks in the community. Communities in which incumbent banks had been acquired by large non-local banks triggered, by opposition, the emergence of new local banks. In this case, the replication of former local characteristics by new entrants turned out to be feasible and the threat of losing the local character eventually fed various entries into geographic communities.

The local attachment of incumbents to their communities may however represent also a competitive constraint for newcomers. The more the incumbent organizations are locally attached, the more difficult it becomes for newcomers to attract customers as they lack trust and awareness of local customers (Stinchcombe, 1965). It is important to notice that our arguments about the competitive pressures exerted by locally attached incumbents are independent from their number. Holding constant the carrying capacity of a community, if a community hosts only a few relatively local organizations, even these few instances can lead to the formation of a robust attachment to the community, especially if these organizations have taken an important role therein. Our claim is that the extent of local attachment of incumbents to the community hinders new entries. Local attachment matters so much that we also recognize that the competitive pressures that newcomers face when confronted with a few local incumbents marked by a deep attachment are stronger than the pressures faced when the community is staffed with large organizations that display limited local attachment.

Consider once again communities such as the ones described in the region of Piedmont in Italy and in German rural areas. In these communities, incumbents not only serve local audiences but also embody and reiterate the traditions of their communities. Being locally attached to the community means to be associated to unique and idiosyncratic collective narratives and to the enduring character of the locale. In such communities, expectations about organizations are anchored to tradition as audience members have had the chance to witness various instances of what is considered locally legitimate (Marquis, 2003; Marquis & Lounsbury, 2007). Such a collective memory (Greve & Rao, 2012) often relates to stories that are embodied in audience members' minds like for example stories about founders, their families, and moment of founding (Oertel, Thommes, & Walgenbach, 2016). The reproduction of this kind of

characteristics is difficult for newcomers since they collectively lack tradition and enduring interactions with community members. Under these conditions, new entrants will find hard to emulate the templates provided by incumbents. Thus, the more incumbents are perceived as attached to their geographic communities, the more difficult the entry of newcomers will be because of the competitive pressures exerted by incumbents' local attachment. Building on these arguments, we propose the following hypothesis:

Hypothesis 1: Entries of new organizations are less likely when incumbents' local attachment is strong.

Although focusing on the degree of incumbents' local attachment contributes to advance our understanding of the community effects on entrepreneurial activity, this approach relies on the assumption that markets are in equilibrium and that existing demand for local traditions faces a corresponding supply of producers. Emphasizing the role of community members (i.e. community inhabitants) as independent from that of incumbent organizations is important to appreciate the nuances of the effects induced by geographic communities (Cobb, 2007). In particular, we contend that the influence of a strong local attachment of incumbents to the community reaches its strongest negative effect on entries when coupled with similarly minded demand; and it instead reverses into the support of new entrants when a limited supply of incumbent organizations is matched to a stable community of inhabitants.

We infer inhabitants' quest for locally attached organizations from their degree of residential stability as stated in recent studies (Carroll & Torfason, 2011; Sampson, 2012). Residential stability matters because it provides local organizations with a stable reference point that feeds the maintenance of community expectations on local values, norms and traditions. It also influences the emergence and maintenance of local

institutions by facilitating the construction of personal ties, the interaction with neighbors, the sharing of information, and the diffusion of values, norms, and information within the community (Sampson, 2012). Inhabitants in communities with steady residential patterns are likely to possess precise knowledge about local businesses and to have collected ample experiences with them. Residents in communities with limited population changes are also likely to meet innkeepers of local business in social circles like the church, schools, and other local events (Carroll & Torfason, 2011). Surely, residentially stable communities do not necessarily imply that residents embrace the same values and preferences, but stability arguably gives residents the potential to develop similar expectations and appreciation for local producers. Conversely, in communities with a high turnover of residents, such an appreciation of local offerings should be much lower. For instance, people who have just changed their residence are often "fearful of the dingy looking 'mom-and-pop' place" (Carroll & Torfason, 2011, p. 9) and may prefer less locally engrained options.

From these considerations, we derive two predictions. Geographic communities marked by stable inhabitants deter newcomers even more because the coupling of locally attached organizations to stable inhabitants leads to a stronger social control and social sanctions. Thanks to extensive opportunities for stable residents to come into contact with local organizations, residents will have access to vivid instances of what is real and true for a local organization (for a similar view in cognitive psychology see Barsalou, 1985; d'Andrade, 1995). Stated differently, the competitive pressures exerted by locally attached incumbents are stronger in communities with high residential stability as the quest for authenticity is unsurmountable for new entrants (Kovács, Carroll, & Lehman, 2014; Porac, Thomas, & Baden-Fuller, 2011; Wherry, 2006).

Because new entrants per default do not possess thick and stable connections with community inhabitants, such contexts are particularly challenging because stability within communities ensures the preservation of the local traditions, values and norms. Thus, we contend that the impeding effect of incumbents' local attachment on entries is intensified when it coincides with elevate residential stability. We therefore advance:

Hypothesis 2a: Entries of new organizations decrease with residential stability when

> *incumbents' local attachment is strong.*

Imagine, however, a different scenario in which the community enjoys elevate residential stability but the local attachment of incumbents is limited. Various market imperfections may justify this scenario. The quest for organizational local attachment may for instance represent an emerging sentiment, developed in opposition to the trend of commoditization of products like in the case of the microbrewery, grass-fed meat movements in USA or electricity in Germany (Carroll & Swaminathan, 2000; Weber et al., 2008; Liu & Wezel, 2014). In those cases, the quest for locally attached organizations is a latent sentiment ignited by oppositional claims. Because of their stability, community inhabitants' values and traditions are maintained and community members may facilitate the mobilization of resources in support of local businesses. Thus, stable residents are expected to welcome newcomers that exhibit a local character because newcomers' local character helps reviving the interests and traditions of the community (Carroll & Torfason, 2011; Wherry, 2006). Because of such support and unmet preferences of stable residents, potential entrepreneurs should be more inclined to found businesses in communities with incumbents marked by limited local attachment. We therefore advance the following hypothesis:

Hypothesis 2b: Entries of new organizations increase with residential stability when

> *incumbents' local attachment is weak.*

3.3. EMPIRICAL FRAMEWORK AND METHODS

As described in **Chapter 2**, Franconia varies across its 37 counties and three sub-regions, also in terms of producers' local attachment. *Upper Franconia* constitutes a conglomerate of small and locally embedded breweries, whose long tenure in their communities allows them to develop unique relationships with community members. About 30% of the new breweries in Franconia are located in this upper part of the cluster. The region of *Lower Franconia* offers instead a different context in terms of incumbent breweries and their degree of local attachment. Franconian' breweries are relatively young -compared to the average age of incumbents in other regions of Franconia- and therefore lack enduring relationships with local communities. They also tend to grow larger and produce beer types that are uncommon in the rest of Franconia. Most of the foundings that took place during our observation period were established in Lower Franconia. *Middle Franconia* shows diversity in terms of producers and their local attachment. Thirty percent of the producers are younger than 50 years old and most of the output produced by breweries in this region is in non-typical Franconian beer types. See also figures 2.3a and 2.3b for more details (Chapter 2).

Seventy-five new entries were detected over the years 1989-2012. Figure 3.1 shows a map of Franconia and the number of entries by county in Upper, Middle, and Lower Franconia. Twenty-two foundings took place along the 13 counties of Upper Franconia, 25 in Middle Franconia, and 28 new entrants opted for Lower Franconia. Darker blue indicates counties with a larger number of foundings, while light blue stands for lower number of entries.

INSERT FIGURE 3.1 ABOUT HERE

To better understand the variance in consumer preferences across the various regions of Franconia, we made use of survey data, involving 1300 consumers who reside in different counties of Franconia. For this chapter, we mainly focused on consumers' preferences towards breweries of different size and community attachment to the local beer tradition.

INSERT FIGURES 3.2a & 3.2b ABOUT HERE

Figure 3.2a suggests that 87% of the respondents in Upper Franconia were favorable towards small breweries. They also show strong resistance towards large and contract breweries[9] -almost 40% of the respondents are against contract breweries. On the contrary, most of the consumers interviewed in Lower Franconia showed sympathy towards breweries of any size: about 70% of the respondents enjoy small breweries, whereas 75% showed leniency towards contract and 71% towards big breweries. Consumers in Middle Franconia show generally strong preferences towards small and local breweries (almost 80%), while they are also somewhat against large and contract breweries too (35% and 30% accordingly). Concerning community attachment to beer tradition, the survey revealed substantial differences in consumer preferences with respect to traditional beer bottles and to the sponsorship of local events. Figure 3.2b suggests that more than 50% of the consumers in the region of Upper Franconia (56%) prefer breweries that play a role in the local communities by, for example, sponsoring school bazaars. Beer is consumed on a regular basis (35% of the respondents drink beer at least once a week) and more than half of the consumers prefer beers that come in traditional Franconian bottles, that is, flip-topped, thick and big bottles made of brown

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[9] Contract breweries let their recipe be brewed by another producer.

glass. As far as Lower Franconia is concerned, consumers display limited interest in beers that are filled in traditionally Franconian bottles (30%); yet, they appear favorable towards locally engaged breweries (over 50%). They also tend to drink beer on a regular basis but less frequently than in Upper Franconia. In turn, in Middle Franconia half of the consumers prefer beers that come in a traditional Franconian type of bottle and expect breweries to be involved in their communities. About 30 percent (30%) of the respondents drink beer on a weekly basis.

3.3.1. Some qualitative evidence

To develop an initial understanding of the community reactions towards newcomers, we screened local newspapers for articles on newly founded breweries. We also undertook some qualitative interviews with customers and master brewers. The evidence that we retrieved from these sources suggests that there is significant variation across regions; particularly Upper Franconia seems to impose more constraints to new entries. For example, Klosterbräu -a brewery founded in 2006 in Marienweiher (Upper Franconia) - closed down after six years of operation. When interviewed by the local newspaper about the reasons for exiting the market, its owner Michael Ittner said:

> *"We did not have any support from the population." […] "We could simply not satisfy many of the consumers in Marienweiher. There was only negative feedback all the time. To live and let live is our motto. We did not get much of this [from the population] though"* (Frankenpost, 2012).

Brewers in Upper Franconia appear reluctant towards new breweries. In alignment with its slogan "*stay local to your roots*", the master brewer of Seelmann in Zettmannsdorf distrusts new breweries that lack tradition. He says, *"typical beer drinkers enjoy their regular brands [=breweries] and would be skeptic about new ones"*. Likewise, when interviewing another brewer concerning new entrants in Upper Franconia, he said, *"well, the new ones are not so enticing; this is nothing grown [with*

tradition]. They just open their brewery, but…" When asking him about new entrants in other parts of Franconia, he acknowledged that larger cities like Nuremberg in Middle Franconia –and the largest city in the cluster- could be more welcoming arenas for new breweries:

> *"Probably this [new breweries] is an enrichment [there around Nuremberg]. However, this is not good in the surroundings of Bamberg."*

A similar skepticism towards newcomers was also detected among local consumers in Upper Franconia. As a group of consumers in Bamberg told us about newly established breweries:

> *Consumer 1: there is no reference point [with the old ones]!*
> *Consumer 2: We simply go to the old ones [breweries/pubs] that we already know*
> *Consumer 3: There is a new brewery in Bamberg: the food does not fit and it is bloody expensive. We went there once and their beer was not good at all.*

Community members in Lower Franconia exhibit a different view. With the motto *"a town without its own brewery is simply soulless"* (Nachrichten am Ort, 2012)*,* founders can tap into more opportunities to enter this market. That is the case of Martins Bräu (Schonungen) whose entry to the market was described by a local newspaper article as *"when Ulrich Martin opened his brewery, he ultimately revived the tradition of our place"* (Schweinfurter Oberland-Kurier, 2009)*.* In a similar vein, an entrepreneur, who founded Pfarrbräu in Karlstadt, explained, *"people have enough of the big ones around [Lower Franconia]"* (Mainpost, 2010). He also claims that this gave him the chance to enter to the market.

Both the qualitative evidence and the survey point to newcomers being confronted with particular skepticism in Upper Franconia. Since the incumbent organizations in this region are usually quite small and possess an impressive tradition, we read this evidence as supporting our theoretical reasoning. As each region exhibits

substantial variation across counties and counties emerged as the key location of attachment for incumbent organizations, we resort to multivariate analysis at the county-level to test our hypotheses. In the next section, we introduce the details of our empirical test.

3.3.2. Methods and Measures

3.3.2.1. Dependent variable and statistical approach

We constructed a panel dataset spanning 24 years (1989-2012). Our unit of analysis is the Franconian "Landkreis" or county. Our choice is motivated by the fact that communities (within each region) are the level at which local attachment becomes more relevant. Franconian counties are administrative subdivisions and autonomous bodies where decisions about local infrastructure and laws are made. By focusing on counties, we are able to account for intra-regional differences in particular in terms of demographic, institutional, and economic environments.

We are interested in the probability of founding of a new brewery in a given county in a given year. The final dataset consists of 864 yearly observations containing 75 entry events. The dependent variable is coded with zero (0) if there were no entries in a given county/year and with one (1) if, a county experienced one entry in a certain year. Each entry is seen as an event; therefore, we considered event history regression as an appropriate statistical method. Since it is possible that a single county witnesses several consecutive foundings over the same observation period we estimated multiple episode models in which the duration time clock for the first episode started to "tick" with the beginning of the observation period (1989). When the founding of a brewery took place in a county then the duration time clock was reset to zero and started to "tick" again until the next founding happened (in very few cases (6) we observed more than one (1) founding in a given year in a given county. In these cases, we set up an

(artificial) episode of half a year between entries). We decided to formulate the dependent variable as a continuous-time hazard rate r(t), where t denotes the duration time of an episode.

$$r(t) = \lim_{\Delta t \to 0} \frac{\Pr\left(t \leq T \leq t + \Delta t \mid T \geq t\right)}{\Delta t} \tag{1}$$

The hazard rate denotes the limit of the probability that a county witnesses an entry in the interval *t, t+1*. Since there are no clear expectations about the pattern of the hazard rate, we opted for piecewise constant exponential models. Here the duration time of an episode has been divided in 8 different periods in which the hazard rate is held constant although it freely varies across periods. The length of such periods was defined as 3 years each that sum 24 years of observation.

3.3.2.2. Independent variables

Local attachment. Local attachment of incumbent breweries is the key independent variable of our study. Survey data and qualitative interviews with master brewers and beer experts unequivocally suggest that certain organizational features proxy the degree of local attachment quite well. In particular, breweries are perceived as locally attached when they are *small*, i.e. they produce in small quantities, when they *sell their products regionally*, i.e. in proximity of their location, and when they *exist in the community for a long time*.

As one of our experts[10] -who works in a public office for fostering the Franconian culture- said,

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[10] Three experts had knowledge about both Upper and Middle Franconia, while four were more knowledgeable about Lower Franconia. Our experts were: (i) the owner of a store named the "Landbierdealer" that sells a variety of Franconian beers, (ii) the director of "Bierland Oberfranken e.V." an association promoting Franconian beer worldwide, (iii) the blogger from "Bier aus Franken", (iv) one employee from the Bezirk Unterfranken–an administrative body responsible for cultural and administrative affairs in Lower Franconia, (v) the innkeepers of two representative breweries in the region (Faust and Kesselring), (vi) one last expert –who decided to remain anonymous-.

"Franconian breweries are typically small businesses with a strong local character, particularly in Upper Franconia, where there are many microbreweries with their own inn and food […] Franconian beers are often not to be found in supermarkets or beverage stores but rather at their own production points […] Franconian breweries also play an important role in our regional identity, who we are in our towns and we like to drink our local beer".

Two more experts reported in the interviews that local attachment is often obtained through the participation in community activities such as sport contests or local festivals. Participation into local activities and, therefore, the rooting in the community is facilitated when breweries are small and exhibit an enduring experience in the community. As another expert reported in the media:

"It is not without reason that we talk about 'Bier braucht Heimat (beer ought to reflect its local roots)'. The oftentimes regionally limited distribution [of products] generates something like a certain [local] pride" (Jäschke Operational Media, 2014).

The view of these as well as of other experts and brewers resonates to that of the Association for the promotion of the Franconian beer culture (Verein zur Förderung der Fränkischen Braukultur):

"Franconia stands for a beer tradition that is ancient yet vivid and many-sided. Small- and micro-breweries produce unique beer types here like smoked beer, zwickel, and unfiltered cellar beer […] Multiple small businesses brew for hundreds of years only to serve customers in their own inn or at their own beer garden and beer cellars […] Without doubts, beer has a more important meaning particularly in Franconia than in the rest of the [German] Republic […] Local attachment and rootedness is very important here."

Based on this evidence, it is plausible to advance that Franconian breweries are perceived as locally attached to their community when they are *small*, i.e. they produce in small quantities, when they *sell their products regionally*, i.e. in proximity of their location, and they *exist in the community for a long time*. In the following, we explain the meanings of these dimensions more thoroughly.

The first dimension, *small output*, can be supposed to stand for the skepticism of community members against mass production. As stated elsewhere (Carroll &

Swaminathan 2000; Beck et al., 2016) many beer consumers are reluctant to accept mass producers as legitimate agents of the brewing industry. This is explained by the perceived poor quality of the products that are supposed to fulfill only standard tastes without possessing any special character. Serving standard tastes that exist across different regions displays a negligence of local idiosyncratic preferences and therefore leads to low local appeal. Moreover, the production site of large beer producers usually resembles a factory and makes it difficult to perceive the production process as a handcraft task with which the local population can identify with. Consequently, large beer producers are, as far as the products and the production process are concerned, detached from certain activities and experiences of local customers. Building on these arguments, we thus use breweries' *yearly output (measured in hectoliters)* as a first indicator of local attachment.

The second dimension, which concerns the geographical reach of the products, matters because a product that is available everywhere loses its regional appeal and does not signalize to the local population that it is produced especially "for them". This dimension is independent from size, as even small producers that serve different regional markets should also lose local appeal. We use the *radius of product distribution of a brewery (measured in kilometers)* as a second indicator for local attachment.

The third dimension of local attachment is the *age of an organization*. The older an organization is, the more opportunities it had to bond with the local population and to be rooted in the local culture (only one case of relocation across communities is observed in our sample). We thus used the age of a brewery as a third indicator of local attachment.

Our data sources provided information on output, radius of distribution of the products, and age. We took the actual values of these variables and transformed them into standardized measures ranging between zero (0) and one (1), so that values close to one represent *little* output and *low* radius of distribution.[11] Age instead was log-transformed to indicate that its influence on expectations increases at a decreasing rate. That is, ancient breweries (300+ years) convey just slightly stronger degree of tradition compared to 200-year-old breweries. We then took the average score of each one of these three dimensions for breweries within the same county/year and then multiplied these values to capture a compound effect of local attachment of incumbent breweries. The higher the score obtained from this index, the higher the degree of local attachment of breweries to a given county in a given year. In the results section, we present the estimates obtained from each individual dimension as well.

Residential stability. The second important independent variable is residential stability that indicates the degree to which community inhabitants value producers' local attachment (Carroll & Torfason, 2011). We operationalize residential stability by looking at the *changes in the population* in each county from one year to another. To do so, we calculated the absolute value of the difference in number of inhabitants between year *t* and *t+1*. The measure was inverted to facilitate the interpretation of the results.

3.3.2.3. Control variables

Because our aim is to model the effects of community characteristics net of regional variations, we capture unobserved and time invariant differences among Franconian regions by including two dummy variables: Upper Franconia and Middle Franconia. Lower Franconia was used as the reference category. We also controlled for

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[11] We divided the current values for each dimension by the maximum value among all observations and subtracted it from 1.

calendar time to account for possible changes in market opportunities that might occur over time. Several control variables were then used to account for county characteristics that may affect new entries. To assure that our arguments on the effects of local attachment on market entry do not only correspond to density dependence effects, we controlled for the number of incumbents in a given year in a given county. Therefore, its linear and squared terms are taken into consideration (*Density and Density sq.*). To further capture the competitiveness in the region but also the potential availability of resources, we also controlled for Bavaria's entrepreneurial activity by accounting for the number of new business that were registered each year *(Entrepreneurial activity Bayern).* We then lagged this variable. In a similar vein, the number of breweries that closed down in previous year (*Past failures*) helped controlling for availability of resources and competitive environment.

A few more measures were related to the potential demand for beer in the focal county. Qualitative interviews with master brewers revealed that *population* is one of the most influential factors for the attractiveness of a market location in the Franconian beer industry. Thus, we controlled for the number of inhabitants who are at least 18 years old by county/year. This variable also helped control for county size and resource effects on market entry. We also controlled for the inflow of tourists in each county by looking at the number of *booked rooms* in each county per year. Touristic counties experience higher demand for beer and are therefore likely to attract more resources that support the entry of new breweries. Yet, a permanent flow of tourists also brings heterogeneity in the preferences producers should meet and, thus, they are likely to alter community local norms. We also lagged this variable.

The extent of tradition of the focal community may affect entries as well. We account for the degree of ideological conservatism by controlling for the proportion of

people who voted for the Bavarian conservative party CSU (Christian Social Union of Bavaria) in the second vote or Zweitstimme. In spite of its name, the second vote is important in Germany as it determines how extensive the representation of a given political party in the German Bundestag is. Hence, the percentage of second votes for the CSU indicates how diffused conservatism is a given county. We used a moving average of three years to account for consistency in peoples' political behavior. As a second control variable for the extent of communities' engagement, we use people's engagement in community activities and volunteering work. To do this, we relied on the percentage of time that individuals spend working for their community on each county/year (*volunteer time per person*). We obtained these data from the Bayrisches Landesamt für Statistik.

Table 3.1 provides descriptive statistics of the variables included in our models. Table 3.2 presents descriptive information about new and incumbent breweries in terms of small output, degree of local distribution and tradition. On average, newly founded breweries are small –output is less than 700 hectoliters of beer a year[12]- and serve their products to a 14-kilometer radius.

INSERT TABLES 3.1 & 3.2 ABOUT HERE

3.4. RESULTS

Table 3.3 shows piecewise models of entry rates of new breweries in Franconia. Model 1 presents the effect of control variables. Counties richer in entrepreneurial behavior and with higher inflows of tourists experience significantly more entries. Brewery density has an inverted U-shaped influence on organizational founding. This

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[12] Per definition, breweries that produce up to 5000 hectoliters a year are classified as small breweries.

suggests that the positive effect of legitimacy holds only up to a certain threshold. If there are too many incumbents in a county then newcomers are getting increasingly reluctant to enter the local market. Moreover, a large number of past failures in a county leads to a lower tendency to found a new establishment. Model 1 also suggests that the hazard of entry is lower in Upper Franconia compared to Lower Franconia. This result is aligned with our qualitative results that revealed a larger skepticism of consumers and incumbents on newly founded breweries in this region.

INSERT TABLE 3.3 ABOUT HERE

Model 2 shows a negative and significant effect of local attachment on the hazard of entry. That is, when smallness, local distribution, and long tenure prevail among incumbent breweries, entrepreneurs are less likely to found a brewery in that county (β: -0.983, p-value<0.01). Hypothesis 1 thus finds support in our data. Residential stability instead exhibits a positive and significant effect (β: 0.852, p-value<0.05) on the likelihood of observing a new brewery (model 3). This effect gets considerably stronger when the interaction of residential stability with local attachment is included in model 4 (β: 1.993, p-value<0.05). This means that, in accordance with Hypothesis 2b, residential stability exhibits a particularly beneficial effect on entries in counties with limited local attachment of incumbent breweries (please note that in model 4, due to the included interaction, the main effect of residential stability is calculated for counties in which the local attachment variable is equal to zero (0)). The interaction effect (β: -0.394, p-value<0.1) leads, as expected, to a reduction of the positive influence of residential stability.

