

# WHO IS PUNISHED MOST FOR CHALLENGING THE STATUS QUO?

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Over time, markets evolve into particular structures, with clearly defined roles in terms of who does what in the industry. When a firm ventures beyond these established roles, it often gets punished by its exchange partners. Our interviews in the Champagne grape market, however, suggest that some buyers are penalized more than others in such circumstances. Quantitative analysis confirms that nontraditional buyers receive price penalties for role deviations—through diversification, vertical integration, or disintegration—whereas traditional firms are treated more leniently. A subsequent interpretivist study, using interview data from 78 market participants to explore the exact mechanisms underlying this effect, reveals that sellers blame less traditional buyers when they cross the boundaries of their usual roles because they are thought to act out of volition and bad faith, whereas the same transgressions by more traditional firms are believed to have been necessitated by external circumstances. We conclude that the sanctioning behavior of actors in response to role transgressions by their exchange partners is driven by their interpretation of the motives underlying these transgressions, rather than by the actions themselves. As a result, nontraditional firms may also find it difficult to deviate from the traditional roles in their industry.

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Industries typically involve groups of firms that may be undertaking different yet interdependent activities. Markets are formed at particular places in an industry's value chain (Jacobides & Winter, 2005; Williamson, 1975), and stable structures emerge in terms of who does what (Coase, 1992; Fligstein & McAdam, 2012). Scholars from various disciplines have argued that, over time, such roles and structures become institutionalized and embedded in norms, which define “the rules of the game” (North, 1993: 361) and “the way things are done” (Fligstein, 1996: 667). These norms allow firms to organize themselves, compete, cooperate, and exchange, thus creating an institutionalized model of organizations' role division (Battilana, 2011).

However, firms sometimes deviate from their usual roles and the institutionalized status quo. To improve their economic position, they may narrow their activity set, or, on the contrary, expand beyond what is considered their usual jurisdiction. Prior work has shown that their exchange partners tend to

respond negatively to these actions, and that transgressors are often penalized for changing the boundaries of their roles (e.g., Ody-Brasier & Vermeulen, 2014). This is because these changes are often associated with a redistribution of power and economic outcomes (Fligstein, 1996; Weber, 1924/1968). Those who deviate from their customary roles are therefore viewed as a threat to the established order (Rao, Monin, & Durand, 2003).

Correspondingly, during fieldwork in the market for Champagne grapes (Ody-Brasier & Vermeulen, 2014), we observed that some of the producers of the sparkling wine (Champagne houses), who usually purchased the necessary grapes from independent growers, had begun to challenge the boundaries of their role within the industry—by acquiring vineyards of their own—or were moving outside the boundaries of the industry altogether—by establishing sparkling winemaking subsidiaries abroad. Others were contracting their role by leaving the branding, sales, and distribution of the wine—activities that a house conventionally would undertake—to retailers such as supermarkets. These actions challenged the industry's status quo, and were viewed by grape growers as serious violations of “what a house is supposed to do.”

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However, we also noticed that many of the sellers we interviewed often responded with considerably more indignation to queries about the role digressions by some of their buyers than by others. When probing further, we learned that they appeared to distinguish—perhaps unconsciously—between buyers with characteristics of traditional Champagne houses and buyers that were less traditional. We wondered whether a more versus less traditional identity could cause variance in the extent to which similar role digressions are punished. To test the conjecture that traditional buyers may be penalized less for the same role digressions than less traditional houses, we set up a quantitative study.

In this study, as a dependent variable, we focused on the price that buyers were charged for the grapes—the industry’s scarce and critical resource—which they obtained from sellers, because price has been shown to be one penalizing mechanism in this setting (Ody-Brasier & Vermeulen, 2014). To test our prediction, we used longitudinal data on the 66 houses that make Champagne (the buyers), which obtain the necessary grapes from independent growers (the sellers). We asked growers about the characteristics that they associate with traditional houses and measured all houses on these features. Using these measures, our statistical models confirmed that grape growers react more strongly—by charging significantly higher prices for the same-quality grapes—to violations by houses that did not have these characteristics than by more traditional houses. In fact, the results show that the houses that maintained Champagne’s original organizational characteristics were punished substantially less, to the extent that those that adhered very closely to the traditional features received no price penalty at all.

To complete our variant of a “full-cycle research design” (Kaplan, 2015; Ranganathan, 2018: 641),<sup>1</sup> we then also engaged in a qualitative, interpretivist analysis, using 78 interviews with grape sellers, buyers, and other industry insiders. This research design implies that our hypotheses are formed “close to the field” (Ranganathan, 2018: 639), informed by qualitative data, and then corroborated by a deductive quantitative study. The final step—a systematic, interpretivist analysis using qualitative data—we conducted in order to open the black box of our

quantitative findings and to further understand the precise mechanisms driving the variance we uncovered in sanctioning behaviors. In particular, we used interviews to probe further the motives underlying the sellers’ retaliatory actions (or lack thereof) in response to their buyers’ role digressions. Because identity characteristics often act as a lens through which actors make sense of others’ actions (Smith, 2011), we aimed to uncover the interpretative schemes of the sellers by investigating how they made sense of violations depending on the identity characteristics of the different transgressors.

We find that whether a violator displays traditional characteristics determines the sellers’ interpretative processes of their role violations. In particular, whether a house that violates its role maintains traditional characteristics is viewed as a signal of its commitment to the status quo, which affects how the sellers make sense of its underlying motives for challenging the boundaries of their role. When less traditional buyers digress from their roles, sellers interpret this as confirmation of their extant suspicions, triggering negative emotions such as condemnation and anger. By contrast, when firms with traditional characteristics engage in the same actions, sellers interpret them as out of character, attribute them to situational circumstances, and speak to defend the buyer’s actions. Hence, sellers’ interpretations of a buyer’s actions depend on the buyer’s preexisting features and whether these are in line with the traditional characteristics in the industry. Consequently, sellers punish less traditional firms for their actions, whereas firms with traditional features are not penalized.