To investigate further this interaction, we plotted in Figure 3.3 the effect of residential stability (solid line) over the whole range of the local attachment variable.

The dotted lines indicate the 95% confidence interval. Thus, hypothesis 2a does not receive full support. In general, the plot allows for three conclusions. First, counties marked by high residential stability exhibit more foundings when the degree of local attachment of incumbents is at its lowest level. This is the case of counties like Kulmbach, which once had a very lively brewing tradition of several old local producers. However, this tradition has ceased to exist and now one industrial mass producer -whose local attachment is low-, drives the beer market. Therefore, consumers welcome the advent of new local breweries. Second, the figure reveals that residential stability exhibits a positive influence on market entry, stronger than we expected. We interpret this finding as related to the possible appreciation of entrepreneurs for stable and predictable customers' expectations in regions of elevate residential stability. Third, as local attachment increases, however, the benefits of residential stability reduce up to become negative. While this result is in line with Hypothesis 2a, the confidence intervals suggest that this negative turn is not statistically significant.

INSERT FIGURE 3.3 ABOUT HERE

Table 3.4 and 3.5 illustrate the effects produced by disaggregating the components of the index that captures local attachment into its constitutive pairs (Table 3.4) and individual components (Table 3.5). Most of the results conform to our expectations related to the effects induced by smallness and local distribution alone or when coupled to residential stability. The influence of age of incumbent breweries, however, is much weaker. This result is somewhat unexpected and deserves some further investigation.

INSERT TABLE 3.4 AND 3.5 ABOUT HERE

3.4.1. Additional analyses

As organizational age proved to exhibit a weaker effect on entries than expected, we decided to deepen our analysis by recognizing that age alone may fail to capture local attachment unless it is coupled with the production of traditional beer types. Arguably, this is how the perception of a traditional producer is crystallized in the mind of potential entrants. Building on this premise, we coded the beer types offered by producers. With the help of seven experts in different regions of Franconia, we classified beer types in categories of "Franconianness" – i.e., how truly Franconian are the 100+ beer types empirically observed. We decided to maintain classification differences across regions to allow experts from Upper Franconia to classify beers in a different way than experts in Middle and Lower Franconia. For example, smoked beer is seen by experts in Upper Franconia as highly typical while is almost typical for experts in Lower Franconia (see table 3.6 for more details on beer types within each category and values).

In the first place, we developed a scale made of three categories: "*typical Franconian beer*," "*almost typical Franconian beer*," and "*non-typical Franconian beer at all*." We assigned values between 0.1 and 1 to these categories, where a value of 1 stands for the highest degree of tradition and 0.1 for the lowest. With these categories at hand, we asked experts to classify beer types into one of these categories. Because some beer types did not match any of the above categories (e.g. organic beer) or conveyed tradition through their names, though their content was rather unclear (i.e. Fränkischer Urstoff, Old Rye), we created one more category "*other beers*" for these cases. In cases in which experts from the same region categorized beers differently, we opted for reading online reviews from beer-enthusiasts to solve discrepancies. Later, we summed

scores across beer types for the same brewery and divided this value by the number of beer types produced. We then took the average of the value obtained to map the degree of franconianness of the focal county in a given year. Higher values indicate greater degree of *franconianness* for the county.

INSERT TABLE 3.6 ABOUT HERE

We then re-run our main models upon splitting the data into two sub-samples, one marked by low levels of franconianness (franconianness<0.45), and another by high levels (franconianness >0.70). As expected, the estimates of Table 3.7 shows that the amplifying effect of residential stability in deterring entries in communities with elevate local attachment of incumbents (Hypothesis 2a) exists also for the age dimension alone when considering contexts marked by high franconianness (Model 4). Table 3.8 reveals that the main results of the paper appear even stronger in this subset of observations.[13]

INSERT TABLES 3.7 & 3.8 ABOUT HERE

3.5. DISCUSSION

Geographic communities are often thought to support new ventures, especially when local values are threatened (Marquis & Lounsbury, 2007; Carroll & Swaminathan, 2000; Weber et al., 2008). Yet, communities may hinder the action of newcomers when incumbents' identity builds on community traditions and connectedness with

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[13] Somewhat unexpected was the influence of age of incumbent breweries. Although, this finding seems to be counterintuitive at first, we believe that tenure alone does not evolve into local attachment. Producers –and especially breweries- can be very ancient and large at the same time. For example, Kulmbacher Brauerei in Upper Franconia was found in 1872 and produces circa 1,000,000 hectoliters/year. Kulmbacher also attracts distant customers by investing significant amounts of money on advertisement on the TV.

community inhabitants; in those situations, newcomers struggle to meet the expectations of local stakeholders and are reluctant to enter the market. This paper explores the negative effects of geographic communities on market entry in the context of one of the most traditional industries in Europe, namely the Franconian microbrewery industry. This context suits well our endeavor given that entrants in this industry are not only required to access material resources and timely reap emerging opportunities, but they must also fit into a system of values, norms and traditions.

The results of our empirical analyses provide relevant support to the arguments advanced in the paper. We find that communities where incumbent organizations are locally attached hinder the entry of new ventures. These difficulties are even enhanced when there is low turnover among community inhabitants. Our results are in accordance with previous studies that have stressed the importance of complying with local expectations (Beck et al., 2016; Ody-Brasier & Vermeulen, 2014; Negro et al., 2011)). This is the case for communities such as Bamberg (cluster center) where tradition is a prevalent characteristic across breweries, for instance, Bamberg is home of the most representative beer sort in Franconia (Rauchbier) and producers mostly brew at a small scale for local consumers. In addition, Bamberg is marked by high residential stability and therefore inhabitants are familiar with local breweries and their owners (i.e. they are likely to know the families behind each brewery, to run into them in social circles like local events, church, schools). Communities like Bamberg impose heavy constraints on new entrants. Conversely, residential stability displays a strong positive effect on founding rates in counties with limited organizational local attachment of incumbent breweries. Thus, high residential stability and low local attachment of incumbents represents the best scenario for starting a brewery in Franconia. This is the case in

counties like Kulmbach where the beer market is mostly driven by industrial producers, whose local attachment is very low, but consumers highly value new breweries.

Our paper contributes to the literature on geographic communities and entrepreneurship (Jennings et al., 2013) in at least three ways. First, we show that communities can bring negative effects on market entry. Communities characterized by strong organizational local attachment (e.g. serving local audiences, sponsoring local events) discourage newcomers from entering because new entrants are unlikely to meet expectations on the roles that organizations play in those communities. In so doing, we also enrich our understanding of how geographic communities support market entries. The strong effect of residential stability on market entries confirms the usefulness of disentangling the effects exerted by different community actors (organizations and people). In particular, we are able to show that the positive effects of geographic communities on foundings may not only be related to the ease of emulation of incumbents (Marquis, 2003) but to stable inhabitants and to their natural quest local traditions.

Second, our paper also shows that the degree of attractiveness of a geographical location for newcomers is not only related to organizational concentration and density (e.g., Romanelli & Khessina, 2005; Rosenthal & Strange, 2001), but also to the extent of local attachment that organizations exhibit in a community. An elevate degree of local attachment among organizations will provide negative spillovers to entrepreneurs, who will refrain from entering a market. Additionally, we moved beyond the consideration of communities as places wherein entrepreneurs locate their businesses and revamp the idea of geographic communities as culturally rich social contexts. When the constraints imposed by the local culture are hard to be matched by new entrants, the attractiveness of concentrated markets is reduced.

Last, the results of our paper indirectly contribute to the literature on organizational identity and, in particular, to the discussion of the role of authenticity in influencing organizational outcomes. Authenticity has been an important element in the study of organizations in recent years (Carroll & Swaminathan, 2000; Carroll & Wheaton, 2009; Negro et al., 2011; Weber et al., 2008). While these studies have advanced our understanding about how authenticity affects the evaluation of incumbent organizations, little is known about the effects of authenticity for new entrants. Our results suggest that quest for authenticity[14] by local stakeholders is a double-edged sword: it is necessary to receive higher evaluations but, at the same time, it prevents entrepreneurial attempts. The joint effect of these forces is such that innovation fails to emerge as tradition is reiterated over time. On a methodological side, it is also worth noticing that our measurement of local attachment based on tradition, smallness, and local distribution captures instances of authenticity that have not been explicitly explored in contemporary studies yet (for a recent review on authenticity see Carroll, 2015).

While confined to one specific setting, we believe that our results may hold for other industries that strongly rely on tradition and locally rooted cultural values. For instance, our arguments may be suitable to handicraft and ethnic-gastronomic industries. The Italian leather industry is one of such examples. In leather districts such as Florence, leather makers are emblematic and representative of their communities. Another example is the Chinese food corridor in Chengdu. Chengdu is known as a historical city of gastronomy and the birthplace of many culinary traditions in the province of Sichuan, China. Restaurants along this corridor have existed for centuries

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[14] As defined in chapter 1.

and manifest the local culture by preserving and cultivating their local traditional culinary practices, methods of cooking, and wet markets.

Our study is not immune from limitations. The main one is possibly related to the indirect measurement of local attachment. While our measure is rooted into survey data and into the qualitative interviews made in the field, it appears highly idiosyncratic to the context under study. A more direct measurement of the construct of local attachment would allow better capturing the theoretical mechanisms advanced in this paper. We look forward to future research that enriches our reasoning and improves our measurement too. A second limitation relates to the lack of sufficient variation in the data with respect to the type of entrants. Most of the new breweries observed in the data are small and local across regions of Franconia. Indeed, when looking at newcomers' franconianness, small output, and local distribution we find that on average these breweries distribute their product in a radius of 14 kilometers, offer fairly typical beer types, and produce very few hectoliters (see Table 3.2). That is, newly founded breweries score high in local distribution, smallness, and franconianness. While this finding is consistent with our description of local attachment in this context, it constrains our ability to investigate variations across types of entrants. Future research should tackle this question and extend our theory by clarifying the conditions under which entrepreneurs are able to break with tradition.

Table 3.1 Descriptive statistics

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Local attachment	4.22	1.23	0.0	6.17	1												
2 Residential stability	-0.46	0.69	-14.2	0.00	0.15	1											
3 Density	9.36	12.65	1.0	85.00	0.24	-0.05	1										
4 Density sq.	247.54	929.10	1.0	7225.00	0.18	-0.09	0.94	1									
5 Entrepreneurial activity Bayern (lag)	132.42	11.96	120.5	158.84	-0.12	-0.04	-0.03	-0.03	1								
6 Failures (lag)	0.17	0.45	0.0	4.00	0.08	0.02	0.32	0.28	0.02	1							
7 Log of population 18+ (lag)	4.40	0.45	3.4	6.07	-0.33	-0.40	0.12	0.11	0.08	0.01	1						
8 Tourism: # of booked rooms (lag)	435.78	447.89	18.3	2558.30	-0.22	-0.24	0.01	-0.04	0.05	0.002	0.51	1					
9 Prop. second votes for CSU (ma)	0.49	0.07	0.3	0.69	0.36	0.16	0.38	0.30	-0.26	0.10	-0.06	0.15	1				
10 Volunteer time per person (%)	0.18	0.01	0.2	0.19	0.09	0.04	-0.01	0.00	-0.22	0.04	-0.01	-0.04	0.14	1			
11 Upper Franconia	0.35	0.48	0.0	1.00	0.07	0.12	0.38	0.28	-0.01	0.14	-0.29	-0.14	0.09	-0.002	1		
12 Middle Franconia	0.32	0.47	0.0	1.00	-0.02	-0.17	-0.15	-0.13	-0.01	-0.04	0.24	0.04	-0.36	0.002	-0.50	1	
13 Calendar time	11.24	6.96	0.0	23.00	-0.12	-0.05	-0.04	-0.04	0.80	0.01	0.08	0.06	-0.30	-0.03	-0.002	-0.02	1

Table 3.2 Small output, local distribution, and tradition for newcomers and incumbents

	Newcomers				Incumbents			
	Mean	S.D.	Min	Max	Mean	S.D.	Min	Max
1. Smallness (hectoliters)	647	684	3	2 500	28 513	123 543	3	2 100 000
2. Local distribution (km)	14	30	4.5	245	65	200	3	5 000
3. Tradition (age)	-	-	-	-	224	158	1	960

Table 3.3 Piecewise models of entry

VARIABLES	(1) Entries	(2) Entries	(3) Entries	(4) Entries
1989-1991	-10.646*	-7.960†	-9.904*	-10.427*
	(4.604)	(4.670)	(4.734)	(4.824)
1992-1994	-11.051*	-8.194†	-10.065*	-10.544*
	(4.560)	(4.652)	(4.703)	(4.783)
1995-1997	-11.392*	-8.355†	-10.196*	-10.665*
	(4.654)	(4.742)	(4.785)	(4.858)
1998-2000	-10.825*	-7.728†	-9.600*	-10.063*
	(4.575)	(4.683)	(4.731)	(4.804)
2001-2003	-10.961*	-7.731†	-9.574*	-10.030*
	(4.608)	(4.700)	(4.749)	(4.809)
2004-2006	-10.473*	-7.280	-9.031†	-9.453†
	(4.705)	(4.843)	(4.871)	(4.925)
2007-2009	-10.638*	-7.140	-8.978†	-9.450†
	(4.725)	(4.761)	(4.818)	(4.874)
2010-2012	-10.513*	-6.214	-7.922†	-8.383†
	(4.631)	(4.671)	(4.692)	(4.757)
Local attachment		-0.983**	-1.004**	-1.195**
		(0.170)	(0.166)	(0.188)
Residential stability			0.852*	1.993*
			(0.389)	(0.902)
Interaction: *Local attachment*Residential stability*				-0.394†
				(0.214)
Density	0.119**	0.247**	0.240**	0.248**
	(0.027)	(0.035)	(0.035)	(0.036)
Density sq.	-0.001**	-0.003**	-0.002**	-0.003**
	(0.000)	(0.000)	(0.000)	(0.000)
Entrepreneurial activity Bayern (lag)	0.042**	0.033**	0.031**	0.036**
	(0.011)	(0.010)	(0.010)	(0.010)
Failures (lag)	-0.447	-0.512†	-0.569†	-0.555†
	(0.283)	(0.297)	(0.298)	(0.297)
Log of Population (18plus) (lag)	0.021	-0.785*	-0.511	-0.591
	(0.357)	(0.392)	(0.395)	(0.394)
Tourism (# of booked rooms, lag)	0.001**	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)
Prop of second votes CSU (ma)	-2.230	4.096	4.229†	4.515†
	(2.276)	(2.498)	(2.411)	(2.418)
Volunteer time/person (%)	20.914	27.887	34.398	37.785
	(21.344)	(23.224)	(24.207)	(24.638)
Upper Franconia	-0.759*	-1.040**	-0.988**	-0.977**
	(0.346)	(0.382)	(0.363)	(0.358)
Middle Franconia	-0.260	0.221	0.305	0.341
	(0.279)	(0.411)	(0.391)	(0.389)
Calendar time	-0.063**	-0.064**	-0.063**	-0.065**
	(0.022)	(0.024)	(0.023)	(0.023)
Observations	864	864	864	864
Risk	864	864	864	864
N_fail	74	74	74	74
N_sub	110	110	110	110
Log-likelihood	-124.2	-95.89	-92.94	-91.66

Robust standard errors in parentheses
** $p<0.01$, * $p<0.05$, † $p<0.1$

Table 3.4 Piecewise models of entry: pairwise combinations of local attachment dimensions

VARIABLES	(1) Entries	(2) Entries	(3) Entries	(4) Entries	(5) Entries	(6) Entries
1989-1991	-9.716*	-10.244*	-12.480**	-13.372**	-10.790*	-10.892*
	(4.669)	(4.793)	(4.795)	(4.883)	(4.717)	(4.704)
1992-1994	-9.826*	-10.301*	-12.779**	-13.597**	-11.155*	-11.250*
	(4.636)	(4.746)	(4.763)	(4.847)	(4.670)	(4.658)
1995-1997	-9.960*	-10.433*	-12.974**	-13.783**	-11.430*	-11.534*
	(4.721)	(4.828)	(4.799)	(4.882)	(4.769)	(4.756)
1998-2000	-9.386*	-9.854*	-12.472**	-13.267**	-10.842*	-10.945*
	(4.659)	(4.763)	(4.776)	(4.848)	(4.711)	(4.698)
2001-2003	-9.392*	-9.859*	-12.571**	-13.379**	-10.967*	-11.074*
	(4.679)	(4.774)	(4.773)	(4.840)	(4.761)	(4.750)
2004-2006	-8.901†	-9.335†	-12.311*	-13.093**	-10.378*	-10.497*
	(4.799)	(4.887)	(4.915)	(4.970)	(4.843)	(4.827)
2007-2009	-8.920†	-9.408†	-12.236*	-13.101**	-10.567*	-10.681*
	(4.739)	(4.831)	(4.848)	(4.915)	(4.885)	(4.872)
2010-2012	-7.867†	-8.369†	-11.573*	-12.373*	-10.380*	-10.508*
	(4.643)	(4.748)	(4.723)	(4.808)	(4.813)	(4.794)
Local attachment: size, age	-0.953**	-1.121**				
	(0.165)	(0.179)				
Local attachment: size, local distribution			-5.126**	-6.082**		
			(0.792)	(0.801)		
Local attachment: local distribution, age					-0.106	-0.051
					(0.194)	(0.227)
Residential stability	0.910*	2.038*	0.776†	2.241**	0.775**	0.332
	(0.379)	(0.945)	(0.451)	(0.825)	(0.292)	(0.604)
Interaction: *size, age * residential stability*		-0.373†				
		(0.223)				
Interaction: *size, local distr. * residential stability*				-2.156*		
				(0.845)		
Interaction: *local distr., age * residential stability*						0.118
						(0.193)
Density	0.220**	0.225**	0.227**	0.231**	0.114**	0.113**
	(0.035)	(0.035)	(0.031)	(0.032)	(0.029)	(0.029)
Density sq.	-0.002**	-0.002**	-0.002**	-0.002**	-0.001**	-0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Entrepreneurial activity Bayern (lag)	0.030**	0.035**	0.032**	0.039**	0.038**	0.037**

	(0.010)	(0.010)	(0.009)	(0.009)	(0.011)	(0.011)
Failures (lag)	-0.561†	-0.549†	-0.525†	-0.519†	-0.524†	-0.524†
	(0.296)	(0.294)	(0.278)	(0.276)	(0.290)	(0.290)
Log of Population (18plus) (lag)	-0.253	-0.325	-0.183	-0.283	0.269	0.279
	(0.383)	(0.382)	(0.371)	(0.383)	(0.411)	(0.411)
Tourism (# of booked rooms, lag)	0.000*	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Prop of Second votes CSU (ma)	3.726	3.895†	2.146	2.440	-1.800	-1.759
	(2.338)	(2.339)	(2.255)	(2.278)	(2.425)	(2.421)
Volunteer time/person (%)	30.059	33.430	48.429*	53.509*	20.444	20.124
	(23.900)	(24.480)	(24.265)	(24.080)	(21.910)	(22.046)
Upper Franconia	-0.805*	-0.766*	-1.059**	-1.047**	-0.696*	-0.706*
	(0.379)	(0.379)	(0.334)	(0.328)	(0.350)	(0.351)
Middle Franconia	0.200	0.236	-0.068	0.017	-0.119	-0.119
	(0.374)	(0.370)	(0.370)	(0.361)	(0.307)	(0.305)
Calendar time	-0.059**	-0.061**	-0.034	-0.035	-0.064**	-0.063**
	(0.023)	(0.023)	(0.022)	(0.022)	(0.023)	(0.023)
Observations	864	864	864	864	864	864
Risk	864	864	864	864	864	864
N_fail	74	74	74	74	74	74
N_sub	110	110	110	110	110	110
Log pseudo-likelihood	-95.34	-94.19	-88.18	-86.56	-121.0	-120.9

Robust standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

Table 3.5 Piecewise models of entry: individual dimensions of local attachment

VARIABLES	(1) Entries	(2) Entries	(3) Entries	(4) Entries	(5) Entries	(6) Entries
1989-1991	-12.663**	-13.466**	-8.420†	-7.908†	-13.582**	-13.830**
	(4.752)	(4.879)	(4.614)	(4.601)	(4.740)	(4.717)
1992-1994	-12.868**	-13.578**	-8.846†	-8.346†	-13.991**	-14.230**
	(4.717)	(4.840)	(4.552)	(4.535)	(4.693)	(4.672)
1995-1997	-13.080**	-13.793**	-9.122*	-8.614†	-14.306**	-14.560**
	(4.759)	(4.884)	(4.647)	(4.634)	(4.779)	(4.756)
1998-2000	-12.611**	-13.307**	-8.536†	-8.023†	-13.758**	-14.009**
	(4.719)	(4.827)	(4.586)	(4.578)	(4.718)	(4.693)
2001-2003	-12.762**	-13.480**	-8.637†	-8.120†	-13.980**	-14.238**
	(4.717)	(4.823)	(4.622)	(4.611)	(4.778)	(4.758)
2004-2006	-12.592**	-13.278**	-8.087†	-7.569	-13.503**	-13.778**
	(4.853)	(4.950)	(4.696)	(4.681)	(4.869)	(4.842)
2007-2009	-12.599**	-13.371**	-8.202†	-7.690	-13.720**	-13.986**
	(4.783)	(4.892)	(4.736)	(4.722)	(4.914)	(4.891)
2010-2012	-11.922*	-12.668**	-8.001†	-7.460	-13.762**	-14.049**
	(4.699)	(4.817)	(4.600)	(4.598)	(4.822)	(4.795)
Small output	-4.936**	-5.763**				
	(0.789)	(0.806)				
Local distribution			-3.669**	-4.478**		
			(1.286)	(1.556)		
Age (log)					0.249	0.331
					(0.210)	(0.239)
Residential stability	0.829†	2.253*	0.673*	2.199	0.754*	0.081
	(0.437)	(0.911)	(0.318)	(2.208)	(0.321)	(0.664)
Interaction: *small output * residential stability*		-2.021*				
		(0.970)				
Interaction: *local distr. * residential stability*				-1.623		
				(2.454)		
Interaction: *age (log) * residential stability*						0.167
						(0.187)
Density	0.209**	0.210**	0.136**	0.137**	0.102**	0.102**

	(0.031)	(0.031)	(0.028)	(0.028)	(0.027)	(0.027)
Density sq.	-0.002**	-0.002**	-0.001**	-0.001**	-0.001**	-0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Entrepreneurial activity Bayern (lag)	0.030**	0.037**	0.040**	0.041**	0.038**	0.037**
	(0.009)	(0.010)	(0.011)	(0.011)	(0.011)	(0.011)
Failures (lag)	-0.519†	-0.515†	-0.519†	-0.520†	-0.523†	-0.523†
	(0.276)	(0.274)	(0.290)	(0.291)	(0.284)	(0.284)
Log of Population (18plus) (lag)	0.170	0.050	0.004	-0.020	0.529	0.537
	(0.369)	(0.390)	(0.363)	(0.371)	(0.396)	(0.395)
Tourism (# of booked rooms, lag)	0.001**	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Prop of Second votes CSU (ma)	1.406	1.625	-1.704	-1.669	-3.289	-3.220
	(2.205)	(2.234)	(2.299)	(2.305)	(2.465)	(2.460)
Volunteer time/person (%)	45.278†	50.156*	28.418	29.497	25.163	24.980
	(23.665)	(23.709)	(22.683)	(22.685)	(20.962)	(20.974)
Upper Franconia	-0.861*	-0.827*	-0.939**	-0.957**	-0.704*	-0.726*
	(0.342)	(0.339)	(0.330)	(0.328)	(0.347)	(0.349)
Middle Franconia	-0.229	-0.137	-0.173	-0.171	-0.314	-0.314
	(0.343)	(0.331)	(0.287)	(0.288)	(0.311)	(0.307)
Calendar time	-0.028	-0.029	-0.063**	-0.065**	-0.051*	-0.050*
	(0.022)	(0.023)	(0.022)	(0.022)	(0.023)	(0.023)
Observations	864	864	864	864	864	864
Risk	864	864	864	864	864	864
N_fail	74	74	74	74	74	74
N_sub	110	110	110	110	110	110
Log pseudo-likelihood	-90.05	-88.65	-117.7	-117.6	-120.5	-120.3

Robust standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

Table 3.6 Scale of Franconianness

Categories	Example of beer sorts	Score
Typical Franconian beer sorts	Dark, cellar, country, zwickl, unfiltered	1
Almost typical Franconian beer sorts	Export, pale, pilsner, full	0.8
Other beers	Specialty grain, organic beer	0.5
Non-typical Franconian beer	Old, steam, diet	0.1

Note: We maintained classification differences across regions to allow experts from Upper Franconia to classify beers in a different way than experts in Lower and Middle Franconia. Lager, smoked, beer mix, bock, steamed are among the beer types that are seen in different categories across regions.