Our induced model sheds light on why sellers’ reactions to buyers’ role deviations are driven not merely by these actions themselves but by sellers’ interpretation of them. Norms guide human behavior in many settings, including in economic exchange (e.g., Ellickson, 1991; Fauchard & von Hippel, 2008; Ostrom, 2000). Sanctioning of violations is critical to the functioning of norms. Prior research has indicated that it can be rational or altruistic (Fehr & Gächter, 2002; Mussweiler & Ockenfels, 2013); it can be “hot” and driven by a desire for retaliation and justice or “cold” and calculative (for an overview, see Di Stefano, King, & Verona, 2015). Previous work on the former, for example, has shown that potential punishers consider the cost of sanctioning (e.g., Coleman, 1990), including the risk of retaliation or the loss of social relations (e.g., Axelrod, 1986; Di Stefano et al., 2015). Our paper, by contrast, furthers our understanding of the sources of variance in the

<sup>1</sup> The full-cycle research design has been described theoretically (e.g., Lin, 1998; Roth & Mehta, 2002) and is used to combine positivist and interpretivist methodologies; yet, it is rarely implemented in practice (but see Ranganathan, 2018, for an exception).

punishment of norm violations—particularly role digressions—by focusing on the identity of the violator. Our findings show that a violator’s identity characteristics may play a more important role than the action itself. Specifically, potential punishers make sense of transgressions and subsequently assign blame by considering whether the violator has characteristics that suggest a commitment to their industry’s status quo. Thus, our finding has clear implications for theory on the process of sanctioning (see, e.g., Reilly, 2018).

By extension, our findings on sanctioning behaviors have implications for our understanding of market creation and structuration. The sanctioning of individual role-digressing firms forms a micro mechanism through which less traditional firms are also nudged into roles that are compatible with the industry’s status quo. Whereas prior literature has suggested that change in an organizational field will often come from less traditional players, because they are less constrained by issues of organizational inertia (e.g., Greenwood & Suddaby, 2006; Leblebici, Salancik, Copay, & King, 1991), our findings suggest that such relative outsiders may also struggle to initiate change, because of the comparatively severe sanctioning of their role deviations.

## BACKGROUND

### Role Digressions

Over time, stable structures emerge in industries in terms of which type of firm does what in the value chain, and where markets are placed (e.g., Coase, 1992; Jacobides, 2005). We refer to the set of activities that a particular group of firms perform as their “role” in the industry.<sup>2</sup> In mature industries, the division of roles becomes embedded in more or less explicit norms of behavior (DiMaggio, 1989; Fligstein, 1996). Thus, the different roles of the relevant groups in the industry form organizing principles that guide behavior and help actors build an “account of the world” (Fligstein, 1996: 659); it allows them to coordinate actions based on a common understanding of the rules of the game (North, 1990). Various studies have documented these institutionalized models of organizations’ role division, whereby actors develop a

<sup>2</sup> Within role theory, in sociology, roles are conceptualized in different ways (e.g., Biddle, 1986). We use the term to refer to the institutionalized sets of organizational activities in an industry’s value chain that have become embedded in norms.

mutual understanding of who does what in the industry (e.g., Battilana, 2011; Rao et al., 2003). Based on their perceived expertise, roles sometimes become associated with exclusive occupational groups having moral or practical jurisdiction over certain activities (Abbott, 1988), such as a monopoly of practice or control of licensing. For instance, in our setting, grape growers obtained almost exclusive control rights over the Champagne delimited vineyard area.

However, actors pursuing their private interests may challenge these roles by expanding or even contracting their set of activities. Some activities cause them to expand their role within the industry. For example, studying French gastronomy, Rao et al. (2003) documented how some chefs expanded their role by moving away from being mere employees of a restaurant to being creators and owners themselves. Other activities take actors outside the boundaries of their industry altogether. Kraatz and Zajac (1996: 817) notably described how some liberal arts colleges in the United States engaged in “the addition of more professional, more career-oriented programs of study,” areas not considered their jurisdiction. Actors may also alter their role by narrowing their activity set: some French haute couture houses have chosen to outsource their manufacturing, despite the potential loss of image and identity associated with this narrowing of their activities (Djelic & Ainamo, 1999). Hence, firms can depart from their customary roles by means of vertical integration, diversification, or vertical disintegration.

Such actions will often be resented by members of other groups within the industry because they are viewed as norm violations that challenge the status quo (Ody-Brasier & Vermeulen, 2014). In the case of role expansion, these actions encroach on another group’s jurisdiction; they may also threaten the distinctiveness of the industry altogether (Hannan, Pólos, & Carroll, 2007). In our setting, houses that produce foreign sparkling wines, for example, are often resented by growers because they endorse and create potential substitute products for Champagne. In that sense, norms and economic interests are often intertwined (Elster, 1989a). Even role contractions—for instance, through the outsourcing of certain key activities—may be resented simply because they depart from the way things are done (Fligstein, 1996) and create uncertainty about a possible new order in the industry (Djelic & Ainamo, 1999).

Because such activities are considered norm violations, when faced with threats to the status quo, other industry actors may retaliate and impose sanctions. People may sanction norm violators because it is

rational for them to do so—for instance, to enforce a norm that is advantageous to their private interests and to deter future violations (Axelrod, 1980), because it benefits their social group (Fehr & Gächter, 2002), or out of a fundamental desire for retribution (Carlsmith, Darley, & Robinson, 2002)—even though it might be costly for them to do so (Ody-Brasier & Vermeulen, 2014). Therefore, exchange partners may punish actors that do not adhere to their industry's established norms. They can ostracize or vilify firms (e.g., Negro, Hannan, & Rao, 2011; Porac, Thomas, Wilson, Paton, & Kanfer, 1995), cease relationships altogether (Ellickson, 1991; Ostrom, 2000; Rogan & Greve, 2015), or limit the violator's access to key resources (Pfeffer & Salancik, 1978)—for instance, by charging them higher prices for these resources (Ody-Brasier & Vermeulen, 2014).

However, market actors may not always respond in the same way to norm violations by different actors. As we explain below, in Champagne, for example, we observed that different buyers seemed to be treated differently in response to similar role digressions. While the punishment of norm violations may not always be uniform and consistent, scholars have devoted little attention to understanding how observers make sense of—and, in turn, assign blame for—these behaviors (Reilly, 2018). In the present paper, we explore how some of the violator's identity characteristics might affect sense-making and, in turn, sanctioning behaviors for the very same transgressive act. Differential punishment may occur because, as Smith (2011) observed, firms' identity characteristics can act as a lens through which others make sense of their actions. Thus, the actions by firms with different characteristics may be interpreted differently by their exchange partners, potentially leading to varying degrees of retaliation.

### Research Setting

Our setting is the Champagne grape market between 1998 and 2007. Champagne is a precisely defined area in France (through the region's Appellation d'Origine Contrôlée—or “controlled designation of origin”—certification), and sparkling wines can legally be called “Champagne” only when made from grapes grown in this region. These grapes are sold by grape growers to Champagne houses, such as Veuve Clicquot, that need them to produce the wine. Grape quality is measured on an official scale, established in the 1920s and based solely on the *crus* (origins) of the grapes in question. Since there is no coproduction between buyers and sellers and since grape exchanges do not involve relationship-specific investments, grape

transactions are routine work, which implies that embedded exchange relations have little, if any, effect on pricing (Uzzi & Lancaster, 2004).

An important characteristic of this market is that the growers have almost exclusive control over a scarce resource, Champagne grapes. Both the amount of land that can be cultivated for grapes and the yield of the vines are limited by law. Production capacity cannot be increased (Besse, Tegner, & Wilkins, 2006): the region is fully planted, and vineyard productivity is at its maximum. Historically, some houses own vines—about 10% of the total vineyard area—but all have very low self-supply ratios and depend on grape growers, who successfully claimed jurisdiction over the scarce resource through intense lobbying efforts in the 1960s. Consequently, although there are many more growers than houses, they are relatively powerful and, for instance, act as price-setters.

Whereas grape supply is limited, demand for Champagne is booming. Not only does the domestic market remain strong but also international demand—especially from China and Russia—has risen dramatically over recent decades. In what people in the industry refer to as the “supply race,” Champagne houses compete fiercely to secure inputs. “I can pretty much ask whatever I want [in terms of price]. Not that I would be unreasonable, but the power is with the growers,” one interviewed grower observed. Another grower explained:

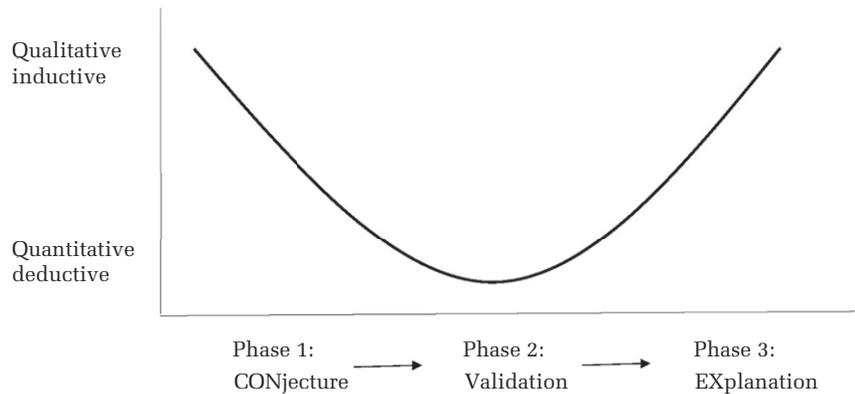
There aren't any problems as far as selling grapes. The demand is there. If we have grapes to sell, there are 10 people knocking at the door to buy them . . . The person who wants to get the best price just needs to ask.

On the buyer's side, a CEO we interviewed summarized the situation as follows: “In our accounting books, the growers may appear as suppliers, but, really, we have to treat them as clients.” As a result, in this context, sellers are able to retaliate against buyers that deviate from their established role.

### PHASE 1: INTERVIEWS, CONSTRUCTS, AND HYPOTHESES

We adopted what we call a “CONVEX research design”: a full-cycle research design that combines both positivist and interpretivist methodologies (Lin, 1998; Ranganathan, 2018; Roth & Mehta, 2002). The research consisted of three phases—(1) “CONjecture,” (2) “Validation,” and (3) “EXplanation”—as visualized in Figure 1. We first spent time in the field to get to know the setting, generate testable hypotheses, and identify data sources and appropriate

**FIGURE 1**  
**CONVEX Research Design**



measures. In the second phase, we used an industry-wide quantitative data set to test our predictions. Finally, we conducted an interpretivist study to further explore the precise mechanisms underlying the quantitative findings and to “add important information to the bare-bones finding of that quantitative work” (Lin, 1998: 165). Hence, the aim of this final interpretivist stage, as Roth and Mehta (2002: 138–139) put it, was to complement “the hard, objective facts” of our empirical model and to develop “a more complete understanding” of its results.

Throughout the three phases, we conducted interviews and field observations in the Champagne region between October 2008 and October 2016. These included 78 interviews: 39 on-site interviews and 39 phone interviews with market participants. In total, we talked to 17 industry experts, 14 grape buyers, and 47 grape sellers. Interviewees were selected using snowball chain sampling: we identified cases from “people who know people who know people who know what cases are information-rich” (Swanson & Holton, 2005: 52); we thus added interviewees referred to us by market participants, until we felt that we were not gaining any new information. With a few exceptions, all interviews were conducted in French by a native speaker. They lasted 56 minutes on average. All but three interviews were taped, yielding over 60 hours of audio recordings and about 600 pages of single-spaced transcripts. One of the authors spent a week observing grape transactions in situ during the 2010 harvest; she also gained temporary access to the trade association’s intranet, which allowed us to consult exclusive industry reports, letters of information, legal documentation, and archival data. The fieldwork began

with the explicit goal of developing a preliminary understanding of the institutionalized status quo. Furthermore, we wanted to identify what actions might constitute role deviations by grape buyers, as well as their key identity characteristics.