Table 3.7 Robustness checks: effect of age in counties with low and high degree of franconianness

VARIABLES	Low degree of franconianness		High degree of franconianness	
	(1) Entries	(2) Entries	(3) Entries	(4) Entries
1989-1991	-39.559†	-39.210†	-8.456	-7.980
	(22.648)	(23.051)	(12.347)	(12.253)
1992-1994	-56.133*	-55.564*	-24.551*	-25.332*
	(22.369)	(22.970)	(12.086)	(11.990)
1995-1997	-55.478*	-55.134*	-8.469	-7.953
	(22.099)	(22.503)	(11.991)	(11.884)
1998-2000	-39.091†	-38.749†	-8.469	-7.878
	(22.084)	(22.495)	(11.940)	(11.843)
2001-2003	-38.442†	-38.111†	-9.984	-9.375
	(22.418)	(22.800)	(12.129)	(12.024)
2004-2006	-38.154†	-37.998	-8.304	-7.660
	(23.140)	(23.402)	(11.970)	(11.906)
2007-2009	-37.827	-37.677	-7.646	-6.871
	(23.329)	(23.570)	(12.062)	(11.865)
2010-2012	-36.963†	-36.876†	-7.881	-7.022
	(21.725)	(21.862)	(11.894)	(11.760)
Age (log)	1.096	1.162†	-0.082	-0.846
	(0.743)	(0.674)	(0.441)	(0.695)
Residential stability	0.984†	0.175	1.005	12.286*
	(0.552)	(1.783)	(0.781)	(5.877)
Interaction: age (log) * residential stability		0.196		-2.395*
		(0.472)		(1.176)
Density	0.528	0.524	0.191*	0.200**
	(0.723)	(0.717)	(0.081)	(0.076)
Density sq.	-0.009	-0.009	-0.002*	-0.002*
	(0.053)	(0.053)	(0.001)	(0.001)
Entrepreneurial activity Bayern (lag)	0.067†	0.065	0.067*	0.077*
	(0.039)	(0.040)	(0.030)	(0.032)
Failures (lag)	0.447	0.455	-1.662**	-1.734*
	(0.571)	(0.565)	(0.613)	(0.674)
Log of Population (18plus) (lag)	1.680	1.748	-0.964	-0.506
	(2.002)	(1.921)	(0.937)	(1.142)
Tourism (# of booked rooms, lag)	0.002	0.001	0.001	0.000
	(0.003)	(0.003)	(0.001)	(0.001)
Prop of Second votes CSU (ma)	-20.480*	-20.882*	-0.980	0.418
	(9.965)	(9.725)	(6.561)	(6.791)
Volunteer time/person (%)	125.743	124.035	11.885	7.696
	(97.597)	(99.843)	(39.423)	(39.562)
Upper Franconia	0.353	0.312	-2.026*	-2.019**
	(2.135)	(2.180)	(0.839)	(0.759)
Middle Franconia	0.787	0.706	-0.088	-0.427
	(1.913)	(1.995)	(1.356)	(1.251)
Calendar time	-0.172	-0.158	-0.075†	-0.093*
	(0.106)	(0.104)	(0.043)	(0.043)
Observations	179	179	228	228
Risk	179	179	228	228
N_fail	13	13	19	19
N_sub	26	26	40	40
Log pseudo-likelihood	-10.47	-10.43	-23.73	-22.84

Robust standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

Table 3.8 Robustness checks: effect of local attachment in counties with low and high degree of franconianness

VARIABLES	Low degree of Franconianness		High degree of Franconianness	
	(1) Entries	(2) Entries	(3) Entries	(4) Entries
1989-1991	-6.810	-9.700	0.146	4.138
	(23.974)	(26.878)	(11.618)	(13.909)
1992-1994	-22.560	-28.065	-16.203	-12.259
	(23.735)	(26.608)	(11.474)	(13.864)
1995-1997	-22.036	-27.570	0.662	4.417
	(23.712)	(26.569)	(11.334)	(13.668)
1998-2000	-5.467	-8.317	0.621	4.532
	(23.853)	(26.663)	(11.574)	(14.055)
2001-2003	-2.981	-5.868	-1.056	3.317
	(23.400)	(26.108)	(11.700)	(14.104)
2004-2006	0.185	-2.701	1.472	5.807
	(23.334)	(25.816)	(11.592)	(14.228)
2007-2009	1.043	-1.772	2.397	7.154
	(23.608)	(26.036)	(11.642)	(14.235)
2010-2012	6.518	3.741	1.518	6.640
	(21.022)	(22.916)	(11.268)	(14.058)
Local attachment	-2.273**	-2.114**	-1.823**	-2.756**
	(0.741)	(0.682)	(0.481)	(0.745)
Residential stability	2.171†	1.234	1.850†	10.573**
	(1.297)	(1.300)	(1.101)	(2.709)
Interaction: local attachment * residential stability		0.409		-2.303**
		(0.746)		(0.702)
Density	1.573	1.608	0.342**	0.385**
	(1.333)	(1.342)	(0.095)	(0.126)
Density sq.	-0.029	-0.031	-0.003**	-0.004**
	(0.087)	(0.085)	(0.001)	(0.001)
Entrepreneurial activity Bayern (lag)	-0.029	-0.031	0.068*	0.068*
	(0.058)	(0.064)	(0.027)	(0.030)
Failures (lag)	0.806	0.806	-2.104*	-2.085†
	(1.009)	(0.995)	(0.913)	(1.146)
Log of Population (18plus) (lag)	0.852	1.338	-2.718†	-1.935
	(3.717)	(4.406)	(1.516)	(1.817)
Tourism (# of booked rooms, lag)	0.003	0.002	0.001	0.000
	(0.003)	(0.004)	(0.001)	(0.001)
Prop of Second votes CSU (ma)	-5.704	-6.194	5.495	8.870
	(5.505)	(5.999)	(9.074)	(10.048)
Volunteer time/person (%)	49.522	54.156	13.828	-18.498
	(73.983)	(77.367)	(45.568)	(55.116)
Upper Franconia	-3.227	-3.021	-2.124**	-2.133**
	(3.757)	(3.997)	(0.730)	(0.699)
Middle Franconia	-0.941	-0.923	3.065*	2.284
	(3.264)	(3.390)	(1.500)	(1.626)
Calendar time	-0.439*	-0.438*	-0.091†	-0.094
	(0.212)	(0.203)	(0.054)	(0.060)
Observations	179	179	228	228
Risk	179	179	228	228
N_fail	13	13	19	19
N_sub	26	26	40	40
Log pseudo-likelihood	-4.090	-4.005	-15.31	-12.85

Robust standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

Figure 3.1 Entries by county in Franconia, 1989-2012

Lower Franconia

Upper Franconia

Middle Franconia

Entries by color

1. Ansbach City
2. Ansbach
3. Erlangen
4. Erlangen City
5. Fürth
6. Fürth City
7. Neustadt-Bad Windsheim
8. Nürnberg City
9. Nürnberg
10. Roth
11. Schwabach
12. Weissenburg
13. Bamberg City
14. Bamberg
15. Bayreuth City
16. Bayreuth

17. Coburg City
18. Coburg
19. Forchheim
20. Hof City
21. Hof
22. Kronach
23. Kulmbach
24. Lichtenfels
25. Wunsiedel
26. Aschaffenburg City
27. Aschaffenburg
28. Bad Kissingen
29. Hassberge
30. Kitzingen
31. Main-Spessart
32. Miltenberg

33. Rhön-Grabfeld
34. Schweinfurt City
35. Schweinfurt
36. Würzburg City
37. Würzburg
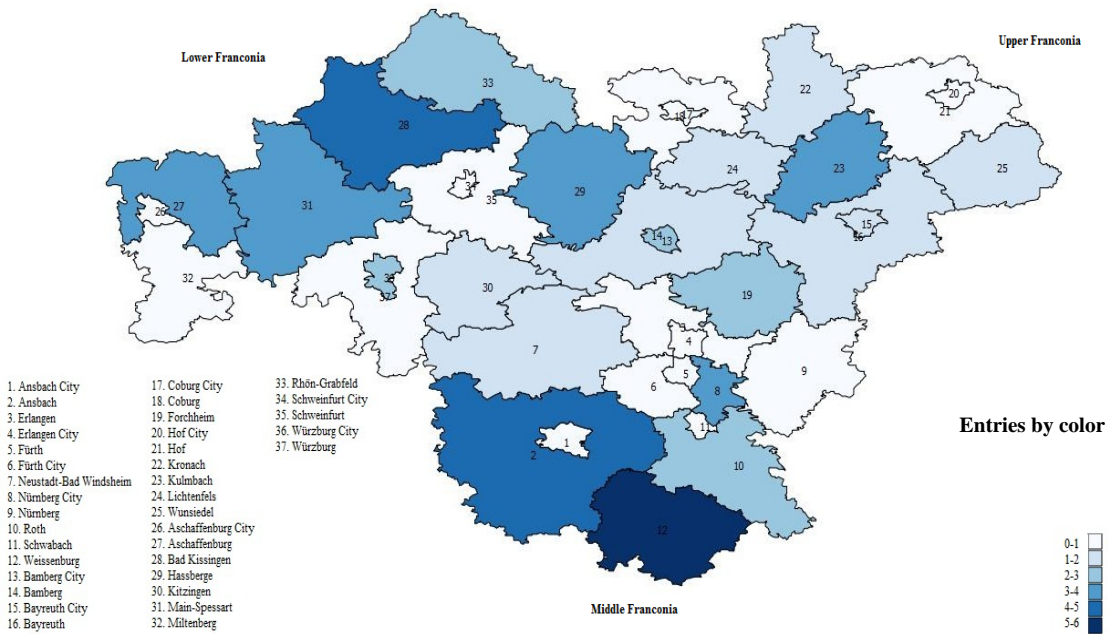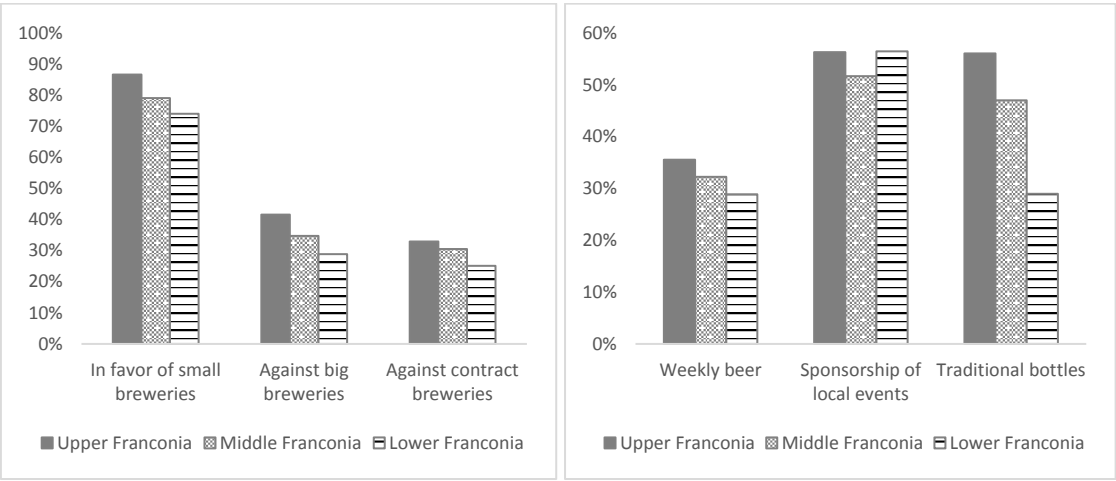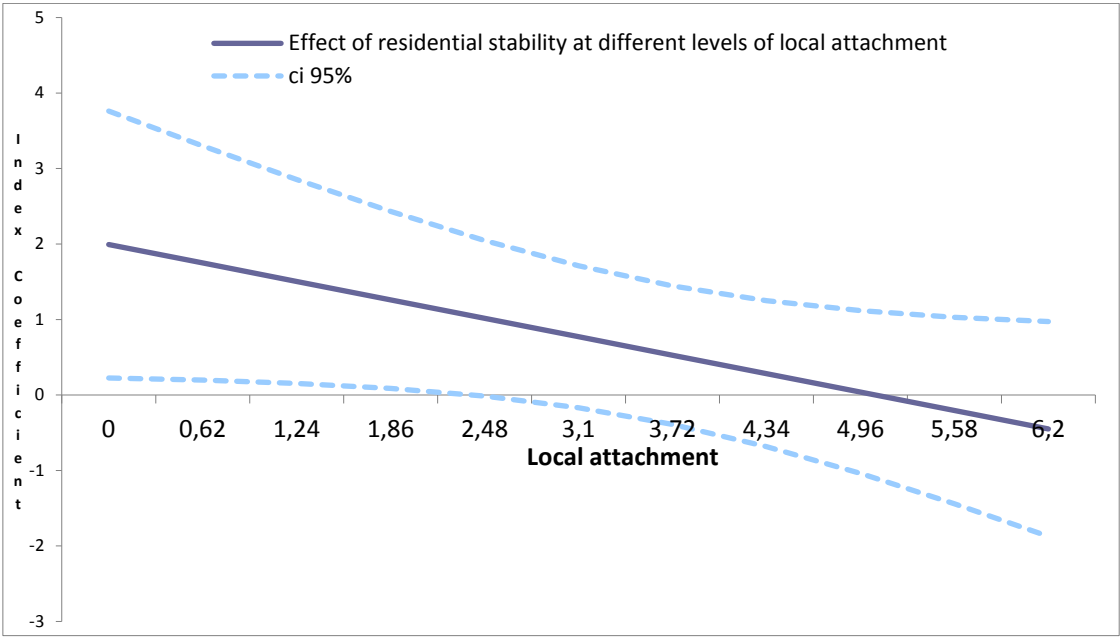
0-1
1-2
2-3
3-4
4-5
5-6

Figure 3.2 Consumer preferences for small breweries (figure 3.2a) and community attachment to beer tradition (figure 3.2b)

3.2a) Preferences for small breweries   3.2b) Attachment to beer tradition

Figure 3.3 Effect of residential stability on entries at different levels of local attachment

Link between chapters 3 and 4: from authenticity constraints on entry to constraints on diversification

Chapter 3 has highlighted the constraining role of tradition and local attachment –as instances of authenticity- on entrepreneurial outcomes such as founding of new organizations. Communities, where incumbents are locally attached and there is high residential stability, represent contexts in which authenticity is reiterated and very difficult to overcome by newcomers. Building up on this take away, **Chapter 4** delves into authenticity-related constraints on other organizational outcomes. In particular, if authenticity is able to hinder entry of new organizations, does it also affect the action of incumbent producers? To address this question, **Chapter 4** explores how the expected level of authenticity in an industry limits organizational responses to competition to the extent that product diversification is an unlikely outcome, and authenticity is instead reiterated by incumbent producers in their product portfolios. I first focus on the extent to which product diversification is constrained by looking at the niche width. Then, I direct attention to the direction of the diversification (i.e. towards authentic or less authentic goods) to identify the possibilities organizations have when surrounded by competition and high quest for authenticity from audience members.

To capture the expected level of authenticity, **Chapter 4** digs into the construct of community inhabitants (introduced in **Chapter 3**) and considers consumer preferences towards organizational offerings, which degree of authenticity vary. In so doing, **Chapter 4** explores heterogeneity of tastes across people living in the same community and complements the view of community inhabitants presented in **Chapter 3,** where one important assumption was that homogeneity of tastes exists in communities with high residential stability.

To address the questions in **Chapter 4**, the firm seems to be a more suitable level of analysis (rather than a population of organizations within a community); nonetheless, expectations on authenticity still take place at the community level.

4. GEOGRAPHY AND AUTHENTICITY: ORGANIZATIONAL RESPONSES TO COMPETITION IN THE FRANCONIAN BEER INDUSTRY[15]

Abstract

In this study of more than 300 breweries in the northern part of Bavaria (Germany), we show that organizational responses to competition are highly influenced by audience expectations on authenticity. Authenticity becomes a norm to which producers need to comply -also under conditions of competition. While geographical competition usually leads to larger product niches and higher engagement in non-authentic goods, producers find it difficult to diversify when consumers have a high quest for authenticity. Thus, producers decrease their attempts to diversify when tensions between competition and authenticity are at place. In so doing, this study reveals mechanisms through which authenticity and tradition are reiterated in an industry. In light of these results, we discuss possible implications for diversification strategies and audience members' influences on organizations.

Keywords: authenticity, competition, audience members, geography

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[15] Paper co-authored with Nikolaus Beck

4.1. INTRODUCTION

The impact of external pressures on the fate of organizations has always been a primary topic of organization theory. Contemporary studies within organization theory highlight the importance of complying with *audience members' expectations* for achieving competitive advantages (Beck & Walgenbach, 2009; Hsu & Hannan, 2005; Hsu, 2006; Hsu, Hannan, & Koçak, 2009; Hannan, 2010; Rao et al, 2005; Zuckerman, 1999). Organizations that live up to the expectations associated with the organizational imagery that they represent enjoy greater attention (Zuckerman, 1999; Leung & Sharkey; 2013), receive better evaluations (Hsu, 2006; Hsu et al., 2009; Lehman et al., 2014; Negro et al., 2011), and develop more empathy with audience members (Hannan, 2010), which ultimately leads to higher organizational performance and better survival chances.

This recent research stream complements previous ecological studies of competition in which primarily the influence of *competing organizations*, and not audience members, was taken into account. In this stream, competition has been defined in terms of the number of competitors within a definable market -the so called density- and further developments of this approach resulted in more refined formulations, e.g. by considering the regional location of competitors (e.g. Carroll & Wade, 1991; Swaminathan & Wiedenmayer, 1991; Lomi, 2000; Greve, 2002; Cattani, Pennings, & Wezel, 2003), the spatial distance between them (Baum and Mezias, 1992; Baum and Haveman, 1997; Sorenson and Audia, 2000) or product similarities (Baum and Haveman, 1997). These studies found that local competition is more important than non-local competition (Carroll & Wade, 1991; Swaminathan & Wiedenmayer, 1991; Greve, 2002; Cattani et al., 2003) and that differentiation is more present and beneficial for companies that face many competitors in local proximity (Baum & Mezias, 1992;

Baum and Haveman, 1997). Other studies found that broader product niches help organizations survive in situations with many competitors (Dobrev, Kim, & Hannan, 2001; Carroll, Dobrev, Swaminathan, 2002).

Interestingly, even though it is obvious that organizations have to deal with both types of external pressures, i.e. they have to take competitive pressures and audience expectations into consideration, the interplay between these two forms of external pressures has so far not been in the focus of organizational research. The present paper aims at providing such an analysis. In particular, we posit that audience members' expectations on the *authenticity*[16] of products change the impact of competition on diversification strategies by the focal organization. Although firms may tend to diversify in the presence of competition, they would do it at a lower extent when authenticity is a desirable asset by audience members. We further argue that not only firms' tendency to diversify is reduced, but also this interplay between competition and expectations on authenticity undermines organizations' grade of membership in non-traditional segments of the market. In so doing, our study suggest that quest for authenticity imposes social norms to which producers should comply –also in the presence of competitive forces- thereby homogenizing industries around instances of authenticity.

Our arguments rely on the geographical aspects of competition and audience members' expectations as an important yet underexplored dimension influencing organizational responses to external pressures. On one hand, our view on geographical competition accounts not only for the location of potential competitors but also for the regional distribution of a product, thereby registering whether or not organizations

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[16] As defined in **Chapter 1**.

compete for the same geographical customers. Firms that geographically compete with others will be more inclined to adopt diversification strategies in order to differentiate from competitors and gain strategic advantage. On the other, consumers' quest for authenticity is concerned, we posit that sentiments of authenticity grow particularly in geographical communities and the intensity of it constrains firms' reactions to competition in such a way that diversification strategies are limited. Under these conditions, geography thus facilitates the reiteration of elements of authenticity and similarities across producers.

We look at two outcomes, namely product diversity and grade of membership in various product categories among more than 300 breweries in Franconia, northern part of Bavaria (Germany). The Franconian beer industry stands for a highly traditional cluster of breweries where producers and audiences have a strong interest in preserving authenticity. In doing so, traditional Franconian beer types are often produced by most breweries, while consumers have a strong demand for them. At the same time, producers distribute their beer regionally and compete for the same customers with other breweries. The product portfolio of over 300 breweries is observed for the period 1989-2012. In addition, 1.300 consumers were interviewed in the region to capture their beer preferences.

The paper proceeds as follows. We will first offer a short overview of the concepts of geography, communities and authenticity, -the cornerstones of our study. In a next step, we will develop hypotheses on the influence of geographical competition and quest for authenticity on diversification strategies and grade of membership in certain product categories. We then develop hypotheses on the interaction of these two different forces. Next, we will provide an overview of the Franconian beer industry and a description of the methods and measures used in our quantitative analysis. The

remaining sections will discuss our findings and implications for the study of organizational authenticity.

4.2. THEORY AND HYPOTHESES

4.2.1. Geography, communities, and authenticity

In recent years, consumers and other market actors have developed an increasing interest for the geographical dimension of producers. In domains as diverse as food and dining, wine, beer, and crafts, consumers increasingly favor producers who use resources from geographically proximate sources and who are connected to local market actors (Marquis and Battilana, 2009; Weber et al., 2008). Producers also refer to geographical places in their names and interactions between producers still occur in geographical space (Haveman & Rider, 2014). Notwithstanding these developments, research on organizations neglects largely the role of geography (see Baum & Haveman, 1997; Haveman & Rider, 2014; Marquis, 2003 for exceptions).

We believe geography continues to matter to organizations for at least three reasons. *First*, it determines the scope of competition that organizations face (Haveman & Rider, 2014). For instance, firms that are located far from each other can still compete for the same customers if they sell their products in the same geographical locations (Bruggeman, Carnabuci, & Vermeulen, 2003). In turn, firms that are geographically located next to each other might differ largely in the number and type of competitors if they are dissimilar in the geographical distribution of their goods (Beck, 2008a). *Second*, geography serves as an arena for interaction between producers and audience members. Geographical proximity between market actors grants extensive opportunities to reach out and develop personalized relationships as well as chances to socialize information concerning firms' history and idiosyncrasies (Jennings et al., 2013;

Marquis, 2003; Marquis, 2007; Thornton & Flynn, 2003). Geographical proximity between market actors also helps developing attachment to regional products like Champagne originally made in the Champagne region in France, Murano glass from Venice in Italy, or Rauchbier from Bamberg (Germany). *Third*, sentiments of authenticity among producers and audience members are likely to emerge within geographical communities (Marquis & Battilana, 2009) as defined in **Chapter 1**.

In the next sections, we explore how geography and the geographical dimension of consumers influences firms' responses to competition and pressures to conform to authenticity.

4.2.2. Competition and the nature of diversification

Competition challenges firms' strategic position and advantage (Porter, 1979). Because organizations depend on resources to perform and survive, direct competition with other firms makes access to vital resources difficult and compromises firms' performance. Under these circumstances, being different from competitors in one or more resource dimensions (e.g. geographical location, product characteristics) enhances the chances of gaining a competitive position (Porter, 1979). For instance, size differentiation strategies (Baum and Haveman; 1997) proves beneficial when hotels geographically compete with others (Baum and Haveman; 1997) and expansion of the product niche is useful when product portfolios overlap across wineries (Swaminathan and Delacroix; 1991) as well as across automobile producers (Barroso & Giarratana, 2013). In addition, the more differences exist between products of competing firms, the more strongly consumers will prefer one product to another one, thereby creating economic value for one given firm (Makadok and Ross; 2013). Other studies on the European and American automobile industry also found beneficial effects of the size of

niche width (Dobrev et al., 2001), especially when there are many competitors, i.e. concentration of the industry was low (Carroll et al., 2002). Enlarging the niche width also allows the use of economies of scale and synergies (Tanriverdi & Lee, 2008; Stern & Henderson, 2004), reputational assets such as names (Li & Greenwood, 2004), and increases performance (Barroso & Giarratana, 2013; Bayus & Agarwal, 2007; Swaminathan and Delacroix, 1991).

Building on this, we suggest that diversification strategies are also preferred when firms compete on a geographical space for the same customers. This dimension is particularly important when firms are strongly rooted in geographical space (i.e. Haveman & Nonnemaker, 2000; Haveman & Rider, 2014) and rely on spatial resources for their survival. We argue that this dimension can increase the scope of competition because firms that are not geographically proximate to others can compete for the same customers if they sell their products in the same geographical locations (Beck, 2008b). Let us illustrate our arguments with an example. Consider four different breweries distributing the same type of beer along different geographical regions (see figure 4.1): brewery A serves customers around a large radius of distribution, whereas brewery B has a very small distribution area, which is completely covered by the distribution of firm A. Because both of them offer the same product to the similar geographical audiences, we can conclude that these are competing firms, yet the pressure exerted from brewery A on B is much stronger than vice versa. In a similar way, breweries A and C have a common geographical market although they are not geographically proximate. As for brewery D, although it offers the same product than others, it does not experience competition from its counterparts given its geographical scope (for a similar view see also Bruggeman et al., 2003).

Following the insights of diversification strategies as beneficial under conditions of competition, we suggest that firms also opt for diversification strategies when geographically competing for the same customers. We set up hereby a baseline prediction for our study:

Hypothesis 1a (baseline): Firms tend to broaden their niche width as competition increases.

As firms diversify when competition increases, they reduce their commitment in certain segments of the market particularly in product niches that do not offer many opportunities to fight the challenges derived from competition. We argue that authentic products are one of those market segments from which producers will refrain when diversifying their portfolios, in particular, in industries where authenticity is not attributed to organizations easily and their offerings but rather requires the fulfillment of moral and idiosyncratic meanings (e.g. like the picture of the local inhabitant in the beer label). Succeeding in authentic segments of this kind often requires a long-standing character, tight relationships with customers, and collective stories that bind the producer with audience members. Therefore, improvising a diversification strategy towards these segments may not result in a successful outcome. Moreover, this market niche does not provide enough breadth and opportunities for firms to gain competitive advantage over others because authentic products usually appeal to special customers and not to the mass market -they usually are not or only rarely consumed by average consumers (Carroll and Swaminathan, 2000; Cattani, Dunbar, & Shapira, 2014). As a result, higher market share in the authentic niche of the market would not result in a safe strategy for firms that experience competitive pressures. We thus argue that as

competition increases, firms tend to engage in the center of the market (Carroll, 1985) while taking distance from authentic products. In turn, offering most wanted goods open opportunities for attracting an important pocket of the market and spread the risk of diversification (Tang & Wezel, 2014).

Hypothesis 1b: When competition increases firms tend to broaden their niche by particularly increasing participation in non-authentic segments of the market.

4.2.3. Geographical communities and consumers' search for authenticity

However, there are limits to the extent to which firms can diversify. One such constraints can arise when producers and consumers are geographically bounded in communities that value authentic products. The argument we put forward is that geographical communities are able to shape consumer preferences in such a way that organizational offerings that respond to community values and traditions are preferred (Negro et al., 2011; Ody-Brasier & Vermeulen, 2014; Porac et al., 2011).

Geographical communities serve as contexts in which spatially proximate market actors interact to each other, they engage in economic transactions and meet in social circles like local festivities, sport activities, religious services, and free time activities (Carroll & Torfason, 2011). Geographical communities also allow the exchange of information and socialization process about local traditions, norms, and situations that remind them about the regional identity of the community to which they belong (Jennings et al., 2013; Marti et al., 2013). From this standpoint, geographical communities are likely to shape consumers' expectations on organizational authenticity and make local consumers appreciate authentic products more than the "average" customer. These consumers therefore search for product offerings with high symbolic value (Heidegger, 1996), made through unique and traditional production processes

(Negro et al., 2011; Negro et al., 2014, Ody-Brasier, 2014), using local ingredients or components (Weber et al., 2008) and regional names (Glynn & Abzug, 2002; Glynn & Marquis, 2004).

For instance, consider once more the area of Piedmont (Italy) and how community members favored producers who stuck to traditional processes of winemaking and vigorously rejected products from winemakers who run against local traditions (Negro et al., 2011). Consider also audience members in the Champagne region in France who highly value producers that remain true to traditional production by, for example, exclusively using grapes coming from the Champagne region. In turn, these communities reduce their willingness to interact with Champagne houses when they transgress their local traditions by using grapes from other geographical regions, selling their product in big retail stores, and modifying old production processes (Ody-Brasier & Vermeulen, 2014).

However, diversifying firms run into the risk of coming across as inauthentic in the eyes of local communities mainly because they decrease commitment to the expectations of the geographical communities they serve. Failing to satisfy audience expectations on authenticity can lead to lower ratings and assessments of the producing organizations (Kovács et al., 2014; Negro et al., 2011, 2014), higher costs (Ody-Brasier, 2014), and lower symbolic value (Frake, 2016). Critics grant significantly lower ratings to wineries spanning in styles compared to traditionally specialist wine makers (Negro et al., 2011) and to films and online auctions whose niche width is broad (Hsu et al., 2009). Grape growers charge higher prices to Champagne houses that deviate from a local and small identity (Ody-Brasier, 2014), lenders grant lower funds to projects which scope is ambiguous (Leung & Sharkey, 2013), and audience members'

expectations lead to higher mortality rates when breweries do not comply with prototypical identities (Beck et al., 2016).

Building on this, we argue that consumers in geographic communities will be critical towards diversification strategies. Organizations adopting a diversification strategy will experience legitimacy discounts and lower assessments (Zuckerman, 1999; Hsu & Hannan, 2005; Hsu, 2006; Hsu et al., 2009; Hannan, 2010) when audience members (consumers but also critics, investors, etc.) have strong expectations on authenticity.

Hypothesis 2a: Firms tend to diversify less when consumers' expectations on authenticity are high.

In the process of matching consumers' preferences towards authenticity, not only producers' degree of diversification matter but also what type of products are included in the portfolio. Concentrating around non-traditional products even might be as illegitimate as being highly diversified when consumers' quest for authenticity is strong. For example, including products whose identity is orthogonal to authenticity can lead to lower appeal (Verhaal, Khessina, & Dobrev, 2015), social sanctions (Ody-Brasier & Vermeulen, 2014), and contestation (Negro et al., 2011; Weber, Heinze, & DeSoucey, 2008). Therefore, to match consumers' preferences towards authenticity, producers need to avoid transgressing their identity by engaging in segments of the market that run against authenticity. In turn, offering authentic goods will help them convey commitment to a legitimate identity and strengthen their relation to loyalist consumers (Barroso & Giarratana, 2013) and specialized consumers (Cattani et al., 2013).

Hypothesis 2b: When expectations on authenticity are high, firms tend to decrease participation in non-authentic segments of the market.

4.2.4. Authenticity as a constraint for diversification

We suggest that consumers' preferences for authenticity are so important that they change the nature of diversification. In particular, high quest for authenticity can reduce the tendency to react to competitive pressures in the usual fashion, e.g. enlarging a firm's niche.

We argue that in parts of the market in which consumers are embedded in geographical communities that notably value authentic offerings, authenticity can become a sticky concept from which producers cannot deviate much, *especially* when competitive pressures are present. Two reasons motivate this rationale. On the one hand, consumers with a strong quest for authenticity will expect that firms meet certain standards of authenticity and therefore disregard producers, who as a response to competition, diversify and take distance from authenticity. When many competing producers offer authentic goods, consumers will develop a cognitive imagery of organizations in which authenticity makes part of a firm's attributes (Barsalou, 1985). From this point of view, authenticity becomes a *social norm* rather -than an option- that producers ought to fulfill to come across as legitimate to audience members. Geographical proximity between producers and audience members ease the diffusion of this norm among consumers, especially because these kinds of communities create opportunities to socialize and exchange information about organizations. On the other hand, because consumers' quest for authenticity heavily sanctions producers' engagement in non-authentic segments of the market, it is likely that producers who compete for the same geographical markets engage to a larger extend in authentic

niches when consumers' quest for authenticity in those geographies is strong. Under these conditions, the benefits of diversification strategies may disappear if firms fail to serve consumers' preferences for authenticity by offering a broad product portfolio in response to strong competitive pressures. Our arguments suggest that as a norm, authenticity dominates organizational reactions towards competition when pressures to fulfill expectations on authenticity are present. As a result, firms avoid deviating from authenticity and instead tend to converge around products that reinforce their authentic character in the eyes of audience members. In so doing, authenticity can therefore be seen as a homogenizing norm that increases similarities between producers within the same industry. We offer the following hypothesis:

Hypothesis 3a: Increasing expectations on authenticity reduce the positive effect of competition on niche width.

Because of the normative character of authenticity, we also expect that when multiple firms compete for the same geographies where consumers value authentic goods, participation in non-authentic segments of the market is a less likely option. Expectations on authenticity therefore outweigh the burden of competition on product diversification, and authentic products will be more desirable.

Hypotheses 3b: Increasing expectations on authenticity reduce the positive effect of competition on firms' tendency to increase participation on non-authentic segments of the market.

4.3. EMPIRICAL FRAMEWORK AND METHODS

The Franconian beer industry offers unique opportunities for the study of organizational responses to competition and expectations on authenticity. Because producers are mostly small and serve audiences in geographical proximate areas,

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breweries and consumers are spatially close to each other. This proximity opens opportunities for interaction between market actors and enhances the chances of developing clear ideas of how a Franconian brewery should look like. Geographical proximity also increases the scope of competition between producers.

As described in **Chapter 1**, the local density of breweries and consumers' quest for authenticity vary quite remarkably across regions in Franconia. *Upper Franconia* is home for an agglomeration of mainly traditional beer producers, which product portfolio focuses mainly on typical Franconian beer types (i.e. Rauchbier and Märzen). Beer consumers in Upper Franconia are often knowledgeable about beer types while enjoy drinking mostly local beer. *Middle Franconia* offers greater diversity. Although mostly typical Franconian beer is generally produced, less typical types like pale and wheat are also common. Total production in Middle Franconia represents 1.3 times the output of Upper Franconia while breweries tend to distribute their products to more distant localities and are capable of attracting consumers with diverse preferences thereby. Finally, in *Lower Franconia* beer brewing is only of minor importance (compared to wine production) and consumers oftentimes prefer to drink quite atypical types like pilsner, pumpkin, as well as beer-mixes with coke, grapefruit, etc.

4.3.1. The dataset

As described in **Chapter 2**, we have used a multifold strategy to test our hypotheses. For **Chapter 4**, we focused on the beer types produced by more than 300 breweries in Franconia for a period of 24 years, from 1989-2012. In addition, to capture consumers' preferences towards authenticity, we relied on the data collected through the structured questionnaire with 1,300 beer consumers in different sub-regions of

Franconia. This survey provided information on consumer preferences for, e.g. beer types, types of breweries, and growth strategies.

To have an objective measure of how authentic beer types are, we relied on interviews with three experts of the Franconian beer industry, who generously helped classifying beer types within categories of authenticity. The first expert was the owner of a store named the "Landbierdealer" in the city of Hof (Upper Franconia), who has expertise in a variety of Franconian beers and other types available in the cluster. Our second expert was the beer enthusiast and author of the blog "Bier aus Franken", who has over 10.000 followers and is specialized on reviewing Franconian beers. As a third expert, we interviewed the director of the association "Bierland Oberfranken e.V." that promotes Upper Franconian beer culture in the rest of the world since 2004.

4.3.2. Methods and Measures

4.3.2.1. Dependent variables

We constructed a panel dataset for a period of 24 years, 1989-2012, which contains 7994 observations. The unit of analysis is the brewery.

Two main sets of dependent variables, (i) niche width, and (ii) grade of membership were used to test the arguments discussed above. First, we operationalize *niche width*, as the ratio of the number of beer types that a brewery offers in a given year to the maximum number of types. Initially, we identified all beer types that each brewery produces at every year and classified by style according to the classification provided by the German Beer Institute (see www.germanbeerinstitute.com). This classification was necessary given that more than 100 beers exist in Franconia and some of these are unique styles, which are available only at one focal brewery. Yet, most of them can be grouped in standard beer categories. We identified 24 different coarse-

grained beer types, thus, comparability became more feasible between categories of beers than on single products. The categories we identified include dark, cellar, lager, country, zwickel, unfiltered, smoked, export, festival, pale, pilsner, full, bock, wheat, bio, steam, specialty grain, stone (Steinbier), diet, old, non-alcoholic, and mix drinks. Beers that did not comply with the above-mentioned types were classified among other beers and fancy names (see **Chapter 2** for more details about this).

Our second set of dependent variables include breweries' grade of membership (GoM) into authentic and less-authentic segments of the market. To do so, we followed a multi-step approach. First, we defined categories of authenticity that help us classify beer types according to their degree of how typical from Franconia they are. The categories included "authentic", "almost authentic", "non-authentic", and "others"[17]. After having defined these categories, we run telephone interviews with three of our experts[18] (as described in **Chapter 2**) who generously helped us classify each beer sort within these categories. Dark, cellar, lager, rural, zwickel, unfiltered, and smoked beers were all included in the category *authentic beer types*. *Almost authentic* types included export, festival, pale, pilsner, full, bock, and wheat beers. Types like mix beer drinks, old, and diet beer were classified as *non-authentic* from Franconia. The category *others* included mainly beer types that did not match in any of the previous categories. This last category included specialty grain and bio beers as well as beer types that conveyed tradition and authenticity through their names, though their content and compliance to authenticity was rather unclear. In spite of their suggestive names, they might or might not be in reality an authentic beer sort. For example, the beer sort called "Fränkischer

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[17] These categories resemble those of table 3.6.
[18] We have initially interviewed the three experts mentioned in this chapter. However, as part of a revision and resubmission process for **Chapter 3**, we have included four more in the study of newcomers See **Chapter 2** for more details about these seven experts.

Urstoff" comes across as an ancient Franconian product. The beer sort "Alt-Roggen (Old Rye)" also alludes a traditional beer feature. However, the brewing style and content of both beer types cannot be truly associated to typical or non-typical Franconian beer. In addition, this category included beer types that conveyed some ambiguity in their labels and the kind of sort behind the name. These were mainly types labeled with trendy names such as "Moon Beer" or "Hops' Gold". Although most wanted beers does not convey a particular degree of authenticity, we also created this category to account for the center of the market. We then compared the classifications done by each expert and solved discrepancies among them by majority rule. In cases in which all three experts categorized differently, we opted by reading online reviews provided by beer-connoisseurs and applied the majority rule again.

Based on these classifications, we calculated then the GoM for each brewery in each of the above-mentioned categories. We computed the GoM following Kovács and Hannan (2010), first counting the number of beer types a brewery offers for a given category in a given year and then dividing it by the total number of beer types that the brewery produces. For example, if a brewery brews two typical Franconian beer types, one non-typical Franconian beer, and an incommensurable one, its GoM in the category of typical Franconian would be 0.5 (2/4), whereas for the categories non-typical Franconian and others it would be 0.25 (1/4) each.

Among these categories of authenticity, only the first one refers to authentic products as conceived in the theory section of this chapter. In turn, the remaining categories "almost authentic", "non-authentic", and "others" refer to offerings that are not authentic as theoretically defined before in hypotheses 1b, 2b, and 3b.

4.3.2.2. Independent variables

Geographical competition. Given the geographical scope of competition discussed throughout this chapter, we have opted for a measure of geographical competition that captures spatial competition between producers[19]. Following Beck (2008b), we captured geographical competition by calculating the count of producers that serve the same areas of distribution of a focal brewery. For each year of observation, we first calculated the overlap area between each pair of breweries and then divided it by the area of product distribution of each brewery. We then summed up the number of other producers that have an overlapping area with a focal producer for a given year.

To construct this variable, we first calculated the distance between each pair of breweries. To do so, we first identified the exact address of each brewery and calculated its latitude and longitude thanks to spherical geometry and Google Earth. Then, we paired each brewery with each other excluding pairs between branches and their parents and as well as pairs between contract brewers and theirs suppliers because these organizations are not supposed to be in competition with each other (Beck, 2008). In a next step, we calculated the distance between brewery *i* and brewery *j* with the "Great Circle Distance Formula":

$$Dist_{ij} = r\cos^{-1}\left[\sin(lat_i/c)\sin(lat_{center}/c) + \cos(lat_i/c)\cos(lat_{center}/c)\cos(long_{center}/c - long_i/c)\right]$$

where *r* refers to the radius of the earth in kilometers and *c* denotes a constant of $180/\pi$, which is necessary to convert latitude or longitude to radians.

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[19] Although the density measure used in **Chapter 3** captures competition, this measure leaves unexplored the possibility that spatially distant producers compete when distributing their products to the same geographical regions. Since the scope of the present chapter is on the geographical dimension of organizations, we believe that the measure of geographical competition proposed by Beck (2008b) suits better the purpose of this chapter.

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Next, we calculated the area of distribution overlap based on the distance between breweries and their radius of distribution, which we collected from the brewery guides (Fränkische Brauereikarte and Brauereiatlas). Two kinds of overlaps are identified:

1. *Full overlap*: it occurs when the regional attraction of customers of one brewery is completely covered by the distribution area of the other brewery. In our example of figure 4.1, brewery B depicts a full overlap given that brewery A fully covers B's distribution area. In this case, the overlap area for brewery A with brewery B is $Overlap_A = \frac{r_B^2 \pi}{r_A^2 \pi}$, with r denoting the distribution radius of the respective brewery. As for brewery B, the overlap area with brewery A is equal to 1.

2. *Partial Overlap*: this type of overlap occurs when the geographies of customers overlap, yet not completely. In figure 4.1, breweries A and C have partial overlaps. The overlap areas for the two breweries A_{AC} is calculated as:

$$A_{AC}$$

$$= r_C^2 cos^{-1}\left(\frac{d^2 + r_C^2 - r_A^2}{2dr_C}\right) + r_A^2 cos^{-1}\left(\frac{d^2 + r_A^2 - r_C^2}{2dr_A}\right)$$

$$-\frac{1}{2}\sqrt{(-d + r_C + r_A) * (d + r_C - r_A) * (d - r_C + r_A) * (d + r_C + r_A)}$$

where *d* is the spherical distance between the two breweries. Thus, for brewery A the overlap area is $\frac{A_{AC}}{r_A^2 \pi}$ and for brewery C the overlap is $\frac{A_{AC}}{r_C^2 \pi}$.

When two breweries do not overlap in the distribution of products, like in the case of breweries A and D (figure 4.1), both breweries receive a value of 0 in their overlap area.

In a final step, we summed up the number of producers that have overlapping areas for each brewery in each year of observation. For simplicity reasons we called this variable "*overlapping competitors*".

We also included the squared term of overlapping competitors to account for very high levels of competition. We expect that very intense competition might lead to alternative differentiation strategies -rather than diversification- that we could not capture in this study, e.g. mergers and acquisitions, synergies, migration to other segments, etc. Thus, firms' tendency to diversify should reduce when competition is very high.

Consumer preferences towards authenticity. To capture consumers' expectations on authenticity, we rely on structured questionnaires with 1300 beer consumers in the 37 different Landkreise (counties) of Franconia, in which we asked them about their first, second and third favorite beer types. Because of their long tradition and the salience of these regional and political units in the mindset of residents, these Landkreise determine the spatial boundaries of the communities that we study. In other words, the regional expansion of a community is tantamount to the regional expansion of a Landkreis.

Respondents could answer openly; they did not have to choose among predefined categories. Based on their favorite beer types we constructed our measure in a multi-fold way. First, we listed all beer types that respondents referred to in the questionnaire and asked experts to classify them within our categories of "authenticity"

as explained above. We then assigned values to each category as explained in Chapter 3[20]. Table 4.1 provides a summary of the beers assigned to each category[21].

INSERT TABLE 4.1 ABOUT HERE

Next, for each respondent we summed up scores across favorite beer types and divided by the number of types specified (a value of three since the interviewees were asked to name their three favorite beer types. However, in some cases they expressed preferences only for one or two beer types). Each interviewee received a final score. Then, we calculated the average score of consumers' quest for authenticity within each county. However, since we did not only want to take into account the quest for authenticity in the community where the brewery is located but also the quest for authenticity in those communities to which the brewery delivers beer, we calculated the average of these averages for all counties where the brewery distributes its products. This was an important step to identify the desired degree of authenticity that breweries actually face in the regions where they distribute their products.

When our final measure gets closer to one, consumers have strong preferences for authenticity in the various counties that a focal brewery serves. The final measure was then transformed into percentages and the minimum was subtracted for interpretation reasons.

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[20] Because beer has been historically part of the Franconian culture, we think that it is very unlikely that consumers have a zero desire for authenticity. Therefore, we have allocated a value of 0.01 instead of 0 to the least authentic category.

[21] These categories are an extended version of the scale of franconianness presented in Table 3.6. The beers assigned to each category can slightly vary as part of a recent revise and resubmit process of Chapter 3 where we included four more experts in the classification process. Beers like smoke, lager, mix, bock, steamed are among the beers that were classified differently due to lack consensus with other experts across Franconia.

Consumers' expectations are supposed to be quite steady over time in Franconia. The reason for this is that community traditions change at a very slow pace, and because expectations are heavily driven by community endowments in terms of history and tradition, changes in traditions take long periods to influence consumers' expectations. For example, the process of brewing beer has been historically ruled by the German purity law of 1516, which barely allows ingredients such as water, yeast, and hops. In 1993, the rule has been modified by allowing more ingredients; however, consumers still value breweries whose beers are produced following the purity law of 1516. Therefore, we expect that changes in our measure of consumers' quest for authenticity remains quite unchanged over time, while we expect variance across communities or Landkreise. Figure 4.2 shows an authenticity map of Franconia: the darker the color, the strongest consumers' quest for authenticity in a county.