### Role Digressions

The fieldwork revealed that sellers were strongly committed to the institutionalized model of organization within the industry. This status quo includes formal rules—legislation regarding, among other things, the use of the land, grape varieties, and production methods—but also informal rules, culture, and norms about how to manage and market. We uncovered three specific actions perceived by grape sellers as clear role digressions by grape buyers—(1) vertical integration, (2) vertical disintegration (in the form of supplying wine to supermarket brands), and (3) foreign diversification—each a clear deviation from a house’s established role. Respondents usually began talking about these three actions automatically and vigorously, which we interpreted as one indication of their strong feelings about them.<sup>3</sup>

<sup>3</sup> Note that prior research has studied norm violations in various (artisanal) industries in the form of production methods (Negro et al., 2011), product features (Porac et al., 1989; Rao et al., 2003), or product imitation (Di Stefano et al., 2015). We did not find any evidence of this type of norm violation in Champagne, most likely because product and process characteristics (regarding the use of ingredients, different growing and aging methods, etc.) are strictly controlled by legislation, with very little room to maneuver and move beyond what is acceptable.

### Vertical Integration

For a Champagne house, “vertical integration” means purchasing vineyards within the region. French legislation makes it difficult for houses to acquire vineyards, but not impossible: they can take over other houses that owned land prior to the introduction of the law (in the early 1960s), or they can negotiate arrangements with growers who have reached retirement age but are unable to pass their business on to a family member (see also Appendix B for details). This action reduces the economic dependence of a particular house on grape growers. “Everyone is on the lookout for vineyards in Champagne,” one interviewed grape grower commented. Such backward integration—houses purchasing vineyards—openly challenges the established division of roles in the industry (into vine growing and winemaking); a move resented by growers, who see it as a threat to the status quo. A house representative said, “It is very poorly perceived by the growers”; an industry expert explained, “From the perspective of . . . the growers, they view this as imperialism . . . a hegemonic move.” A grower reflected, “This is a real threat for the balance of power in Champagne,” and another added, “It is scary.” Backward vertical integration goes against the established code of conduct in the industry but is also a direct challenge to the interests of the sellers (i.e., growers).

### Vertical Disintegration

Yet, the opposite—“vertical disintegration”—is equally considered a violation of houses’ established role. It occurs when a house produces Champagne for supermarket brands. Houses normally take care of the production the sparkling wine but also its branding, sales, and distribution. Producing wine for one of the large supermarket chains, which would sell it under their own brand, implies a transfer of these activities to the retailer, leaving only the responsibility of production to the house. Typically, such a large supermarket chain would even use its own oenologists to determine the precise composition and hence taste of the wine. Thus, this action constitutes a vertical disintegration and a contraction of the house’s role. Some houses engage in such vertical disintegration because it relieves them of the considerable cost and burden of branding, sales, and distribution while ensuring a more stable and predictable revenue stream. Although this does not directly encroach on the growers’ role, growers resent it because it challenges the established order.

As one grower commented: “The biggest problem today in Champagne is those cheap bottles you see on the supermarket shelves . . . the house merely follows the supermarket’s wine specifications; they’re not master in their own house anymore.” Growers consider it a lamentable role digression that degrades the wine, and thus a norm violation that damages the common good of the brand of Champagne.

You get the feeling, when you see these cheap bottles of wine . . . they violate all the rules about Champagne production, completely, these are people who do not give a shit about what quality means, and who release a cheap product, and we get the feeling we’re shooting ourselves in the foot, because we’re all dependent on the Champagne brand.

Other interviewees said: “[These] wines are terrible for the image of Champagne . . . it loses all its credibility”; “It devalues our Champagne wines”; “[It] deteriorates our image.” Accordingly, the houses that engage in these actions are seen as selfish: “These houses [that supply supermarkets] do not behave properly”; “Yes, supermarket brands is a source of growth but the problem is that it’s an individual source of growth, not a collective source of growth for Champagne”; “They are not people who are working for the good of the Champagne region”; “It’s not acceptable.” Vertical disintegration—although it does not directly encroach on the growers’ role—is clearly seen as a violation of established norms.

### Diversification

The third violation of established roles is for a house to produce (non-Champagne) sparkling wine in a foreign subsidiary. Grape growers perceive this action as a threat to the distinctiveness of Champagne wines. These foreign subsidiaries make wines that could be seen by consumers as a substitute product: “Sparkling wines from abroad are directly competing with Champagne,” a grower explained. Others said, “These [foreign sparkling wines] are dangerous” and “It threatens the Champagne appellation.” Releasing such products is perceived as transgressive because it involves taking wine-making expertise outside the region while using non-Champagne grapes and exploiting the Champagne brand.

I think it is dreadful when our own people, our own houses go to other countries and set up production of sparkling wine in these countries that is going to compete with Champagne.

Thus, we again saw how norms and economic interests are intertwined: it is a violation of the established order, which threatens the distinctiveness of the product. As one interviewee concluded, “This is very poorly perceived by the growers.”

### Traditional versus Less Traditional Buyers

During our fieldwork, our interviewees constantly described two broad types of buyers, in terms of their identity, representing opposing ends of a continuum: namely, “traditional” versus “less traditional” houses. Our coding of the interviews (see also the Methods section of phase 3 of our research) showed that they relied on six characteristics to make this distinction: (1) old versus new houses (e.g., “[It] is a beautiful house; it has been part of and contributed to the history of Champagne”); (2) family business versus professional management (e.g., “Family houses that have maintained the family spirit . . . that’s what matters”); (3) more versus less traditional villages (e.g., “In some villages . . . there’s no tradition of growing vines!”); (4) long-term versus short-term business perspectives (e.g., “[They] don’t need to worry about the short-term share value; they take a much longer view”); (5) a focus on wine versus a focus on financials (e.g., “A financial perspective on management . . . does not belong in Champagne”); and (6) artisanal versus industrial emphasis (e.g., “Making Champagne, it is not an industrial process”). Because of their significant overlap in interviewees’ accounts, the latter three categories we then grouped into one larger category, which we labeled “independent house versus corporate group” (e.g., “We must . . . not become agro-food industrial groups”). As noted, the one overarching dimension that captured each of these categories was traditional (vs. less traditional) houses, which interviewees described as old, family houses from traditional villages that focus on artisanal winemaking rather than company financials.

What was apparent in our interviews with sellers is that traditional houses were talked about with obvious affection (e.g., “Billecart-Salmon . . . it’s a beautiful house” or “a house like Deutz is lovely”). By contrast, houses that were much less traditional were spoken about with *suspicion*, *dislike*, and apparent derision. For example, interviewees used language such as “all they care about are their own brands,” “they are crooks,” and “they are bottom of the barrel.” See Appendix A for more sample quotes distinguishing traditional from less traditional houses and sellers’ perceptions of them, in terms of *affect* and derision.

Furthermore, what struck us in our conversations with sellers about buyers engaging in role digressions is that they reacted vigorously when they were discussed in the context of less traditional houses. They seemed eager to retaliate and to punish them. Several interviewees gave us examples of retaliatory behavior (e.g., “he pays for it” and “they’ll be stigmatized”), when it concerned less traditional houses. By contrast, to our surprise, sellers appeared to feel much more lenient toward traditional buyers that engaged in the same role digressions. When we discussed such violations in the context of particular traditional houses, they often seemed to downplay their actions and even to make excuses for them (e.g., “it must be that they have no choice,” “there were a lot of extenuating circumstances,” “I am not mad at them”). Therefore, we began to suspect that perhaps less traditional houses were being punished for role digressions whereas traditional houses received more leniency.

We wanted to formally test our conjecture quantitatively; that is, conduct phase 2 of our research. In this analysis, as a dependent variable, we decided to focus on the price that buyers are charged by the sellers for the grapes they purchase. In our interviews, we observed that growers viewed the prices as a way to punish deviations from the institutionalized status quo: growers who supplied role violators described charging them higher prices in response to their digressions (e.g., “I would be much more demanding [in terms of price] with someone who does not respect the spirit of the law” and “This can also happen [charging higher prices] when a house bought some land, and the grower gets upset”). One grower’s reaction typified the satisfaction it brought him to charge a violator higher prices:

He is very much criticized because he specializes in cheap, supermarket bottles. No doubt about that. With him, we have a very clear contract, which is very, very lucrative . . . He gets grapes, but he pays for it [*smiles*].

Our prior research confirmed that price is being used in this setting as a sanctioning mechanism (Ody-Brasier & Vermeulen, 2014). Therefore, we decided to test whether, indeed, traditional buyers are punished less by sellers than less traditional buyers for the same role digressions—that is, vertical integration, diversification, and vertical disintegration:

*Hypothesis 1. Buyers that engage in vertical integration are penalized (in the form of paying higher prices for the same goods), but this relationship is weaker for those buyers that are considered to be more traditional.*

*Hypothesis 2. Buyers that engage in foreign diversification are penalized (in the form of paying higher prices for the same goods), but this relationship is weaker for those buyers that are considered to be more traditional.*

*Hypothesis 3. Buyers that engage in vertical disintegration are penalized (in the form of paying higher prices for the same goods), but this relationship is weaker for those buyers that are considered to be more traditional.*

## PHASE 2: QUANTITATIVE ANALYSIS

Because we wanted to analyze the prices that different buyers paid for their grapes, our unit of analysis was the Champagne house. Hundreds of companies claim to be Champagne houses, but only 66 fit the official industry definition and were listed as members of their professional association (Union de Maisons de Champagne) in 2007.<sup>4</sup> We obtained complete data for 64 of the 66 Champagne houses for the period 1998–2007; data were not available for two firms because of their small size. The data were gathered from three sources: (1) Diane, a Bureau Van Dijk database containing detailed financial information on French private and public companies; (2) Registre du commerce et des sociétés (RCS), the official source of financial and legal information on French private and public companies; and (3) the *Guide Curien de la Champagne*, a publication created in 1991 by Champagne experts. These are the same firms that were used in Ody-Brasier and Vermeulen (2014).

### Dependent Variable

To study variation in the price penalties incurred by various Champagne houses, we computed the average price that a house paid for the raw materials it used in its Champagne production in a given year. The cost of grapes is not reported separately from the costs of other raw materials. However, production processes in Champagne are strictly controlled: the only other raw materials that can be added to make the wine are yeast and sugar. Not only are these materials used in small quantities, as compared with the grapes, they are also commodities. Because grape

growers are small businesses (i.e., 2.18 hectares on average), and because Champagne houses need very large volumes of grapes each year, the grapes they purchase typically come from a large number of growers, who can potentially charge different prices. For this reason, we divided the annual purchase cost of raw material by the volume of grapes (in kilograms) for each house.

### Independent Variables

**Vineyard acquired.** To measure the role digression of vertical integration—through the acquisition of vineyards by houses—we used the *Guide Curien* and complementary archival data to track the size of the vineyard owned by each Champagne house in a given year. For each house and each year in our sample period, we computed the number of hectares acquired in Champagne since 1998. Note that we did not measure the total number of hectares of vineyard owned by each of the houses at any point in time, as, historically, some Champagne houses have owned vineyards for decades or even centuries, but, in line with our theory and interview data, these vineyards do not antagonize growers. It is new acquisitions that are considered transgressions. Hence, the variable used to test the hypothesis was measured annually, as the cumulative number of hectares of vineyards acquired since 1998.