INSERT FIGURE 4.2 ABOUT HERE

4.3.2.3. Control variables

To account for other firm-specific characteristics that may influence the degree of diversification of breweries, we included a number of control variables. By controlling for the number of hectoliters (*output*) that each brewery produces per year, we can enhance confidence in that the changes of our dependent variable are independent from size effects. Fifty percent of the breweries in Franconia are Kleinbrauereien, that is, small breweries whose output is around 2.000 hectoliters a year. Only a few instances are denominated big breweries with a production of more than 200.000 hectoliters a year. A related variable that helps us control for size effects is *radius of distribution* (given in kilometers). On average, Franconian breweries distribute their beer on a radius of about 65 kilometers. Most of the breweries in our sample (75th

percentile) attract consumers on a 30-kilometers-radius with a few exceptions, which send out their product to other states in Germany and in Europe. In resonance with **Chapter 3**, output and radius of distribution also helps us controlling for how locally attached breweries are. Large breweries as well as those that distribute their product to distant areas are less likely to build unique and idiosyncratic relationships with consumers.

Population reports the number of inhabitants (in thousands) by county and year. As described in Chapter 3, this variable helps controlling for demand and consumption behavior in Franconia. In Germany, and in particular in beer regions like in Franconia, beer consumption starts at early ages (minimum age required is 16) and is quite rooted in the drinking and leisure habits of people from all ages –including elderly ones-. Any other unobserved characteristics related to regional idiosyncrasies were accounted by dummies for each Franconian sub-region: *Upper Franconia*, *Middle Franconia*, and *Lower Franconia* with the first one forming the reference category.

We have also accounted for time effects by including *time dummies.* Table 4.2 provides main descriptive statistics for the variables included in the models.

INSERT TABLE 4.2 ABOUT HERE

4.4. RESULTS

Table 4.3 shows the results of our linear models on niche width. Linear regression models suit the purpose of this analysis given the continuous nature of niche width.[22] In model 1, we capture the effect of control variables such output, radius of

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[22] An alternative estimation method is the fractional logit models for proportional data. However, fractional logit models are particularly useful when an important number of observations fall into zero or exactly one. In our case, though proportional, our measure of niche width does not include zero or one

distribution, population as well as regional and time dummies. Larger breweries and those distributing to distant locations have significantly wider niches than other producers do. Diversification strategies are also more likely to occur in regions such as Middle and Lower Franconia as opposed to Upper Franconia, where most typical breweries exist. The latter finding is coherent with figure 2: customers in Middle and Lower Franconia have lower preferences towards authenticity and thereby more open to breweries with wider niches. These effects persist across models.

INSERT TABLE 4.3 ABOUT HERE

In model 2, we include our measure of competition -*overlapping competitors*- and its squared term.[23] As expected, competition in the regional attraction of customers leads to more diversification in the beer portfolio of breweries, also when controlling for consumers' preferences towards authenticity (see model 4 and 5). We find thereby support for our baseline prediction (hypothesis 1a). In model 3, we account for consumers' preferences for authenticity. The more the consumers' prefer authentic beer types, the narrower the product niche of a brewery. This effect remains significant in model 4 as we account for the effect of competition. We find support herewith for hypothesis 2a.

Model 5 considers consumers' quest for authenticity as a moderating variable of the positive relationship between overlapping competitors and niche width. With increasing levels of consumers' favorability towards authenticity, the effect of competition on the diversification strategies that a brewery undertakes significantly

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values. Rather, most of the observations fall in the middle thereby making the use of linear models more suitable. This is also confirmed after checking for linearity assumptions.

[23] Overlapping competitors reaches its turning point when niche width equals 0.21, that is, 52% of the observations follow a positive effect on product diversification before geographical competition reaches its turning point.

reduces. This finding suggests that breweries opt to comply for authenticity even when competitive pressures are strong. Hypothesis 3a is herewith supported.

To dig into the market niches to which breweries diversify, we run fractional logit models with several dependent variables that account for the grade of membership of a focal brewery into segments such as authentic, almost authentic, non-authentic, and other beer types. For this purpose, we used generalized linear models with a binomial distribution and a logit link function, which are useful models when using proportions as dependent variables. Fractional logit models are particularly appropriate when the zero lower bound of the dependent variable adds relevant information. In our case, competitive pressures and consumers' quest for authenticity can explain breweries' grade of membership in a market segment. Thus, taking into account those zero values is important for us.

Models 1-5 in table 4.4 report predictions on the grade of membership in the most authentic beer types. Rural, cellar, lager, dark, zwickel, unfiltered, and smoked beer have all been classified by our experts as very authentic from the region. Model 1 shows results for control variables such as output, radius of distribution, population, regional and time effects. Larger breweries as well as those sending out their products to a broad radius of distribution decrease their membership to authentic products. Regions such as Middle and Lower Franconia experienced significantly lower commitment to the authentic segment of the market as opposed to Upper Franconia. In turn, as population raises breweries have higher GoM in authentic beers. These effects remain across models.

INSERT TABLE 4.4 ABOUT HERE

Under competitive pressures, breweries tend to engage less in authentic products in particular when taking into account consumers' quest for authenticity (models 4, and 5). This is in alignment with hypothesis 1b. However, as the number of overlapping competitors increases, breweries' GoM in authentic beers increases too as can be seen by the positive effect of the squared term of this variable. Model 3 shows that higher consumers' preferences towards authentic offerings have a significant and positive effect in the commitment to the authentic segments of the market. This effect remains consistent in models 4 to 5 when controlling for competitive pressures. Model 5 shows in particular that higher quest for authenticity significantly moderates the effect of competition on the grade of membership of a brewery in an authentic segment of the market. Thus, even when competitive pressures would lead breweries to increase their market share in other segments, strong consumers' preferences for authenticity make breweries more likely to comply with to the concept of authenticity as a norm. This provides support to Hypothesis 3b.

We further run models to see how breweries engage in less authentic products due to competitive forces and consumers' quest for authenticity. Table 4.5 shows the predictions for GoM in the category of *almost authentic* beer types. This category comprises beer types that are classified by experts as fairly traditional and many of them are among the most wanted beers by consumers in Franconia. This is an important category for our study because it can provide slack to breweries when facing competition without receiving too much punishment from consumers. Indeed, model 2 shows that when competition in the regional attraction of customers is high, breweries significantly engage more in the almost-authentic segment of the market. Because this category includes most wanted beer types, stronger membership in this segment attracts a large pool of consumers and thereby this strategy opens opportunities for coping with

competition. This gives support to Hypothesis 1b. Model 3 instead shows that when consumers have strong favorable attitudes towards authenticity, breweries' engagement in almost-authentic types decreases. These effects remain consistent in model 4 and 5. Hypothesis 2b is supported thereby. Moreover, the interaction in Model 5 gives support to hypothesis 3b by showing that as consumers' quest for authenticity increases, the positive effect of competition decreases. This suggests once again that breweries tend to comply with authenticity as a norm even in situations of competition when quest for authenticity increases.

INSERT TABLE 4.5 ABOUT HERE

Table 4.6 shows predictions on the GoM for market niches such as "non-authentic"[24]. In a similar fashion to almost-authentic products, breweries tend to engage in non-authentic products with increasing levels of competition in particular when considering consumers' preferences (models 4-5). Hypothesis 1b finds further support herewith. Yet, they reduce share in this segment when serving consumers with strong quest for authenticity (model 4 thereby supports hypothesis 2b). The effect of competition on the GoM in non-authentic types is also reduced as quest for authenticity increases, thereby supporting hypothesis 3b (model 5). Breweries also reduce their share in the category of "*other*" beer types under strong competitive pressures (see table 4.7). Increasing levels of competition actually lead to reduced share in this segment (models 2 and 4). We believe there are legitimacy reasons at play here. Most of the beer types in this category are either unknown by experts or there is lack of consensus about the actual beer type they represent. Thus, breweries might refrain from entering to this

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[24] Notice that we run linear regression for the category of non-authentic products as the number of ones was low.

segment because it will require further efforts from their side to attract and retain consumers. Similarly, quest for authenticity reduces membership in this niche (models 3 and 4). However, when quest for authenticity is at its minimum, competition leads to higher commitment in other beer types. Yet, with increasing values of quest for authenticity, this effect of competition on GoM for other types decreases (model 5)[25].

INSERT TABLES 4.6 & 4.7 ABOUT HERE

4.5. DISCUSSION

In this paper, we argue that organizational reactions to competition change when audience members –and more specifically consumers- have strong preferences for authenticity and authentic offerings. To build our arguments, we rely on geography as an underexplored dimension in organizational studies that influences the intensity of competition as well as greatly determines the spectrum of plausible strategies that firms can undertake to cope with competitive pressures. More importantly, preferences for authenticity can be initiated because geographical proximity binds elements of culture, norms, and identity within geographical limits and thereby facilitates frequent interaction and exchange of information between market actors. Thus, when competitors serve communities where authenticity is valued, there are stronger pressures to comply with community norms and traditions, and as a result, firms have less room for implementing diversification strategies especially if they fall outside authentic market niches.

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[25] Please note that some of the effect sizes –in particular for the interaction models- are relatively small. Graphical representation of these effects confirms their small magnitude. Thus, the significance of these effects should be taken cautiously. Further steps of this project should dig further into this matter.

We therefore contend that there are limits to the degree of diversification that firms can undertake under conditions of competition. One such limit takes place when consumers are embedded in geographical communities and value products that represent their history and idiosyncrasies. Diversification instead results in an attractive option for organizations when consumers prefer authentic products to a lower degree and enjoy a great variety of products. This means, average consumers who per default lack high expectations on the specifications and moral meanings behind goods are relevant for diversification strategies to be successful. In turn, organizations serving consumers who strongly favor authentic products experience pressures to conform to an imagery of authenticity and therefore concentrate their market niche around the concept of authenticity.

Our empirical findings widely support our arguments. We find that breweries tend to enlarge their niche by including less typical Franconian beer types when breweries compete for the same customers –when there are overlaps in the geographies of audience members. Our findings also suggest that there is a strong tendency to narrow one's niche, when consumers' quest for authentic beer types is high. Breweries' tendency to simplify their niche is possible by decreasing participation in non-authentic products. In an attempt to match consumers' preferences, breweries stick to authenticity and therefore their commitment to brewing traditional Franconian beer is overall higher.

With this paper, we mainly contribute to contemporary research in identity and categories. *First*, by focusing on geography and communities, we extend this view by providing face validity about conditions under which complying with audience members' expectations is beneficial for organizations. Specifically, our findings suggest that expectations on authenticity are likely to emerge from geographical communities and legitimacy discounts may occur when audience members possess deep idiosyncratic

knowledge about the organization in question and its products. In turn, consumers who do not have very sharp expectations about organizations might not take opposing actions to firms' diversification strategies (Hannan et al., 2015). *Second*, our study also supports the view that audience members' characteristics opens or restricts room for differentiation. From this standpoint, changes in the population of consumers, critics, or investors play an important role in moderating legitimacy discounts and the implications of the categorical imperative for organizations. Although an increasing number of studies have directly observed consumers behind categories (see for example Kovács et al., 2014), the present study is one of the few that considers first-hand consumers' information about their preferences towards the category in question. This allows us to better understand the way categories work in the eyes of specific audience members and how much buffer for diverging actions is provided by them. *Third*, our findings about categorical affiliation in authentic segments of the market align with recent discussions in the field about how diversifying firms enter to a new segment of the market (see for example Carnabuci, Operti, & Kovács, 2015). In particular, categories with high contrast such as "*authentic beers*" are more attractive for breweries who face stronger competition and are pushed to diversify, while low-contrast categories such as "almost authentic" are more preferred by diversifying breweries.

Our findings also add to the view on resource partitioning (Carroll, 1985) by suggesting that regional markets are strongly structured by audience members' quest for authentic products. In particular, consumers' expectations on authenticity lead to market concentrations around the concept of authenticity. Resources are created for firms who neatly comply with audience expectations but are constrained for those who violate the norm of authenticity. However, consumers' desire for a variety of goods pushes firms to deviate from authenticity and opens room for diversification strategies.

Our study provides an important contribution to the field of strategy. A large number of studies have explored firm-specific assets such as dynamic capabilities, economies of scale, and synergies that moderate the relationship between competition and diversification strategies (Barroso & Giarratana, 2013; Gimeno & Woo, 1999; Hashai, 2015; Tanriverdi & Lee, 2008). In addition, the role of reputation and names proved influential in the process of allowing diversification strategies (Li & Greenwood, 2004). Yet, little is still known about how audience members' assessments of organizations and categorization process influence reactions to competition and limit the plausibility of strategies, such as diversification, that under different conditions bring the firm to a better market position (Beck & Wezel, 2012). By focusing on communities and consumers' quest for authenticity, we show that firms find constraints to the strategies they can implement when facing competition, in particular when communities experience increasing levels of quest for authenticity. Moreover, related-diversification strategies (Sohl & Vroom, 2014; Swaminathan & Delacroix, 1991) can also become problematic in the presence of audience members whose quest for authenticity is high. Our findings suggest that market niches such as "almost authentic" are still less favored by consumers with strong expectations on authentic products. This might come across as an ambiguous identity in the eyes of audience members, and firms might refrain from engaging in these segments to avoid legitimacy discounts.

A potential weakness of our study is the lack of data at different points in time for consumers' preferences towards authenticity. We consider that expectations do not change significantly during our 24 years of observation because they strongly rely on communities' traditions and habits. Yet, it is likely that some of our communities have experienced changes in their preferences due to external shocks like Germany's reunification, changes in the purity law, and communities' exposure to a globalized

world. We also observe low variance in our measure of quest for authenticity, in particular in the region of Upper Franconia. Lower Franconia instead seems to have tastes that are more heterogeneous when it comes to beer types. To better capture this heterogeneity in tastes, future stages of this study should explore preferences towards not only beer types but also product characteristics such as bottles, decoration, and breweries of different sizes. In addition, to allow quest for authenticity to change over time, future research should include complementary measures that allow capturing adherence to traditions such as political behavior and residential mobility. In addition to this, interviews with beer experts across all regions in Franconia will be included in a next stage of this project. This is an important step to provide further validity to our findings and better understand how authenticity as concept and norm varies across communities. We are confident in that these variables will enrich our understanding on how the audience members' preferences influence firms' reactions to competition.

Our study applies to geographical agglomerations in which producers and audience members are spatially proximate to each other. Moreover, our study strongly relies on traditional industries in which a great part of the population possess knowledge about the idiosyncrasies of the industry and therefore are capable of disentangling when organizational offerings are authentic or not. Thus, our study could be extended to, for example, gastronomic and handcraft industries where traditional production processes and ingredients make the difference.

Table 4.1 Categories of authenticity

Categories of authenticity	Beer types
Authentic	Dark, cellar, lager, rural, zwickel, unfiltered, smoked beer
Almost authentic	Export, festival, pale, pilsner, full, wheat, bock
Other	Non-alcoholic, organic, specialty grains, stein, steamed, fancy names, others
Non-authentic	Old, mix, diet

Table 4.2 Descriptive statistics

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Niche width	0.19	0.11	0.04	0.75	1												
2. GoM authentic beers	0.23	0.27	0.00	1.0	-0.25	1											
3. GoM almost authentic beers	0.7	0.28	0.00	1.0	0.15	-0.87	1										
4. GoM non-authentic beers	0	0.02	0.00	0.5	0.08	-0.06	-0.03	1									
5. GoM other beers	0.07	0.14	0.00	1.0	0.17	-0.17	-0.33	0	1								
6. Overlapping competitors	196	82	0	379	0.3	-0.07	0.06	0.07	0.01	1							
7. Overlapping competitors (sq.)	45397	34199	0	143641	0.34	-0.08	0.06	0.07	0.04	0.98	1						
8. Consumers' quest for authenticity	19.36	2.29	3.6	26.3	-0.3	0.28	-0.2	-0.01	-0.14	0.25	0.12	1					
9. Radius of distribution	65	199	3	5000	0.26	-0.04	-0.01	0.04	0.1	0.33	0.38	-0.11	1				
10. Output	24360	114619	3	2100000	0.3	-0.08	-0.01	0	0.18	0.24	0.28	-0.09	0.41	1			
11. Population (ma)	115	52	35	507	-0.01	-0.01	0.01	0.01	-0.01	-0.11	-0.1	-0.1	0	0.06	1		
12. Middle Franconia	0.22	0.41	0	1	0.2	-0.2	0.18	0	0.02	-0.15	-0.14	-0.22	-0.01	0.03	0.32	1	
13. Lower Franconia	0.19	0.39	0	1	0.14	-0.04	0	0	0.08	-0.2	-0.15	-0.53	0.04	0	-0.1	-0.25	1

Table 4.3 Linear regression models predicting breweries' niche width

VARIABLES	(1) Niche width	(2) Niche width	(3) Niche width	(4) Niche width	(5) Niche width
Overlapping competitors		0.0004**		0.0004**	0.001**
		(0.000)		(0.000)	(0.000)
Overlapping competitors (sq.)		-0.0000004*		-0.000001**	-0.000001**
		(0.000)		(0.000)	(0.000)
Consumers' quest for authenticity			-0.002†	-0.002*	-0.0003
			(0.001)	(0.001)	(0.001)
Overlapping comp.*Consumers' q.authenticity					-0.00001†
					(0.000)
Radius of distribution	0.00001**	0.00001†	0.00001**	0.00001	0.00001
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Output	0. 0000001**	0. 0000001**	0. 0000001**	0. 0000001**	0.0000001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population (ma)	0.0001**	0.0001**	0.0001**	0.0001**	0.0001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Middle Franconia	0.052**	0.063**	0.050**	0.060**	0.059**
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Lower Franconia	0.028**	0.044**	0.023*	0.039**	0.040**
	(0.010)	(0.009)	(0.010)	(0.009)	(0.009)
Constant	0.158**	0.098**	0.189**	0.134**	0.103**
	(0.007)	(0.010)	(0.018)	(0.018)	(0.026)
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	7,994	7,994	7,994	7,994	7,994
R^2	0.122	0.269	0.129	0.283	0.285

Standard errors in parentheses
** $p<0.01$, * $p<0.05$, † $p<0.1$

Table 4.4 Fractional logit models predicting grade of membership in authentic beers

VARIABLES	(1) Authentic beers	(2) Authentic beers	(3) Authentic beers	(4) Authentic beers	(5) Authentic beers
Overlapping competitors		-0.001		-0.023**	-0.058**
		(0.001)		(0.001)	(0.003)
Overlapping competitors (sq.)		-0. 000002		0.0001**	0.0001**
		(0.000)		(0.000)	(0.000)
Consumers' quest for authenticity			0.252**	0.356**	0.171**
			(0.015)	(0.016)	(0.019)
Overlap. comp*consumers' q. authenticity					0.002**
					(0.000)
Radius of distribution	-0.0001*	0.0001*	0.00007	0.00001†	0.0003**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Output	-0.000002**	-0.000001**	-0.000001**	-0.000001**	-0.000001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population (ma)	0.002**	0.001**	0.002**	0.002**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Middle Franconia	-1.003**	-1.095**	-0.532**	-0.506**	-0.323**
	(0.043)	(0.045)	(0.045)	(0.048)	(0.048)
Lower Franconia	-0.385**	-0.505**	0.448**	0.504**	0.648**
	(0.041)	(0.045)	(0.052)	(0.055)	(0.059)
Constant	-1.363**	-0.935**	-6.634**	-6.548**	-3.207**
	(0.096)	(0.128)	(0.318)	(0.293)	(0.339)
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	7,994	7,994	7,994	7,994	7,994
Log pseudolikelihood	-3353	-3338	-3248	-3185	-3148

Robust standard errors in parentheses
** $p<0.01$, * $p<0.05$, † $p<0.1$

Table 4.5 Fractional logit models predicting grade of membership in almost authentic beers

VARIABLES	(1) Almost authentic beers	(2) Almost authentic beers	(3) Almost authentic beers	(4) Almost authentic beers	(5) Almost authentic beers
Overlapping competitors		0.004**		0.021**	0.045**
		(0.001)		(0.001)	(0.003)
Overlapping competitors (sq.)		-0.00001**		-0.0001**	-0.0001**
		(0.000)		(0.000)	(0.000)
Consumers' quest for authenticity			-0.156**	-0.265**	-0.137**
			(0.013)	(0.014)	(0.018)
Overlapping comp.*Consumers' q.authenticity					-0.001**
					(0.000)
Radius of distribution	0.00001	-0.0002**	-0.0001†	-0.0002*	-0.0003**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Output	-0.0000002**	-0.0000003**	-0.0000004**	-0.0000004**	-0.000001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population (ma)	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Middle Franconia	0.735**	0.823**	0.435**	0.388**	0.255**
	(0.037)	(0.039)	(0.038)	(0.041)	(0.042)
Lower Franconia	0.182**	0.316**	-0.360**	-0.439**	-0.544**
	(0.036)	(0.038)	(0.048)	(0.050)	(0.053)
Constant	1.055**	0.420**	4.305**	4.478**	2.221**
	(0.083)	(0.113)	(0.270)	(0.256)	(0.312)
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	7,994	7,994	7,994	7,994	7,994
Log pseudolikelihood	-3781	-3765	-3726	-3658	-3635

Robust standard errors in parentheses

** $p<0.01$, * $p<0.05$, † $p<0.1$

Table 4.6 Models predicting grade of membership in non-authentic beers

VARIABLES	(1) Non-authentic	(2) Non-authentic	(3) Non-authentic	(4) Non-authentic	(5) Non-authentic
Overlapping competitors		0.00002		0.00004*	0.0001**
		(0.000)		(0.000)	(0.000)
Overlapping competitors (sq.)		-0.000000001		-0.00000004	-0.00000004
		(0.000)		(0.000)	(0.000)
Consumers' quest for authenticity			-0.0001	-0.0003**	0.0003*
			(0.000)	(0.000)	(0.000)
Overlapping comp.*Consumers' q.authenticity					-0.00001**
					(0.000)
Radius of distribution	0.000005†	0.000002	0.00001†	0.000002	0.000001
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Output	-0.000000004†	-0.00000001**	-0.000000004†	-0.00000001**	-0.00000001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population (ma)	0.00001	0.00001*	0.00001	0.000007*	0.00001*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Middle Franconia	-0.0004	0.0005	-0.0005	-0.00002	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Lower Franconia	-0.0001	0.001†	-0.0003	0.0002	-0.0002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Constant	0.003†	-0.002	0.004	0.002	-0.009**
	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	7,994	7,994	7,994	7,994	7,994
R-squared	0.014	0.018	0.014	0.019	0.020

Robust standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

Table 4.7 Models predicting grade of membership in other beer types

VARIABLES	(1) Other	(2) Other	(3) Other	(4) Other	(5) Other
Overlapping competitors		-0.010**		-0.005*	0.005
		(0.002)		(0.002)	(0.006)
Overlapping competitors (sq.)		0.00002**		0.00001*	0.00001*
		(0.000)		(0.000)	(0.000)
Consumers' quest for authenticity			-0.105**	-0.076**	-0.019
			(0.017)	(0.024)	(0.041)
Overlapping comp.*Consumers' q.authenticity					-0.001*
					(0.000)
Radius of distribution	0.0003**	0.0002**	0.0002**	0.0002**	0.0001*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Output	0.000002**	0.000001**	0.000001**	0.000001**	0.000001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Population (ma)	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Middle Franconia	0.247**	0.206**	0.044	0.090	0.027
	(0.054)	(0.058)	(0.065)	(0.070)	(0.074)
Lower Franconia	0.489**	0.369**	0.099	0.161†	0.114
	(0.065)	(0.061)	(0.086)	(0.094)	(0.094)
Constant	-2.887**	-2.030**	-0.711†	-0.935*	-1.880**
	(0.134)	(0.215)	(0.379)	(0.394)	(0.720)
Time dummies	Yes	Yes	Yes	Yes	Yes
Observations	7,994	7,994	7,994	7,994	7,994
Log pseudolikelihood	-1600	-1592	-1591	-1589	-1588