**Foreign subsidiaries.** Data on whether houses opened winemaking subsidiaries outside of France in a given year were collected as follows. We began with the Diane and RCS databases, to track all subsidiaries in each house's corporate structure. We then checked the various national registries of trade to ensure that only subsidiaries dedicated to the production of wine were included, excluding those dedicated to its mere distribution. As for vineyard acquisition, some houses have had subsidiaries abroad for more than half a century. Therefore, for each house and each year in our sample period, we computed the number of subsidiaries opened outside of France since 1998.<sup>5</sup>

**Supermarket brands.** Information on whether houses produced Champagne for supermarkets' private labels was collected through the annual Buyer's Own Brand Listing of *Rayon Boissons*, a trade publication on beverages in supermarkets. It

<sup>4</sup> We carefully examined the firms excluded from the Union de Maisons de Champagne list and, as confirmed by the union's director, found that most are *négociants* (wine merchants) rather than houses. Thus, we focused on these 66 houses.

<sup>5</sup> The maximum increase in the number of foreign subsidiaries during this period for any given house was 2. Only one house closed more subsidiaries than it opened; hence, it was assigned the value  $-1$ .

contains information on all major supermarket labels, including the wine's original manufacturers. Subsequently, for each Champagne house in each year, we measured the total number of supermarket brands it supplied in that year and computed its natural logarithm to reflect that, for instance, the difference between supplying 0 and 1 supermarket brands is perceived differently than the difference between supplying 4 and 5,<sup>6</sup> although our results did not change when we did not log this variable.

**Traditional (vs. less traditional) houses.** Regarding our moderating variable *traditional buyer*, recall that, in our qualitative study, the following categories emerged: (1) old versus new houses, (2) family business versus professional management, (3) more versus less traditional location, and (4) independent house versus corporate group. We constructed measures for each of these four as follows.

Seventy percent of all houses were founded before the region received its official Appellation d'Origine Contrôlée recognition; many of these are seen as having contributed to building the name and fame of Champagne. Firms that entered after the industry became successful and took its present form, by contrast, were often referred to by our interviewees as "newcomers." Because they joined a well-established industry relatively late, they are considered less traditional members. We used the year 1960 to distinguish between "newcomers"—houses that entered after this date—and "old-timers"—houses established earlier. Our interviewees identified 1960 as a crucial cut-off point because it was around this time that the industry took its present form; for example, in the early 1960s the French government adopted legislation to prevent houses from easily acquiring vineyards. Exact founding dates are not known for some houses because many have existed for several centuries—almost a fifth date back to the eighteenth century. To construct our composite measure of *traditional*—see below—we used the year 1960 to create a reverse-coded binary measure (i.e., 1 for firms founded prior to this date and 0 otherwise).

<sup>6</sup> Unlike vineyard acquisitions and foreign subsidiaries, this practice can be difficult to observe for growers, as few would have access to the Buyer's Own Brand Listing of *Rayon Boissons*. Moreover, some interviewees suggested that nontraditional houses receive greater scrutiny, whereas traditional houses are suspected less of engaging in the practice. This could potentially form an alternative mechanism driving the effect we observe in relation to this specific variable.

The second feature we used concerns family business. Many Champagnes bear a family's name (e.g., Krug, Billecart-Salmon), and many companies are still run by a descendant of the founder. Management by a founder's descendant is thought to distinguish Champagne from other French wine regions, in part because names are often tied to families and not just to estates (e.g., Domaine de la Romanée-Conti in Burgundy). Consistent with prior studies (e.g., Anderson & Reeb, 2003; Villalonga & Amit, 2006), we measured "family management" as houses having a CEO who is a descendant of the founder by either blood or marriage. We created a binary variable coded 1 if that was the case, and 0 otherwise. These data were obtained from firms' corporate websites and crosschecked with the French *Who's Who* and the *Guide Curien*.

Third, particular villages are considered the original "bastions" of Champagne and recognized as cradles of this regional industry. As the industry developed, some producers moved away from these villages, venturing off to other locations within the region. This geographical expansion generated heated debate throughout the industry's development.<sup>7</sup> For example, it gave rise to the so-called "Champagne riots" in the early 1900s, during which the authenticity of some villages was disputed, as they were considered to produce so-called "second-zone Champagne" (Guy, 2003). Today, specific villages are still described as the cradles of the Champagne industry. To enable our composite measure of *traditional*—see below—we created a binary measure coded 1 for traditional villages (e.g., Reims, Epernay, Les Riceys), and 0 otherwise. It is well known, in the region, which villages are considered traditional and which are not; nevertheless, we validated the measure by identifying those villages that appeared on an official map of the Champagne vineyard that predates the region's first official geographical expansion.

The final feature we used pertains to whether the house was part of a "corporate group" or was independent. The original Champagne houses were independent organizations. Today, they generally view the production of Champagne as an artisanal process, which clashes with a commercial orientation (e.g., Negro et al., 2011; Porac, Thomas, & Baden-Fuller, 1989). Accordingly, we created a binary variable coded 1 for houses that belong to corporate groups and 0 for those that do not. We used the Diane and the RCS databases to track the houses' corporate

<sup>7</sup> Location is thus somewhat related to time of entry within the industry, but we control for time of entry.

structures. When necessary, we crosschecked this information with firms' corporate websites.