Robust standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

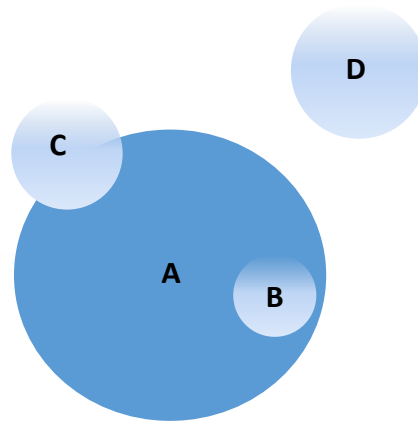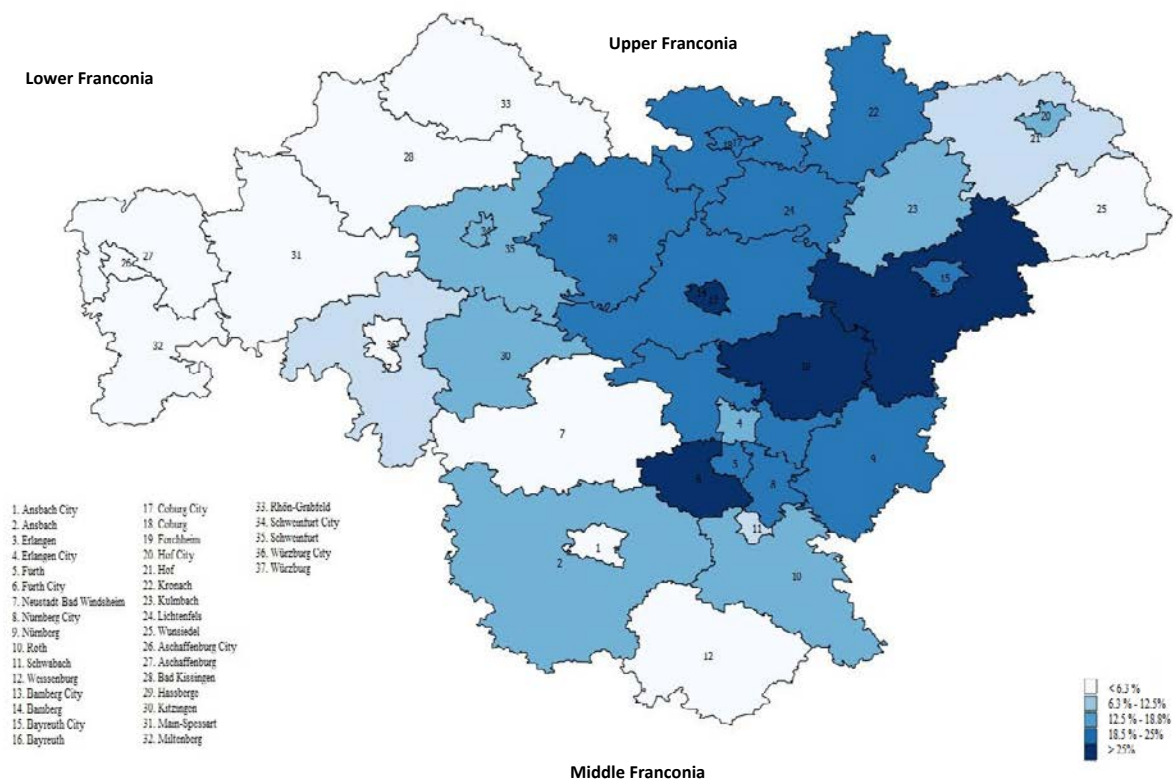**Figure 4.1 Representation of a geographical market**

Figure 4.2 Consumers' quest for authenticity

Link between previous chapters and chapter 5: from authenticity constraints to strategies to overcome such constraints

Chapter 3 and **Chapter 4** have outlined the constraints derived from authenticity for entrepreneurial attempts to found a new firm and diversify from traditional offerings. In so doing, these chapters portray traditional industries as difficult arenas for the introduction of novelty where producers have little power to deviate from authenticity and tradition. **Chapter 4,** particularly, has revealed that enlarging firms' niche towards non-authentic products is a restricted option when the pool of audience members value authenticity –also in the presence of competitive forces. However, firms still diversify and even introduce novel, yet, deviant offerings in their portfolios. If the constraints of authenticity leave producers with little leeway to deviate from authenticity, how do they incorporate novelty and particularly new products? Building on these questions, **Chapter 5** explores the strategies that firms use to overcome these constraints in traditional industries. Family ownership as well as the use of traditional words in novel products are resources that help firms in the process of deviating from past-anchored traditions and long-standing conceptualizations of authenticity.

Chapter 5 draws from the main findings on **Chapter 4** about firms' reduced tendency to engage in non-authentic segments of the market, and shows that firms engaging in novel segments of the market opt for products that refer to age and traditional words in their labels. Nonetheless, these products often differ from tradition and using traditional words becomes a strategy to compensate for authenticity pitfalls. Yet, knowledgeable audience members are difficult to persuade by these attempts to portray tradition; thus, **chapter 5** also discusses different groups of communities for which the use of traditional words in novel products are attractive.

The level of analysis is the firm, while other influential factors remain at the community (county) level as in **chapter 4**.

5. BUILDING ON THE PAST TO CREATE THE FUTURE: FAMILY ADVANTAGE AND NAMING STRATEGIES IN THE INTRODUCTION OF NEW PRODUCTS IN THE FRANCONIAN BEER INDUSTRY

Abstract

The introduction of new products is often seen as an attractive strategy that improves firm performance. However, because novelty can endanger local traditions and decrease attachment to existing stakeholders, launching new products can result in an arduous enterprise, in particular, in industries that value tradition. This paper elaborates on the resources and strategies upon which firms can rely to introduce novelty in traditional industries. In particular, family firms enjoy unique identity advantages over non-family firms that allows them to introduce new products in a legitimate way. This advantage can be better materialized when family firms make use of naming strategies by referring to their traditions in their product labels and serve geographically disconnected consumers.

I test these predictions using data about more than 300 breweries in Franconia, a geographical cluster in Northern Bavaria (Germany) and one of the most traditional industries in Europe. The results of this study confirm that family firms are more likely to engage in the introduction of new beer types, especially those that are named using traditional words. Moreover, we also find support for the idea that these strategies are more common when firms serve geographically distant portions of the market.

Keywords: new products, family firms, strategic names, local communities.

5.1. INTRODUCTION

Long-standing research in the fields of innovation and strategy has associated the introduction of novelty (e.g. new products) to beneficial returns and higher performance for the innovative firm. The ability to innovate gives proof of a firm's capability to adjust to changing market conditions and to reinvent themselves (Barroso & Giarratana, 2013; Katila & Ahuja, 2002), while it also brings new elements that allow for renewal in an established market (Negro et al., 2011; Schumpeter, 1942; Swaminathan and Delacroix; 1991). For example, the introduction of new products leads to higher market value and survival chances (Katila & Ahuja, 2002; Swaminathan and Delacroix; 1991). New products also enhance firms' performance by strengthening the link with existing customers, creating new linkages with a new pool of consumers, and providing the opportunity to disrupt the market and create new niches and competences (Abernathy & Clark, 1985).

Despite the attractiveness of introducing novelty, taking an innovative path is not always an invited activity, in particular, in industries that value tradition. Consider for instance contexts like the beer and wine industries, food and dining, and crafts where old production processes, classical products, regional and historical labels characterize the main components of the industry. These industries also portray strong attachment to how things have been done in the past, and introducing new products or novel elements can constitute in the loss of identity for the industry (Negro et al., 2011; Ody-Brasier & Vermeulen, 2014; Wherry, 2006). Particularly in traditional industries, the introduction of novel concepts endangers local tradition and triggers resistance from various stakeholder groups. For instance, the introduction of atypical beer types in the Franconian beer industry led to higher mortality rates (Beck et al., 2016) and the use of botti as opposed to traditional barriques in the production of Barolo wine faced strong resistance from traditionalist groups (Negro et al., 2011).

Given these challenges, how do firms introduce novelty in traditional industries? This paper addresses this question by exploring the role of identity and naming strategies in helping producers overcome barriers to the introduction of novelty (e.g. new products). I suggest that introducing new products can be easier when firms can lean on their identity as traditional and morally respected actors. Because of their attachment to local traditions, generational character, and socio-economic connections with members of the local community, family-owned firms can more legitimately introduce novelty than non-family businesses. I then argue that to achieve this goal, family firms make use of traditional names in their product labels to highlight how their new product builds on their tradition. Referring to tradition shows commitment to past-anchored practices and reduces uncertainty on the side of the consumers and stakeholders. Finally, I suggest that geographically distant communities benefit the most from these strategies due to their lack of direct knowledge about the firm and traditions in the industry.

I test these predictions using data on more than 300 beer producers in Franconia, a geographical beer cluster in Northern Bavaria, Germany, and one of the most ancient industries in Europe. I focus on the introduction of new beers during the period 1989-2012 and the naming strategies used by the breweries on these new products. Results suggest that family ownership is associated to a stronger tendency of launching new beer types, in particular beers whose names refer to tradition (i.e. Old Rye). However, the geographical scope in the product distribution attenuates this effect such that new beers with traditional names are more commonly distributed to distant communities rather than to local ones.

The paper proceeds as follows. I first discuss how traditional industries constrain the introduction of novelty. The next section elaborates on the identity-advantage that family firms enjoy for the introduction of new products in traditional industries and how they can deliberately use names to optimize this purpose. Then, I discuss the role of product

distribution to different geographical communities on moderating family firms' tendency to innovate. An overview of the Franconian beer industry and a description of the methods are provided next. The remaining sections will discuss main findings and implications for the study of organizations.

5.2. THEORY AND HYPOTHESES

5.2.1. Barriers to novelty in traditional industries

Contemporary research in the field of organization theory suggests that firms encounter strong pressures to continuously conform to the identity that they represent and to their past behaviors. The main argument is that being inauthentic to one's identity generates difficulties for audience members (e.g. stakeholders) to understand the firm in question and its offerings. As a result, firms transgressing their identity experience hefty punishments in the form of lower ratings (Hsu, 2006; Kovács et al., 2014; Negro et al., 2011), higher costs (Ody-Brasier, 2014), and lower empathy with audience members. They also have lower access to vital resources (Zuckerman, 1999; Hsu & Hannan, 2005; Hsu, 2006; Hsu et al., 2009; Hannan, 2010; Rao et al, 2005), experience higher mortality rates (Beck et al., 2016), and face contestation (Negro et al., 2011) and resistance when attempting to enter high-contrast market categories (Carnabuci et al., 2015).

These pressures to conform turn particularly relevant in industries where firms' identity rely on traditional characteristics like old production processes, typical products, regional and historical labels, among others (Negro et al., 2011; Ody-Brasier & Vermeulen, 2014; Verhaal et al., 2015; Wherry, 2006). Evidence from contexts as diverse as beer (Carroll & Swaminathan, 2000), wine (Negro et al., 2011) and champagne (Ody-Brasier & Vermeulen, 2014), food and dining (Carroll & Torfason, 2011; Kovács et al., 2014), and crafts (Wherry, 2006) support these claims. In traditional industries, consumers and stakeholders are oftentimes members of the local communities in which firms are located and

geographical proximity among them allows for repeated interactions between market actors and firms' offerings. Extensive opportunities to reach out traditional organizations provides community members with access to vivid instances of what is authentic and true for an organization in that industry (Barsalou, 1985; d'Andrade, 1995); thus, deviating from these traditional standards can become problematic because audience members will easily identify when firms deviate from prototypical characteristics and offerings. Under these conditions, breaking with traditional and longstanding ways of doing things can result in a very challenging enterprise. In particular, producers may encounter great difficulties when bringing new ideas and novelty into traditional industries and, as a result, past-anchored tradition can become an obstacle to entrepreneurial orientation (Marquis & Lounsbury, 2007) and change (Negro et al., 2011; Ody-Brasier & Vermeulen, 2014; Salvato, Chirico, & Sharma, 2010).

Consider the transition to modernism in the production of Barolo winemaking. In here, the introduction of new production and conservation techniques faced a severe clash with traditionalists who claimed continuity and preservation of their local traditions. Traditionalist producers and consumers understood producers' efforts to adopt modern techniques as an attempt to erase the local history of the region (Negro et al., 2011). In a similar vein, community members saw with skepticism the introduction of non-traditional products in the portfolio of Franconian breweries (Northern Bavaria, Germany). As one master brewer would say: "*These craft beers […] are nothing that will hold in the long run. The problem is the same with all these mixed drinks that are offered in bottles and then are hyped by advertising, etc. These are only a flash in the pan, clutching at straws, just like: today is Riesenschnitzelday, [...] these are desperate measures to offset the decline in customers [...]*" (Beck et al., 2016, p. 11). Beck and colleagues further show that breweries that deviate from traditional standards by, for example, introducing non-typical Franconian beer types have a higher mortality rate. In the Champagne industry, sellers' willingness to interact with certain

buyers declines when they deviate from local norms. In particular, Champagne houses that distribute their products in supermarkets and operate wineries abroad pay higher prices to grape growers (Ody-Brasier & Vermeulen, 2014).

When conformity to tradition is expected as in the examples provided above, how does then novelty come into being? In these examples, local traditions seem to be endangered by the introduction of novel concepts (e.g. the use of botti rather than of barriques in the process of Barolo winemaking, non-traditional beer types in the Franconian beer industry, and international Champagne houses as opposed to regional ones). These examples also suggest that minimizing misalignments with local traditions can prove resourceful in the process of introducing novelty in a traditional industry. Following this, I suggest throughout this paper that introducing novelty in traditionally driven industries is easier when firms highlight their tradition and history with the novelty in question[26]. This can be easier for market actors that enjoy a representative position in the industry and can lean on their identity as traditional market actors. In particular, I argue that firms that are family owned and managed by family members can more legitimately refer to their tradition as opposed to non-family owned firms. In a traditional industry, being family owned often means being morally loyal to the traditions of the industry (Negro et al., 2011; Ody-Brasier & Vermeulen, 2014; Wherry, 2006) and being connected to community members not only through market transactions but also in social circles like regional festivities, school meetings, religious service (Carroll & Torfason, 2011). Moreover, unlike non-family firms, family-owned businesses have a moral responsibility of creating value so that upcoming generations can undertake the business. Thus, introducing novelty in family firms can come across as an attempt to ensure a legacy for upcoming family generations rather than as a deviation from prototypical standards. I further argue that to achieve this goal, family firms rely on *naming strategies* in their product

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[26] Novelty in this chapter relates to newly introduced products that deviate from traditions (e.g. in content).

labels that highlight how novel elements and offerings build on salient characteristics of their organization such as their tradition and history. Pinpointing to tradition gives a sense of commitment to continue past-anchored traditions while also showing interest in exploring market opportunities. Next, I argue that this family advantage to introduce novelty is more helpful when firms' products reach distant communities rather than local communities. Specifically, geographically distant communities are often uncertain about firms' offerings as they lack direct experience with it; therefore, they must rely on product labels as a way to support their purchasing decisions.

5.2.2. The family as an advantage for novelty

Recent studies in the field of family business suggests that family ownership grants firms with unique advantages to undertake entrepreneurial ventures (Chirico, Ireland, & Sirmon, 2011; Pearson, Carr, & Shaw, 2008). As opposed to non-family firms, family-owned businesses enjoy access to resources that are only possible due to the presence of family members in the business. The interplay between owners' desire to create value for the family and their need to maintain the sustainability of their business leads to unique characteristics such as high levels of commitment and attachment to the firm (Chirico, 2008; Gómez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007), long-term orientation given that owners want to ensure a legacy for upcoming generations (Beck, Janssens, Debruyne, & Lommelen, 2011; Cruz & Nordqvist, 2010), willingness to undertake higher risks with the aim to keep the business in the hands of the family (Gomez-Mejia et al., 2007), and access to unique social capital (Arregle, Hitt, Sirmon, & Very, 2007). From this standpoint, family firms enjoy rich endowments of intangible resources that are not available in non-family firms (Chirico et al., 2011) and that nurture unique resources required for innovation (Short, Payne, Brigham, Lumpkin, Broberg, 2009; Rogoff & Heck, 2003).

Family firms also enjoy advantages with respect to external audience members (e.g. consumers, experts, critics, stakeholders) in particular in traditional industries. In tradition-driven industries, family-owned businesses often represent morally respected actors who stick to the traditions of the industry (Beck et al., 2011; Negro et al., 2011; Ody-Brasier & Vermeulen, 2014; Wherry, 2006) and are thus attributed with symbolic meaning (Bourdieu, 1985). Unlike non-family owned firms, the social capital (Arregle et al., 2007) upon which family businesses rely in traditional industries is based on personal and direct contacts like neighbors, friends, acquaintances and even far distant relatives. In addition, family-owned businesses in traditional industries have access to unique contexts that allow them to engage with their audience members by, for example, sponsoring regional festivities, attending school meetings and religious services (Carroll & Torfason, 2011). Because of their long-term orientation, family firms also cultivate enduring relationships with audience members that go across generations and are rich of idiosyncratic and collective histories. This way of connecting to audience members provides family-owned businesses in traditional industries with unique relationships and social position in the industry that are not available to non-family firms.

Building on this, I argue that family-owned firms can lean on this *family advantage* to introduce novel strategies in traditional industries. In particular, by highlighting their institutional identity and continuity as an entrepreneurial family, family firms are able to introduce novelty in a legitimate way and deviate from past-anchored identities (Salvato et al., 2010).[27] Salvato and colleagues also show that by building on their long-standing identity as family firms, they can reinvent their history and make the transition into an unrelated business segment. Because of this family advantage, businesses owned and managed by family

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[27] A process Salvato and colleagues (2010) define as "Family Champion of Continuity"

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members are likely to be more entrepreneurial than non-family firms are. The following baseline hypothesis is offered:

Hypothesis 1: in traditional industries, family owned businesses are more likely to include novel offerings than non-family firms are.

However, the relationship between family ownership and entrepreneurial outcomes is not straightforward. Recent discussions in the field of family firms suggest that being family-owned can also constitute a liability for firms' entrepreneurial behavior. Beyond the challenges that traditional industries can impose for the introduction of novelty, family owners' desire to ensure a legacy for upcoming generations can prevent family firms from undergoing change and taking risky decisions (Chirico et al., 2014). Thus, to better understand the conditions under which the family can become an advantage for the introduction of novelty in traditional industries, it is important to consider how novelty is introduced.

We now shift our attention to the names that firms in traditional industries give to the novelty they introduce. I argue that the family advantage is particularly relevant when family firms leverage their past-anchored identity by using naming strategies that relate to their traditions and their family identity. Names increase audience attention to the products (Zhao et al., 2013) in particular in conditions of uncertainty such as making sense of new offerings (Khessina & Reis, 2016), new market categories (Verhaal et al., 2015), and multi-category membership. Strategic use of names can also raise product appeal (Khessina & Reis, 2016; Smith & Chae, 2015) and organizational performance (Khessina & Reis, 2016; Smith & Chae, 2015). By anchoring on their tradition in new offerings' names, firms also reveal commitment with their past and what they are known for, while also giving continuity to their institutional identity (Salvato et al., 2010). In turn, the absence of such traditional names

makes receiving attention from audience members more difficult, while it can be understood by audience members as an attempt to erase local traditions and firm history.

Therefore, when introducing novelty, family-owned firms are more likely to use naming strategies that highlight their traditional character in the industry. With these strategies, firms can enter new market segments in a more cautious way without risking the continuity of the firm.

Hypothesis 2: Compared to non-family firms, family owned businesses are more likely to include novel offerings whose names refer to that firm's traditions.

The arguments discussed so far assume that using traditional names in new products will be equally attractive to all types of audience members in traditional industries. However, because naming strategies work best in conditions of uncertainty (Khessina & Reis, 2016), their impact on one product's appeal may decrease when audiences are less uncertain about firms and their offerings. In the next session, I argue that naming strategies are less appealing to proximate communities whereas distant ones are more likely to rely on names when purchasing a product they do not know.

5.2.3. The use of names in geographical communities

Let us focus on communities as defined by Marquis and Battilana (2009) and outlined in **Chapter 1**. This perspective brings two advantages for the study of novelty in traditional industries. First, this view acknowledges the influence of the local culture in the form of traditions, norms, identity, and laws as relevant for organizational action (e.g. introduction of new products). Second, it aligns with our view that organizations connect with audience members on a geographical space and such interactions influence organizational actions and entrepreneurial behavior (Jennings et al., 2013).

The use of traditional names in new products may turn less useful when serving local communities. Consider a geographical community in a traditional industry where firms have been located for long-time and market actors are proximate to each other. Thanks to their long-term orientation in the community, family firms have had multiple and rich opportunities to come into contact with community members and vice-versa. Extensive opportunities to reach out traditional organizations provides members of that community with a sense of what is real and true for the industry (Barsalou, 1985; d'Andrade, 1995). Local communities are also particularly knowledgeable about family firms located in their community. Because of the multiple contexts in which community inhabitants can interact with the firm and the family in charge (e.g. social circles like going to the church, schools, sports associations, and other local festivities), members of the local community are likely to possess rich knowledge about idiosyncratic stories of the firm, their offerings and history (Carroll & Torfason, 2011). This rich knowledge about the family firm makes their entrepreneurial attempts less uncertain than when new products come from unrelated producers. As a result, the use of traditional names turns out to be less useful for local communities.

In addition, because of this enhanced knowledge about firms' identity, local communities are usually challenging contexts for bringing in novelty such as new organizational forms (Marquis, 2003), new entrants in established industries (Carroll & Torfason, 2011; Cruz, Beck, & Wezel, 2016), and new offerings of non-local producers (Wherry, 2006). By increasing engagement in new, yet, atypical segments of the market, family firms decrease their connectedness with local audiences and detach from long-standing community expectations and consumption traditions (Carroll & Swaminathan, 2000). As in the case of the modernism in the Barolo winemaking, local communities repudiated the novelties introduced by family members of long-standing family-owned wineries. The social sanctions imposed by members of the local community were so high that producers who

deviated from tradition stopped taking part of community activities like attending the Sunday

service at church (Negro et al., 2011). Because of their rich knowledge about firms and the

industry in question, members of local communities are likely to identify when firms use

traditional names in their products with the aim to compensate atypicalities (i.e. lack of

tradition in their new products), thereby being less attracted to traditional names in products

that are unfamiliar for them. In particular, when firms make use of traditional names in

products that deviate from prototypical characteristics, local communities can become even

hostile since they would perceive it as an aesthetic attempt to make up authenticity rather than

a true attempt to give continuity to local traditions. Under this scenario, local communities'

enthusiasm about tradition turns into an adverse characteristic for entrepreneurial attempts to

introduce products.

In turn, traditional names may result in a more attractive strategy when firms' products

reach distant communities. Geographically distant communities often lack direct experience

with the firm and its offerings, and therefore the level of uncertainty associated with a new

product is higher. Under these conditions, consumers and other members of the audience

might want to rely on firms' signals that confirm their authenticity and standing in the market.

Therefore, naming strategies and, particularly traditional names, can become an important

resource in the purchasing decisions of distant community members. By making reference to

a firms' tradition in their product labels, firms help unaware audiences make sense of their

offerings (Khessina & Reis, 2016) and increase the attention and appeal their product receive

in markets where uncertainty about the firm is high (Verhaal et al., 2015; Zhao et al., 2013).

We offer the following hypothesis:

Hypothesis 3: When serving local communities, family firms will have a lower

likelihood to include novel offerings whose names refer to that firm's traditions.

5.3. EMPIRICAL FRAMEWORK AND METHODS

Because of the traditional nature of the industry (as described in **Chapter 2**), Franconian breweries stick to traditional ways of doing things. In fact, the introduction of new beer types or the entry of new brewers into the market is highly contested in the region. Informal interviews with customers and master brewers as well as articles in local newspapers provide evidence of the difficulties of introducing novelty in the Franconian beer industry. For example, Seelmann's master brewer in Zettmannsdorf argues that *"typical beer drinkers enjoy their regular brands [=breweries] and would be skeptic about new ones"*. He supports the idea that breweries should "*stay loyal to their roots*" and distrusts breweries that offer atypical Franconian beers. In the same line, consumers in Franconia show resistance against new brews. When asked about beers that experiment with aromas and ingredients, one consumer commented, *"No!!! Beer should smell and taste like beer and not like something else [grapefruit]...Awesome initiatives? Absolutely not!"* One more consumer added, *"I don't need another beer type. I like this pale and I don't need another type of beer"*. Concerning new entrants, brewers also show skepticism for the lack of tradition that new players offer as discussed in **Chapter 3**. One brewer said: *"well, the new ones are not so enticing; this is nothing grown [with tradition]. They just open their brewery, but..."* Consider once again the local communities in Marienweiher (**Chapter 3**) who have not supported Klosterbräu, a brewery that closed after six years of operation. Its owner claimed:

> *"We did not have any support from the population." [...] "We could simply not satisfy many of the consumers in Marienweiher. There was only negative feedback all the time. To live and let live is our motto. We did not get much of this [from the population] though"* (Frankenpost, 2012).

In spite of all the challenges that Franconian breweries encounter to introduce novelties, Franconia has experienced an increase in the number of new offerings over the last decade. Some of them align with popular beer types in other regions of Germany like Altbier

(Old beer), however, an important proportion of these new brews include types whose names resemble Franconian tradition but their content is not necessarily traditional –we label these products as fancy authentic names-[28]. For example, "*Fränkischer Urstoff*" implies that it is an old Franconian product. The beer type "*Alt-Roggen* (Old Rye)" also alludes to a traditional beer feature. However, the brewing style and content of both beer types cannot be truly associated to classical Franconian beers or to non-typical ones. Figure 5.1 shows the increasing trend in the use of these types of products among Franconian breweries in the last decades. Namely, breweries have more than doubled the amount of products whose names convey some sort of tradition but its content is new compared to well-established beer types in the region.

INSERT FIGURE 5.1 ABOUT HERE

5.3.1. The dataset

Archival sources (see **Chapter 2** for more details) provided data on more than 300 breweries for a period of 24 years, from 1989-2012, about type of ownership, number of years in the hands of the same managing family, beer portfolio, radius of product distribution, size, number of sellers, among others. As a second source, I relied on the interviews conducted with seven beer experts and master brewers to have a better understanding of how traditional or novel beer types are.

Based on these data, I built a panel dataset containing information for over 300 breweries for the period 1989-2012.

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[28] More details about this classification are provided in **Chapter 2**.

5.3.2. Dependent variables

Firms' ability to create new products is a central component of their capability to innovate, reinvent themselves, diversify, and adapt to changing market conditions (Katila & Ahuja, 2002). Given the traditional character of the Franconian beer industry, novelty is more likely to come from the reconfiguration of processes and recipes already known to the brewery than through entire new creations (see Carnabuci & Operti, 2013 for an example of recombinant creation versus recombinant reuse). Thus, I focus on new beers that often result from the modification of older recipes, and whose content was unfamiliar to beer experts who ultimately classified them in the categories of novel products (see **Chapter 2** for more details). Based on this, I create three dependent variables of new product introduction to test the arguments discussed above.

The variable *new beers* accounts for breweries' tendency to include new products that deviate from prototypical standards in a given year. Since this study primarily relies on the assumption that family firms tend to be more innovative than non-family businesses, *new beers* helped predicting the degree of novelty in breweries' portfolio based on beer types whose content was unfamiliar to beer experts and classified in the categories of novel products (see **Chapter 2** for more details on this classification). This variable was coded with one (1) when the brewery introduces one of these products in a particular year (0 otherwise).

Then, since the primary interest of this study is the probability of introducing new products whose names recall tradition, the main dependent variable for this study captures the presence of fancy authentic beer types in the beer portfolio of a focal brewery in time *t*. As described in **Chapter 2**, the category fancy authentic names includes beers that conveyed tradition through their names, though their content was different from what breweries already offer in their portfolio (i.e. Fränkischer Urstoff, Old Rye). This variable is labeled as "*use of*

fancy authentic names" and is coded with 1 if a brewery offers one of these products for a given year and 0 otherwise.

The category other beers and in particular the sub-group of new beer types that do not recall tradition in their names (i.e. Mondbier and Trendbier) served as an alternative dependent variable to check the robustness of this study. The variable "*use of beers with non-traditional names*" was coded with 1 if a brewery sells one of these beers for a particular year and 0 otherwise.

5.3.3. Independent variables

This study relies on two main independent variables. The first one, *family ownership*, is a dummy variable indicating whether one or more members of the same family own and work in the brewery at year *t* (in which case the variable was coded with one (1) and zero (0) otherwise). Our archival sources provided information about family ownership for a large number of the breweries in our setting. For the remaining cases, the last name of the current brewer (and/or innkeeper) was compared to the name of the brewery. This strategy was feasible given that a great number of the breweries in Franconia are labeled after the founders' name. For example, Hümmer is the last name of the founder of Brauerei Hümmer. Its current brewer also carries this family name. In cases like this, the variable family ownership was coded with one (1). I then looked at their website and newspapers articles to disentangle whether remaining breweries were family-owned or not. This strategy was particularly useful when breweries' names did not match those of the brewer or innkeepers. I found here a common pattern: in the absence of a male progeny, innkeepers' daughters often give over the brewing activity to their partners whose family name differ from that of the brewery or the original founder. These cases were considered as family-owned and coded with one (1)

accordingly. Breweries that did not fall into any of these strategies were considered as non-family businesses.

Our second independent variable, *local community,* indicates the degree of localness of a brewery, that is, whether a brewery serves local or distant audiences at a given year[29]. The county or Landkreis in which the brewery is placed was chosen as the unit of analysis for the community. Two reasons motivated this choice. Franconia exhibits substantial variation across counties not only in terms of administrative and political matters but also in terms of history, culture, economic activities, and also demographic characteristics. Second, Franconian counties also serve as a major characteristic that differentiates Franconian residents and firms from others in the same region. As described before, firms in Franconia often use local icons (e.g. rivers, churches, towers) or an actual representation of their villages in labels to distinguish their community from others.

To operationalize the construct of local communities, I look at the scope of product distribution of each brewery for a given year, that is, how far they deliver their beer. First, I looked at the area (km^2) of the county in which each brewery is located and then calculated the radius of this area[30]. In a next step, I compute the ratio of the county's radius (km) to the radius of product distribution for each brewery for each year (km). The ratio indicates whether a brewery sends out its product within the confinements of the county or if it goes beyond. High values of local community illustrate breweries that serve proximate communities, whereas low values stand for breweries that distribute their product to distant communities.

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[29] This measure aligns with the measure of local attachment introduced in Chapter 3. Beyond the degree of localness of a focal brewery, local attachment also captures producers' embeddedness in local communities through smallness and age. Thus, in order to tease out the effect of geographical (dis)connection alone, I use the degree of localness of a brewery for this chapter. However, control variables for the remaining dimensions of local attachment have been included (e.g. age and smallness).

[30] Area=π*radius^2

5.3.4. Control variables

To rule out the possibility that traditional names in new products occur due to other firm characteristics, a number of control variables are included in the models. First, the variable *family generations* indicates the number of generations that a brewery has been in the hands of the same family. The generational character of a family firm highly determines its entrepreneurial orientation. Indeed, contemporary research in the field of family businesses suggests that in their need to extend their business legacy to upcoming generations, multi-generational firms tend to be more entrepreneurial than first-generational family firms do (Beck et al., 2011; Cruz & Nordqvist, 2010). Information about the number of generations was possible thanks to the Brewery Atlas by Boris Braun and the index by Markus Raupach and Bastian Böttner where they often report the number of generations a business has been in the same family. Whenever the information about the number of generations was missing, we looked back at the number of years that the brewery has been in the hands of this family and divided it by 30. Brewing beer as in many traditional industries is a profession that people tend to learn early on in their careers and remain there until they die or one of their progenies is ready to take over the business. This process takes on average more than 30 years.

Next, to account for breweries' embeddedness in their communities in terms of smallness and tenure in the community (as discussed in **Chapter 3**), I also accounted for breweries' age and size. These are important dimensions that can also influence firms' tendency to engage in risk-taking decisions. The variables *producers' age* (number of years), *output (*hectoliters), and *number of sellers* were included as part of this set of controls.

Given the geographical character of the industry, I accounted for the degree of geographical competition that breweries face. To do so, we calculated the number of producers that serve the same areas of distribution of a focal brewery (*number of overlapping*

competitors). For each year of observation, we first calculated the overlap area between each pair of breweries and then divided it by the area of product distribution of each brewery. We then summed up the number of other producers that have an overlapping area with a focal producer for a given year. To account for very high levels of competition, I also included the squared term. See **Chapter 4** for more details about this measure.

We also included the number of inhabitants by county/year (thousands) in our models to control for demand-driven effects on breweries' tendency to incorporate novel products with fancy names in their portfolios. In addition, regional and time dummies helped control for unobserved variables at the regional level[31]. All control variables are lagged for one period.

Table 5.1 provides main descriptive statistics for the variables included in the models.

INSERT TABLE 5.1 ABOUT HERE

5.4. RESULTS

Table 5.2 shows the results for the logit models predicting the introduction of new products (beers). Model 1 shows that firms whose output is high and sell their product through a large number of sellers or pubs are significantly more inclined to launch new beers than smaller producers are. The introduction of new beers is also positive for Lower Franconia. Older producers instead tend to introduce new beers. Model 2 shows that family firms are significantly more likely to introduce new beers in their portfolio than non-family firms are (β: 3.646, p<0.01). A family-owned brewery is three times more likely to introduce

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[31] More details about these measures in Chapter 4.

a new brewery than a non-family brewery. These findings provide support to the baseline
hypothesis of this study.

INSERT TABLE 5.2 ABOUT HERE

Table 5.3 presents the results of the logit models predicting the likelihood of using
fancy authentic names in new products. Model 1 suggests that the likelihood of finding a new
product with a traditional name in the beer portfolio of a focal brewery is negative when
producers have long tenure in the industry and have been in the hands of the same family for
multiple generations. In turn, as breweries expand in terms of number of sellers the
probability of observing novel products with traditional names increases. In model 2, we
consider the effect of being family owned. As expected, family-owned breweries are
significantly more inclined to introduce beer types with fancy traditional names compared to
non-family business (β: 3.802, p<0.01). This effect prevails in model 3 as we control for local
community. These findings provide support to hypothesis two.

INSERT TABLE 5.3 ABOUT HERE

In model 4, we explore the moderating effect of the type of community to which
breweries bring their product on the tendency of family-owned breweries to introduce novel
products using traditional names. The interaction effect suggests that the positive effect of the
family ownership on the probability of using traditional names is smaller when family-owned
breweries serve local communities. Figure 5.2 plots this interaction effect. In particular, the
positive effect of family on the likelihood of introducing novel products is attenuated for
breweries attending primarily neighbor audiences (local community). We find support for
hypothesis 2 hereby. Please notice that this effect is significant up to a value of local
community equal to 1.25. For values greater than this, this effect loses significance in

particular after 2006. This is not troublesome though given that 75% of our observations have a value of local communities lower than 1.25.

INSERT FIGURE 5.2 ABOUT HERE

Notice the main effect of local communities in model 3. This effect shows that proximate communities are less favorable towards traditional-related names in novel products. This might be the result of enhanced knowledge about the producer in question but also strong pressures to conform to a traditional identity. Namely, local communities develop stronger expectations about the traditional character of producers and therefore firms are pushed away from innovative ways of doing things (e.g. Negro et al., 2011; Ody-Brassier & Vermeulen, 2014).

Table 5.4 offers an additional set of analysis to check for the robustness of our findings. The main argument behind this paper is that family firms can lean on their tradition and long-tenure to introduce novel products. To do so, they make use of traditional names in their product labels. If these arguments are correct, family firms should be less likely to launch products that do not refer to their authenticity and tradition. To test this, an additional dependent variable "new products with non-traditional names" is used.

Firms with a larger number of sellers and, who face strong competitive pressures, are significantly more inclined to launch products whose names do not refer to tradition (model 1). When taking into account firm ownership, we find that indeed family firms are less likely to introduce non-traditional names in new beers (model 2, β: -6.798, p<0.1). This effect holds in model 4 too.

INSERT TABLE 5.4 ABOUT HERE

Models 3 and 4 show the effect of local communities on the probability of using non-traditional names in new beers. These findings suggest that new products whose names do not refer to tradition count with much lower support from local communities compared to new products with authentic names (table 5.3, β: -15.414, p<0.01). It is likely that these products are highly scrutinized and repudiated by members of the local community (Negro et al., 2011) and therefore their use is even lower in these geographies.

Notice the positive and significant effect of the number of generations in the same family in model 3 (β: 0.642, p<0.1). This finding aligns with literature in family firms. Since multi-generational family firms have already assured their viability for several generations, they tend to be more innovative and entrepreneurial. Late-generation family firms often aim to make things differently from what they have done in the past in order to extend the legacy of their ancestors (Beck et al., 2011). Their motivation to move beyond the legacy of previous generations lies on their sense of responsibility to create trans-generational value and ensure an endurable business that following generations can inherit. Newer generations push then for new ways to do things (Beck et al., 2011; Cruz & Nordqvist, 2010), which also turns to be useful when external conditions change compared to the initial years of the business (Cruz & Nordqvist, 2010). In turn, first-generation family firms tend to be conservative and emulate what other producers have done in the past. Particularly, first generations are more risk-averse due to the founder's intention to keep the business within the family and create trans-generational value (Beck et al., 2011; Cruz & Nordqvist, 2010).

5.5. DISCUSSION

The introduction of new products is often associated to higher performance and better survival chances (Barroso & Giarratana, 2013; Katila & Ahuja, 2002; Swaminathan and Delacroix; 1991). From this standpoint, firms' degree of novelty highly depends on their own

capabilities like innovativeness, their ability to adjust to changing market conditions, and resource orchestration (Katila & Ahuja, 2002; Chirico et al., 2011). However, the introduction of new products can be arduous when the main characteristics of an industry rely on tradition and past-anchored ways of doing things. Particularly, launching new products in traditional industries can be seen as an attempt to erase long-standing traditions and decrease attachment to existing stakeholders. As a result, firms experience lower incentives to innovate in these markets. This paper explores how firms can overcome barriers to introduce new products in traditional industries, and in particular, in the Franconian beer industry –one of the oldest industries in Europe.

The main findings for this study suggest that firms can build on their identity as family business to introduce new products in traditional industries. Being family-owned often means being morally attached to local traditions of the industry and being connected to stakeholders not only through market transactions but also via social activities, such has regional festivities, religious services, school meetings, sport activities, among others (Carroll & Torfason, 2011). Because of this, family firms enjoy a family-advantage that reifies their commitment to local traditions and proves resourceful when launching new products. Being family-firm results particularly useful when new products are named after traditional characteristics of the firm or the industry in question, for instance, by mentioning firms' age, historical ingredients, or antique ways to name a related product. The use of traditional names eases the introduction of novelty in particular for traditional industries as it allows connecting the identity of the firm as a family to the expectations of important audience members (e.g. consumers, stakeholders) about tradition. The empirical results for this study also finds support for the idea that such naming strategies work best for consumers who are geographically distant from the innovative firm. Because geographical distance makes regular contact with the firm and the family in charge less likely, consumers in distant geographical

communities lack knowledge about the firm and the new product. These conditions of uncertainty makes them more attentive to product names (Khessina & Reis, 2016) and therefore the introduction of new products with traditional names is more common when firms serve geographically distant portions of the market.

This paper contributes primarily to the literature in organizational theory in at least two ways. First, firms' identity as family business represents an advantage upon which firms can rely to overcome legitimacy discounts and authenticity constraints when deviating from the collective identity they represent. Family businesses often stand for morally respected actors who have proven loyal to industry traditions over generations. They also enjoy unique connections with local audiences via not only economic transactions but also through social circles like local festivities, sports activities, school meetings, religious services, etc. The strong effect of family ownership throughout our models confirms the better standing that family businesses enjoy as opposed to non-family firms to introduce new products in traditional industries.

Second, this paper elaborates on how naming strategies help overcoming barriers to the introduction of novelty and authenticity constraints in well-established industries. In particular, the use of names referring to firms' long-standing character or to ancestral ingredients constitutes an advantage for firms aiming to launch new products as it provides certainty about the product in question. In so doing, this paper contributes to recent discussions about the effect of names on products' higher appeal, better organizational performance, and higher survival rates (Khessina & Reis, 2016; Smith & Chae, 2015; Verhaal et al., 2015; Zhao et al., 2013). However, unlike previous studies on the strategic use of names, the present paper confirms that the usefulness of names is highly influenced by the type of audience that interacts with the product. Audience members who are geographically proximate to firms and their offerings will be less sensitive to names when making a choice

between multiple products. Extensive opportunities to interact with the firm and the family in charge over multiple generations makes audience members more knowledgeable about the firm. In turn, spatially disconnected consumers are more likely to rely on product labels and names as they lack information about the firm and its products.

The paper also contributes to the literature in family firms and in particular, to the discussion about whether family owned businesses are more or less innovative compared to non-family firms. The findings in this paper suggest that a more important question to ask is *how* and *where* novelty is introduced by family firms rather than if they outrun non-family businesses in this concern. Particularly, family firms can be more innovative than their counterparts are; however, this is more tangible when newly introduced products are named after traditional and historical elements, and are launched in geographical distant communities with the purpose to serve spatially disconnected audiences. Second, although contemporary literature in the field of family businesses has extensively discussed how the family in charge represents an internal advantage for coordination purposes, superior commitment to organizational goals, and attachment to the firm (Beck et al., 2011; Chirico, 2008; Gomez-Mejia et al., 2007), the advantages of being family owned with respect to market actors outside the firm (e.g. audience members) is still underexplored. This paper aims to fill this gap by suggesting that family businesses enjoy an external advantage in the eyes of external audience members. In traditional industries, family firms are often seen as long-standing and morally respected actors that represent the interests of the local community. Because of this, family owned businesses enjoy more leeway to introduce novel products in a traditional industry.

This study mainly applies to geographically localized markets where producers and audience members are spatially proximate to each other. Geographical proximity between market actors provides extensive opportunities for family-firms to develop personalized

relationships with consumers and stakeholders that allow them to be distinguished from non-family firms. Being spatially close to producers helps audience members to develop knowledge and of what is authentic and true for an organization in that industry. Therefore, spatially disconnected actors are more likely to miss this knowledge and rely on product signals such as traditional names to support their purchase decisions. A second scope condition of this study relates to the characteristics of the industry. Although the Franconian beer industry served as an ideal setting to explore these questions, the results may hold for other geographical industries that strongly rely on tradition. Industries such as food and dining, wine, as well as handcrafts can be suitable for the study of family-advantages and naming strategies on the introduction of novelty. I look forward to future research that explores these questions in other traditional settings.

This is an early attempt to study the role of family firms and naming strategies in the introduction of new products in traditional industries. As such, the paper can benefit from further iterations that enrich the arguments and measures put forward throughout. In particular, given the conservative character of the Franconian beer industry, breweries' degree of innovativeness is very low and the events of new product introduction rare. Although the dependent variables used in the paper served the main purpose of this study, future steps should include a more comprehensive measure of novelty by exploring changes in dimensions such as product layout and presentation, as well as production methods and modalities (i.e. contracting the beer process).

Table 5.1 Descriptive statistics

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. New beers	0.05	0.21	0	1	1													
2. Use of fancy authentic names	0.04	0.2	0	1	0.95	1												
3. Use of non-traditional names	0.004	0.07	0	1	0.31	-0.01	1											
4. Family owned	0.76	0.43	0	1	-0.05	-0.03	-0.07	1										
5. Local community	1.08	1.21	0	5.01	-0.08	-0.07	-0.04	0.06	1									
6. Number of generations in the same family	3	4	0	29	-0.02	-0.03	0.04	0.3	-0.03	1								
7. Producers' age (lag)	219	158	0	959	-0.09	-0.08	-0.03	0.05	-0.17	0.3	1							
8. Number of sellers (lag)	5	10.17	1	275	0.1	0.1	0.01	-0.01	-0.21	-0.06	0.06	1						
9. Output (lag)	24336	112792	3	2100000	0.21	0.23	0	-0.15	-0.17	-0.09	0.03	0.05	1					
10. Number of overlapping competitors	197	84	0	379	0.02	0.03	-0.01	0.05	-0.53	0.09	0.21	0.1	0.25	1				
11. Number of overlapping competitors (sq.)	45635	34935	0	143641	0.05	0.06	-0.02	0.02	-0.52	0.06	0.19	0.1	0.29	0.98	1			
12. Population (moving average)	115	52	35	507	-0.01	-0.01	-0.02	0.01	0.12	-0.03	-0.07	0.02	0.06	-0.11	-0.1	1		
13. Upper Franconia	0.59	0.49	0	1	-0.12	-0.13	0	0.15	0.09	0.13	0.02	-0.09	-0.03	0.28	0.23	-0.19	1	
14. Lowe Franconia	0.19	0.39	0	1	0.16	0.17	0.01	-0.1	-0.02	-0.08	-0.07	0.04	0	-0.2	-0.15	-0.1	-0.58	1

Table 5.2 Logit models predicting the introduction of new products

VARIABLES	(1) New beers	(2) New beers
Family owned		3.646**
		(1.205)
Number of generations in same family	-0.132	-0.240†
	(0.106)	(0.145)
Producers' age (lag)	-0.004†	-0.004
	(0.002)	(0.003)
Number of sellers (lag)	0.090**	0.106**
	(0.015)	(0.016)
Output (lag)	0.00001*	0.00001**
	(0.000)	(0.000)
Density of overlapping competitors	0.003	0.005
	(0.011)	(0.011)
Density of overlapping competitors (sq.)	-0.000002	-0.00001
	(0.000)	(0.000)
Population (ma)	-0.010**	-0.011*
	(0.004)	(0.005)
Upper Franconia	-0.995	-1.791†
	(0.903)	(1.005)
Lower Franconia	1.534†	2.421*
	(0.903)	(1.111)
Constant	-10.474**	-14.896**
	(1.467)	(1.933)
Time dummies	Yes	Yes
Observations	7,998	7,998
Log likelihood	-468.6	-451.7

Standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

Table 5.3 Logit models predicting the use of beers with fancy authentic names

VARIABLES	(1) Use of fancy authentic beers	(2) Use of fancy authentic beers	(3) Use of fancy authentic beers	(4) Use of fancy authentic beers
Family owned		3.802**	5.252**	5.542**
		(0.946)	(0.976)	(1.542)
Local community (lag)			-1.222*	1.065
			(0.525)	(0.685)
Interaction: family owned*local community				-2.083**
				(0.725)
Number of generations in same family	-0.299**	-0.420**	-0.592**	-0.444**
	(0.092)	(0.112)	(0.172)	(0.110)
Producers' age (lag)	-0.006*	-0.006†	-0.008†	-0.006†
	(0.003)	(0.003)	(0.005)	(0.003)
Number of sellers (lag)	0.101**	0.110**	0.140**	0.114**
	(0.016)	(0.017)	(0.021)	(0.018)
Output (lag)	0.00001	0.00001**	0.00001**	0.00001**
	(0.000)	(0.000)	(0.000)	(0.000)
Density of overlapping competitors	0.011	0.012	0.004	0.005
	(0.012)	(0.012)	(0.015)	(0.016)
Density of overlapping competitors (sq.)	-0.00001	-0.00001	-0.00000004	-0.000004
	(0.000)	(0.000)	(0.000)	(0.000)
Population (ma)	-0.013**	-0.014**	-0.017**	-0.014**
	(0.004)	(0.004)	(0.004)	(0.004)
Upper Franconia	-1.456	-1.814†	-4.181**	-1.607
	(1.095)	(1.078)	(1.321)	(1.143)
Lower Franconia	1.681	1.656	2.225	1.854
	(1.031)	(1.042)	(1.372)	(1.198)
Constant	-12.746**	-16.446**	-17.028**	-16.836**
	(1.740)	(1.847)	(2.385)	(3.243)
Time dummies	Yes	Yes	Yes	Yes
Observations	7,998	7,998	7,998	7,998
Log likelihood	-385.2	-372.6	-368.7	-367.6

Standard errors in parentheses
** p<0.01, * p<0.05, † p<0.1

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Table 5.4 Logit models predicting the use of beers with non-traditional names

VARIABLES	(1) Use of non-traditional names in new beers	(2) Use of non-traditional names in new beers	(3) Use of non-traditional names in new beers	(4) Use of non-traditional names in new beers
Family owned		-6.798†	-2.933	-9.821**
		(3.674)	(2.432)	(3.725)
Local community (lag)			-15.414**	-19.943**
			(4.907)	(6.890)
Interaction: family owned*local community				10.127
				(7.070)
Number of generations in same family	0.112	-0.121	0.642†	0.165
	(0.329)	(0.397)	(0.332)	(0.288)
Producers' age (lag)	-0.001	0.007	-0.019†	-0.007
	(0.008)	(0.013)	(0.011)	(0.011)
Number of sellers (lag)	0.142**	0.180**	0.091**	0.059*
	(0.029)	(0.037)	(0.024)	(0.023)
Output (lag)	0.00001	0.00001	0.00001	0.000001
	(0.000)	(0.000)	(0.000)	(0.000)
Density of overlapping competitors	-0.376**	-0.412**	-0.384**	-0.375**
	(0.037)	(0.045)	(0.051)	(0.043)
Density of overlapping competitors (sq.)	0.001**	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)
Population (ma)	0.025	0.015	0.015	0.040*
	(0.023)	(0.019)	(0.017)	(0.018)
Upper Franconia	-0.513	-0.181	1.730	3.803
	(3.182)	(4.794)	(3.527)	(3.662)
Lower Franconia	0.473	-1.582	-1.830	-2.462
	(3.380)	(4.767)	(3.031)	(4.040)
Constant	-19.088**	-11.910†	15.308*	12.981
	(6.244)	(6.715)	(7.504)	(9.039)
Time dummies	Yes	Yes	Yes	Yes
Observations	7,998	7,998	7,998	7,998
Log likelihood	-49.69	-48.76	-50.09	-50.39

Standard errors in parentheses
** $p<0.01$, * $p<0.05$, † $p<0.1$

Figure 5.1 Proportion of products with "fancy authentic names" over time
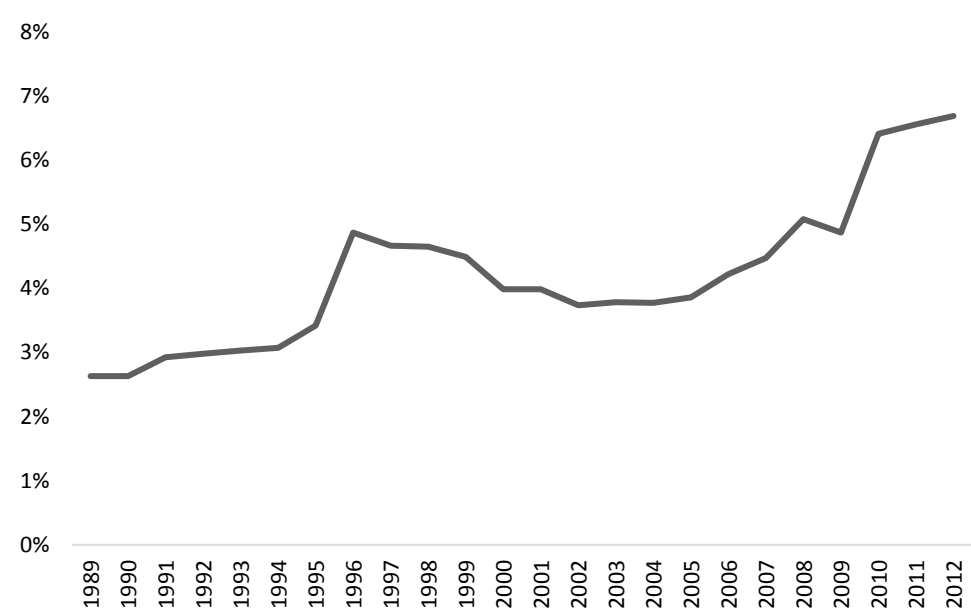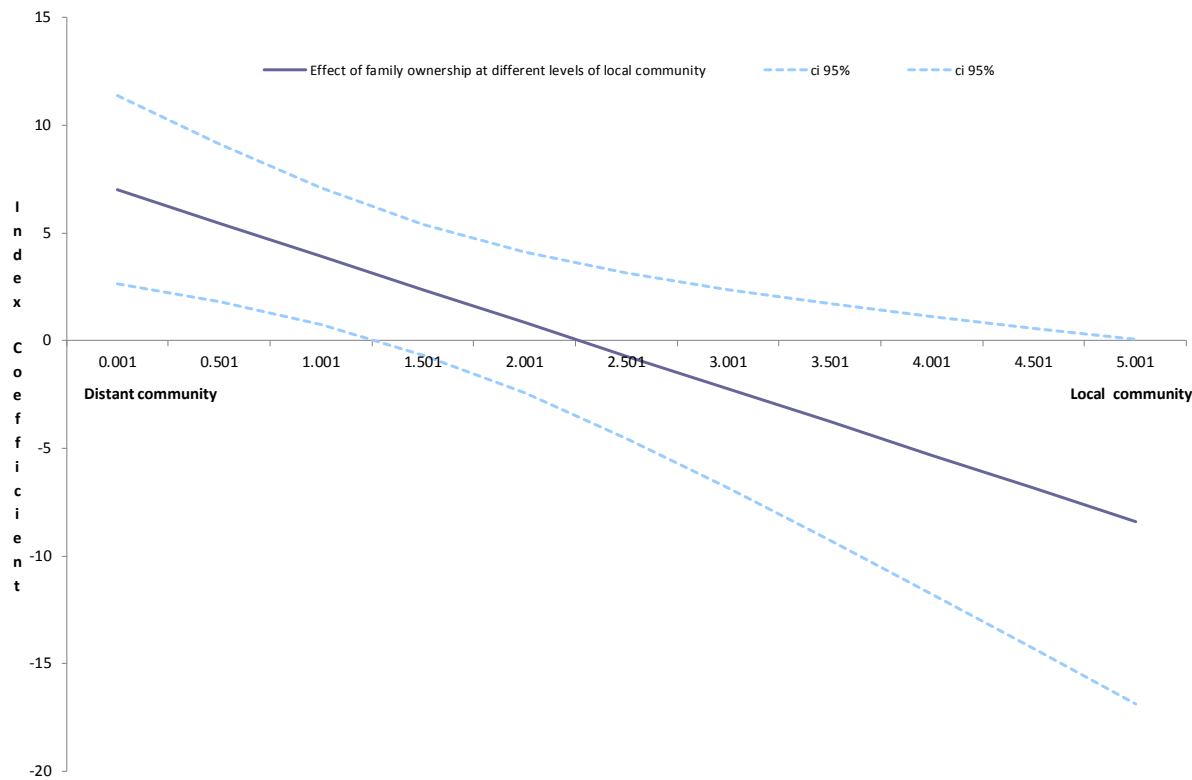

Figure 5.2 Interaction effect

6. CONCLUSIONS

6.1. MAIN FINDINGS

This dissertation focuses on the barriers that authenticity brings to organizational outcomes such as entry of new organizations, product diversification, and introduction of new products. I have explored instances of authenticity such as local attachment, tradition, and expectations on authentic products as characteristics that are highly sought after in traditional industries. The dissertation also builds on geography as a theoretical and empirical construct that allows exploring unique and idiosyncratic relationships between producers and communities (Audia & Rider, 2010) and that sheds light on the mechanisms explaining why entrepreneurial actions are not always well received by communities.

The main findings throughout this dissertation point at the difficulties that authenticity –and tradition and producers' local attachment to their communities as instances of it- impose for the renewal of an industry in terms of entry of new organizations, product diversification, and the introduction of new products. In Bamberg city (the cluster center of the Franconian beer industry), breweries are small producers who tend to serve proximate audiences and have long tenure in their communities. They play an important role in their community and interact with the community through social circles too. These characteristics makes Bamberg a difficult destination for the establishment of a new brewery (**Chapter 3**). Forchheim in Upper Franconia also offers a similar setting, where community members have high expectations on authenticity and disfavor breweries who attempt to diversify their product portfolio (**Chapter 4**) or introduce new beers (**Chapter 5**). These constraints become even stronger in communities where demographical patterns are highly stable

(e.g. high residential stability in **Chapter 3**); also when producers are spatially proximate to their audience members (e.g. local communities in **Chapter 5**).

Results throughout this dissertation further show that entrepreneurial attempts can be possible in spite of the challenging conditions imposed by the idiosyncratic producer-community relationship in traditional industries. Particularly, entrepreneurs aiming at founding a new organization may want to consider communities whose experience with locally attached producers is limited, and whose levels of residential stability are high. Rather than a thread to local traditions, new organizations are seen as vehicles that provide continuity to community traditions and values (**Chapter 3**). Communities like Kulmbach in Lower Franconia represent one instance of this kind. Because the market is largely driven by one industrial mass producer, consumers in Kulmbach welcome the advent of new local breweries. In addition, producers aiming to introduce new products can rely on characteristics that reify their connectedness to the community and their tradition such as their identity as family firms or the use of traditional words in the labels of new products (**Chapter 5**). The use of traditional names on new beers is more frequent for breweries located in communities such as Rhön Grabfeld and Main-Spessart in Lower Franconia, who serve mostly geographically distance audiences.

6.2. CONTRIBUTIONS

This dissertation primarily contributes to the literature in organizational authenticity and the influence of audience members on organizational action. Mainly, the insights and findings in this dissertation advance the discussions about authenticity and its influential role on organizational outcomes. Contemporary studies suggests that organizations that come across as authentic receive higher ratings and better

assessments from audience members (Kovács et al., 2014; Negro et al., 2011), while they are more forgiven when violating quality standards (Lehman et al., 2014). Building on these insights, this dissertation shows that authenticity is capable of influencing other organizational outcomes like entry of new organizations (**Chapter 3**), responses to competition (**Chapter 4**), and introduction of new products (**Chapter 5**). By focusing on instances of authenticity such as local attachment and tradition, my dissertation suggests that authenticity plays a dual function for organizations: it is necessary to be appealing to audience members and receive better assessments, but it also prevents entrepreneurial attempts. As a result, innovation fails to emerge in industries where authenticity has evolved hand in hand with communities over time. *Second*, my focus on geographic communities advances the understanding of the conditions under which authenticity matters for organizations. In particular, **Chapter 3** shows that community demographical patterns influence the maintenance of expectations on authenticity such that communities with demographical stability are more likely to claim authenticity from the producers, while demographical turnover reshuffles the system of values and expectations within the community. **Chapter 5** also shows that geographically distant communities are more open for new products. Because of geographical distance to producers, distant communities are less likely to build prototypes of how an organization should look like and, therefore, more welcoming to novelty. *Third*, this dissertation provides insights on various resources upon which firms can rely to overcome the constraining role of authenticity (**Chapter 5**). In particular, pinpointing at elements that reify firms' attachment to local communities such as their identity as family-businesses and the use of traditional words in labels can constitute essential tools for firms to introduce novelty in a legitimate way.

My dissertation also contributes to the literature in geographical communities. *First*, I show that communities can bring negative spillovers for organizations. In so doing, my dissertation sheds light on the conditions under which communities and the producer-community relationship might turn hostile or supportive for entrepreneurial attempts. Extensive research has portrayed communities as supportive and beneficial contexts for organizational actions and particularly for entrepreneurship (Audia et al., 2006; Audia & Rider, 2010; Freeman & Audia, 2011; Marquis & Lounsbury, 2007; Thornton & Flynn, 2003; Weber et al., 2008). The main argument is that communities provide access to better-qualified labor force, knowledge and informational spillovers, geographical proximity to suppliers and other market actors (Sorenson & Audia, 2000) as well as friendly conditions for community members who desire to found their business at "home" (Audia & Rider, 2010; Dahl & Sorenson, 2012). By concentrating on the producer-community relationship in traditional industries, my dissertation highlights that community members are likely to develop strong expectations on authenticity and local attachment of an organization, and can therefore refrain from supporting producers who do not fulfill this prototype. Although the community is their home (Audia & Rider, 2010), certain conditions need to be fulfilled for an entrepreneur or producer to access the benefits of communities. In this line, **Chapter 3** and **Chapter 4** clarify the conditions under which community actors enable or constrain organizational action. Specifically, local attachment from producers to their communities, demographical stability, and geographical proximity between producers and audience members are key factors in understanding the constraining role of communities. *Second*, the attractiveness of a geographical location as a destination for establishing a new organization or to introduce changes in the product portfolio strongly rely on the type of relationships between producers and audience members in a given

industry. Thus, organizational concentration (e.g. Romanelli & Khessina, 2005; Rosenthal & Strange, 2001; Saxenian, 1996) alone does not guarantee that a geographical cluster grants access to relevant resources. Instead, being able to come across as authentic, locally embedded, and traditional are important characteristics when aiming to deploy entrepreneurial actions in a traditional industry.

By studying how quest for authenticity changes the nature of diversification strategies, my dissertation also contributes to the field of strategy. Well-established findings in the field suggest that the relationship between competition and diversification strategies is highly influenced by firm-specific assets such as dynamic capabilities, economies of scales, and synergies (Barroso & Giarratana, 2013; Gimeno & Woo, 1999; Hashai, 2015; Porter, 1979; Tanriverdi & Lee, 2008). In **Chapter 4**, I suggest that organizational responses to competition are limited when audience members have a strong quest for authenticity. Authenticity becomes a norm –rather than an option- to which producers need to comply by reducing diversification and participation in non-authentic segments of the market even in the presence of competition. With these findings, this dissertation contributes to the field of strategy by suggesting that firms are likely to experience limits to the extent to which they can differentiate from competitors when attending portions of the market where authenticity is a relevant attribute for organizations. Moreover, related diversification seems to be an undesirable option when dealing with competition in traditional industries. As a second contribution to the field of strategy, this dissertation clarifies conditions for which the use of strategic names enhances firms' performance (Li & Greenwood; 2004; Smith & Chae, 2015). Particularly, **chapter 5** focuses on audience members' geography and knowledge about the organization. Geographically distant communities are more likely

to lack direct information about producers and their offerings, therefore, names are more salient for this type of audience.

Finally, my dissertation aims to contribute to the field of family businesses by shedding light on the conditions under which family-owned firms are more innovative as opposed to non-family firms. Current debates in the field reveal the presence of two contrasting views about family firms' tendency to engage in entrepreneurial activities (Chirico et al., 2011). Because of their desire to ensure a legacy for upcoming generations, family firms are conservative agents that refrain from innovating. In contrast, family ownership gives firms unique resources that support the discovery of entrepreneurial opportunities and the implementation of new projects. **Chapter 5** advances this discussion by suggesting that family firms' entrepreneurial orientation is contingent on *how* and *where* they introduce novelty. The use of traditional and historical names on newly introduced products as well as the spatial location of the communities to which these new products are launched are key factors in understanding the innovative character of family firms. **Chapter 5** also contributes to the field of family businesses by highlighting that family-owned firms possess an advantage over non-family businesses also with respect to external conditions (e.g. audience members). Research in the field has advanced that internal characteristics that are unique to family firms, e.g. the presence of emotional attachment to the firm, can turn into an advantageous condition. **Chapter 5** suggests that this advantage transcends also to community members (e.g. audience members) and family-firms are highly legitimated actors, particularly, in industries where producers and audience members are geographically proximate to each other.

6.3. SCOPE CONDITIONS

The main findings in this dissertation may hold for other industrial agglomerations where (i) organizational offerings embed symbolic and moral meaning, and (ii) producers are geographically proximate to audience members. In addition, my arguments hold true mostly for small and medium-size producers who value quality over quantity.

The arguments in this dissertation are also subject to audience members whose engagement (Hannan et al., 2007) in the industry allows them to develop knowledge about producers in an industry, their identity claims and past behaviors. Therefore, consumers and other audience members are knowledgeable actors who can easily identify when firms are transgressing their identity, local and authentic nature, and thereby social sanctions are more likely to take place (Beck & Wezel, 2012). This knowledge results from repeated interactions with producers, idiosyncratic stories, and historical exposure to organizations. This type of audiences go beyond the mere consumption of products and goods. They look for products that awake meanings and emotions, evoke their history, and differ from other offerings (Cattani et al., 2014; Frake, 2016).

Industries as diverse as food and dining, wine, arts, popular music, handicrafts, and ethnic tourism may be suitable contexts for the study of authenticity constraints on entrepreneurial action.

6.4. LIMITATIONS AND FUTURE RESEARCH

An important limitation of my dissertation relates to the observed lack of variance in some of the constructs used throughout such as types of new entrants and consumers' expectations towards authenticity. For example, the seventy-five

newcomers in Franconia turned out to be rather homogeneous along characteristics such as product portfolio, size, geographical scope, and entry mode. Thus, capturing differences between new entrants was not plausible with the available data. Future research should address differential characteristics between newcomers, for example, by looking at the strategies used at the moment of entry (more about this in the next section). As far as expectations on authenticity is concerned, respondents showed homogeneity in their tastes across different regions of Franconia. Thus, testing our arguments when quest for authenticity increases needs further elaboration in future stages of this research (particularly for Chapter 4). Differences in audience members' preferences for authenticity may be better observed when looking at different types of audience members, for example, consumers versus experts and critics.

The Franconian beer industry also offers limited opportunities to explore novelty as it is understood in other contexts. Rather than Schumpeterian innovations, entrepreneurial attempts to include novelty happen at an incremental yet isolated way in Franconia. In addition, because of its mature character and compliance with traditions, Franconian breweries tend to *innovate* within the realm of what they already know and do. Technical innovations also occur, though, these are the result of regulatory affairs (i.e. the use of steel rather than wooden tanks). Because of this, the operationalization of novelty used in **Chapter 5** is a premature attempt to cover the introduction of products that deviate from authenticity. Further steps of this research should focus more rigorously on the introduction of novelty at different dimensions such as product distribution, partners and suppliers, and marketing strategies.

This dissertation has also set the ground for future research avenues. The limitations described above as well as the main findings in the dissertation provide rich opportunities for future research projects. An overview is provided as follows.

6.4.1. Types of entrants

New producers in Franconia are rather homogeneous. Therefore, creating a distinction between types of newcomers was not plausible with the current data. Finding distinctive elements across newcomers is paramount in understanding what kind of entrepreneurs are able to access community resources and succeed in the end. Further research should be able to differentiate entrepreneurs in terms of, for example, the narratives used in the entry process, ownership characteristics, and local connections. For example, Pax Bräu (Oberelsbach, Lower Franconia) profiles as a quite atypical yet innovative brewery, whose portfolio is based on experimenting beers consisting of ingredients other than the ones stated in the German purity law and is nonetheless one of the most attractive newcomers in Franconia. His master brewer and owner, a native of Oberelsbach, has accompanied their entry attempts by referring to the need of exploring recipes beyond the German purity law. Instead, St. Erhard, a newcomer in the city of Bamberg, anchors its narratives around the concept of "genuine Franconian beer culture" and aims to attract not only locals but also geographically disconnected consumers.

6.4.2. Diverse audiences and markets

Different types of audiences might perceive violations on organizational identity in different ways (Beck & Wezel, 2012; Goldberg, Hannan, Kovács, 2016). Different types of markets can also trigger diverse reactions from audience members when transgressing their identity by, for example, diversifying their portfolio (Beck & Wezel, 2012). In this dissertation, I have focused on a highly traditional market whose historical character and geographical proximity between market actors creates a complex and tightly knit structure of expectations that is difficult to improvise by new

entrants and incumbent producers. However, by exploring the role of community demographical patterns and spatial connectedness, **Chapter 3** and **Chapter 5** suggest that different types of audiences (and communities) can welcome entrepreneurial attempts of establishing a new firm and introducing new products. Future research should consider typologies of audience members (e.g. consumers versus experts) in order to better understand the conditions under which authenticity constrains and enables entrepreneurship. Beck and Wezel (2012) have suggested that audience members' engagement[32] is an essential element in understanding when identity violations are perceived as neutral or as violations. Engaged audiences (Hannan et al., 2007) are more likely to thoroughly screen all dimensions that define their code system and are therefore more sanctioning towards diversifying firms, while contexts in which audiences possess low engagement are easier for entrepreneurial action (Beck & Wezel, 2012).

6.4.3. Family generations and the introduction of novelty

Analyses in **Chapter 5** suggested that late-generational family firms are more likely to introduce new beers with non-traditional names, while less likely to introduce new beers, which names refer to tradition. Building on this, future research should explore the role of late-generational firms in introducing novelty and renewing traditional industries. Because of their longer tenure in the community, late-generational family firms might enjoy stronger advantages to deviate from prototypical identities in a legitimate way. This research avenue can also contribute to contemporary research in family businesses about the role of generations on the entrepreneurial orientation of the firm (Beck et al., 2011; Cruz & Nordqvist, 2010). Since late-generational family firms

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[32] Audience engagement is defined as the extent of experience with the organizational form under consideration (Hannan et al., 2007).

have already assured their viability for several generations, they tend to be more innovative and often aim to make things differently from what they have done in the past in order to extend the legacy of their ancestors (Beck et al., 2011). In turn, first-generation family firms will tend to stick to traditional ways of doing business as they have a stronger sense of preserving the viability of the business for upcoming generations.

6.4.4. Creating authenticity and the use of the past in product labels

Chapter 5 has shed light on the role of product names in catching audience attention to organizational offerings that are uncertain. This insight mainly builds on recent discussions on the strategic use of names in helping overcome legitimacy discounts (Zhao et al., 2013), increasing product's appeal (Khessina & Reis, 2016), ratings (Verhaal et al., 2015), and survival rates (Smith & Chae, 2015). However, little is known about how names intervene in the process of constructing authenticity (Carroll & Wheaton, 2009; Wherry, 2006). Main findings in this dissertation (and in particular in **Chapter 5**) suggest that producers can use traditional names to legitimately break with tradition by introducing products that deviate from socially acknowledged expectations; however, this could also mean that by launching novel offerings, producers alter the meaning and induce the re-construction process of authenticity in an industry (Negro et al., 2011; Wherry, 2006). Stated differently, producers can influence and modify the system of codes used in the process of evaluating authenticity by accompanying their innovations with words of the past. I look forward to future research in this direction.

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