We used each of the four features described above to construct a composite measure reflecting the various indicators of tradition that apply to a Champagne house. This variable consists of the sum of the four binary variables—*newcomer* (reverse-coded), *family CEO*, *traditional location*, and *corporate group* (reverse-coded)—so that each feature is given equal weight. Thus, this variable ranges from 0 (*a house that features none of the traditional characteristics*) to 4 (*a house that features all four characteristics*). In our sample, 6% scored 0 (*least traditional*) on this measure, 33% scored 1, 25% scored 2, 25% scored 3, and 11% scored 4 (*very traditional*). This measure corresponds to our conceptualization of firms lying on a continuum between more and less traditional.<sup>8</sup>

### Control Variables

We took extra care to ensure that our results were not confounded by the effect of buyer's status,

<sup>8</sup> To assess the validity of our measures of *traditional*, discussed above, we gave 222 growers a list of our 66 houses and asked them, "Which Champagne houses (if any) have values and beliefs about Champagne that coincide with yours?" For each respondent-house dyad (14,652 dyads), we created a *common values* variable that was coded 1 when the respondent indicated that the house shared his or her values, and 0 otherwise. The proportion of respondents who identified a house as sharing their values was significantly higher for *old-timers* than for *newcomers* ( $p < .029$ ). Similarly, more respondents perceived a house as sharing their values when the house did not belong to a *corporate group* ( $p < .000$ ), was located in a *traditional location* ( $p < .080$ ), and had a *family CEO* (albeit at  $p < .611$ ). Hence, these tests largely supported the validity of our four indicators of a traditional organizational house. Focusing on our composite measure of *traditional* further confirmed this general picture: a *t* test showed that the firms that the respondents identified as sharing their values ranked significantly higher on our measure of *traditional* ( $p < .000$ ). Furthermore, using a probit specification, with robust standard errors clustered by respondent, we regressed the *common values* variable onto our composite measure of *traditional* for our last year of observation (2007): results were in the expected direction with a highly significant and positive coefficient ( $\beta = 0.04$ ,  $p < .000$ ). These tests support the validity of our *traditional* variable. Last, we conducted sensitivity analyses omitting the *family CEO* variable from our composite measure; all our results remain significant as predicted (results available upon request).

because the power and resources accompanying status are thought to buffer an offender from retaliation. Partners may feel intimidated, which keeps them from responding and retaliating (Wahrman, 2012). Sanctioning implies costs, and these costs might be especially high if the target is of high status. Studies in small group settings have shown that high-status actors may experience more lenient punishment for the same transgressions (e.g., Chambliss, 1973; Doob & Gross, 1968; Harari & McDavid, 1969), although other studies have suggested that high-status actors are sometimes held to higher standards (Graffin, Bundy, Porac, Wade, & Quinn, 2013; Hollander & Willis, 1967; Wahrman, 1970; Wiggins, Dill, & Schwartz, 1965). In either case, status might moderate the extent to which an actor is punished, so we sought to control explicitly for the effect of buyer's status.

Status stems from social position, which may derive from various sources; it is usually measured in terms of relative standing—such as a ranking according to one's level of prestige—but also nominations to elite societies, award of some rare recognition, or centrality in the overall network structure (Sorenson, 2014). Because of this range of alternative definitions, we computed several measures to control for whether a house was of high or low status. First, in keeping with Blau and Duncan's (1967) definition, we measured status as a rank ordering by creating a variable composed of two measures: the first was obtained by asking an industry expert to rank Champagne houses according to their level of prestige; the second consisted of an official ranking of Champagne houses by the *Revue des Vins de France*, a leading publication for wine connoisseurs in France. Since the two measures were highly correlated ( $.76$ ,  $p < .001$ ), we mean-centered each and took the average, although we obtained near-identical results using either of them.<sup>9</sup>

Furthermore, we created a measure based on the number of *product reviews* each firm received annually in two key consumer publications (*60 Millions de Consommateurs* and *Que Choisir?*) between 1998 and 2007. We reasoned that the products of high-status Champagne houses are more likely to receive coverage than those of lower-status firms.

<sup>9</sup> In analyses not reported here but available from the authors, we also checked for nonlinear status effects (Phillips & Zuckerman, 2001) using a quadratic term or dummies for low-, medium-, and high-status buyers. The results were not significant, in the sense that we did not find any middle-status effects.

Having one's wines reviewed in these publications conveys a level of prestige upon the organization. In keeping with Podolny's (1993) view of status in terms of deference, high-status organizations were more prominently featured than their low-status counterparts.<sup>10</sup>

Following the idea that status is associated with visibility (e.g., Graffin et al., 2013), we also created a measure of *press coverage*, consisting of the number of articles published about a specific house in the growers' trade publication. This measure, which has the additional benefit of capturing status from the growers' perspective, speaks to the prominence of higher-status Champagne houses.

We also controlled for board ties, in the form of dyadic interactions between houses, as a further indicator of buyers' status and local embeddedness (Sorenson, 2014; Uzzi & Lancaster, 2004). Board memberships tend to reveal an organization's level of influence among peers. Using the Diane and RCS databases, we collected data on board interlocks for each Champagne house during the period 1998–2007. We created two time-varying measures: the number of seats one holds on another house's board (*board ties outward*) and the number of seats held by another house on one's own board (*board ties inward*). We included all these as controls in our models.

To control for each Champagne house's demand, we included the *volumes* of grapes they use. On one hand, firms that require more grapes may be expected to receive discounts so that the price they are charged is lower. On the other hand, larger houses may have to pay higher prices to secure the larger volumes of grapes they require. Concurrently, the amount of grapes purchased also represents a Champagne house's annual volume of bottles sold—as an indicator of the house's size—because all producers need approximately 1.2 kilos of grapes to produce 750 ml of Champagne. We collected these data from the *Guide Curien* and a variety of company and industry reports. We also controlled for self-supply, through the natural logarithm of the number of hectares of *vineyard owned* by each firm, because this may affect a house's bargaining power vis-à-vis the growers and therefore potentially lower the price

it pays for the grapes sourced through them. Another control we included was a firm's profitability, as measured by its *return on assets (ROA)*. This variable was included because suppliers may potentially assess a firm's demand function according to its profitability and may try to price-discriminate against the most profitable firms. Because higher-quality grapes may be more expensive, we controlled for *grape quality*, which represented the average quality of the grapes purchased by a particular house in a given year. This information is reported by each house according to an official scale, as mentioned earlier, which ranges from 80 to 100 and measures the quality of grapes based on their origin ("cru").

As part of the Appellation d'Origine Contrôlée framework, each village in Champagne is associated with a delimited growing area. For example, the village of Ay has a growing area of about 350 hectares. Whether the village in which a house is located features a smaller or larger growing area could perhaps influence prices. For instance, one could expect smaller growing areas to be associated with higher prices if houses prefer to source their grapes locally. We thus controlled for the *size of the growing area*. Furthermore, some Champagne houses are listed on the stock exchange, and others are not. Listed firms tend to experience additional pressures (i.e., from shareholders) and so they could perhaps pay different prices for their grapes. We controlled for this with a binary variable coded 1 when a firm was *listed* on the Euronext Paris stock exchange, and 0 otherwise. Finally, we included year fixed effects in all models, because grape prices vary systematically by year, depending on the quality and quantity of the harvest. Correlations and descriptive statistics are displayed in Table 1.<sup>11</sup> To ensure comparability, insofar as some of the aforementioned variables were also used in Ody-Brasier and Vermeulen (2014), we maintained the same measures and labels.

### Estimation Method

Over our relatively short sample period (10 years), we expected most of the variance to occur between rather than within houses. To account for changes in prices across firms and over time, below, we report

<sup>10</sup> We also created a binary measure coded 1 for firms that received above-average ratings and 0 otherwise. This measure captures reputation rather than status (Sorenson, 2014), and, as our results remained unchanged with or without this additional control, we did not include it in our analyses.

<sup>11</sup> We computed variance inflation factors for all main models; the highest average variance inflation factor was 4.94. All values were below Greene's (2003: 58) recommended threshold of 20.



the results of random-effects analyses with heteroskedastic-consistent and robust standard errors clustered by buyer.<sup>12</sup>

However, because in our theory role transgressions are specific events (rather than stable characteristics of a house), we also wanted to estimate within-firm effects. Given that a fixed-effects estimator would cause all houses that had not engaged in a role digression to drop out of the sample (thus creating an unacceptable sampling bias), instead, we estimated a Mundlak (1978) model. This model uses random-effects estimation with additional instrumental variables that are time invariant; namely, the firm-specific averages of the time-varying regressors:

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

where  $x_{it}$  is a set of time-varying covariates,  $z_i$  is a set of time-invariant covariates, and  $\bar{x}_i$  are the Mundlak instruments. The error term is split between the firm-year component  $\varepsilon_{it}$  and the pure firm component  $\eta_j$ . Thus, these instruments replicate the “within” transformation of the classic fixed-effects estimator by teasing out the firm-specific variance caused by the time-varying regressors.

## Results

We have posited that buyers who deviate from the institutionalized status quo will pay higher prices for grapes but that this relationship will be weaker for those buyers that are seen as more traditional players in the industry. We tested this prediction on three role violations: vineyard acquisitions, foreign subsidiaries, and supermarket brands. Table 2 presents the relevant estimates. Model 1 estimates the main effect of our measure of *traditional*. This baseline model confirms that, in general, firms are charged higher prices when they violate customary industry roles, through acquiring vineyards, operating foreign subsidiaries, or supplying supermarket brands (Ody-Brasier & Vermeulen, 2014).

**Hypothesis 1.** To test our hypotheses, we computed interactions between each role transgression and our composite measure of *traditional*. Table 2 lists the relevant interaction terms. The negative interaction in Model 2 indicates that the price penalty incurred for acquiring vineyards in Champagne was

significantly weaker for the more traditional houses. On average, the houses in our sample paid an additional 0.06 euros per kilo for each hectare acquired (where the average number of hectares acquired was 12.10); however, this penalty decreased by 0.03 euros with each increment in *tradition*.<sup>13</sup> The Mundlak model (Model 7), simulating a fixed-effects estimator, shows a highly similar result. These findings support Hypothesis 1.

**Endogeneity.** For vineyard acquisitions, one might wonder whether some form of unobserved heterogeneity could be underlying this result, because vineyard acquisitions and high prices could both indicate a firm’s high demand for grapes. Specifically, one could consider whether some endogeneity causes those less traditional firms that seek to acquire vineyards to concurrently also display a higher willingness to pay for grapes, while this association is absent (for some reason) for more traditional firms, perhaps because they purchase vineyards for different reasons. To test for this possibility explicitly, we relied on an instrumental variable approach to account for possible heterogeneity among buyers in their decision to vertically integrate. Specifically, we exploited a significant change in French legislation that reduced the availability of vineyards for purchase by grape buyers (i.e., Champagne houses), and combined that with demographic information on the grape growers in each of the houses’ primary sourcing areas for their grapes. A detailed explanation of these data, the exact instrument, and modeling approach can be found in Appendix B.

The results of the model in which we instrument the variable *vineyard acquisitions* are displayed in Model 3. As shown, the interaction is still negative

<sup>12</sup> We performed a Hausman test to assess whether the data would be better suited to a random- or to a fixed-effects specification, and the results supported the use of random effects (prob.  $> \chi^2 = 0.1774$ ).

<sup>13</sup> The estimates raise the question of whether firms that are most traditional (i.e., firms that score 4 on the *traditional* measure) end up being *rewarded* for vertically integrating. We tested explicitly for this possibility by creating a *highly traditional* dummy variable coded 1 for firms that scored more than 3 and a *not traditional* variable coded 1 for firms that scored less than 3 on the same measure. We interacted each of these two binary variables with *vineyards acquired* and included them in our panel regression. The insignificant interaction with *highly traditional* ( $p < .902$ ) suggested that *very traditional* firms were not rewarded for their transgressions, but were simply not punished. This shows that the effect of the interaction between *vineyards acquired* and *traditional* is, in fact, nonlinear, with firms scoring 3 or 4 on the measure being on par in terms of the (low) punishment they receive for transgressions.

TABLE 2  
Panel Regressions Predicting Price

	Model 1 RE	Model 2 RE	Model 3 RE, IV	Model 4 RE	Model 5 RE	Model 6 RE	Model 7 Mundlak	Model 8 Mundlak	Model 9 Mundlak
Traditional	-2.351*** (0.610)	-2.639*** (0.646)	-2.131*** (0.591)	-2.376*** (0.609)	-2.239*** (0.610)	-2.538*** (0.657)	-2.001*** (0.535)	-2.016*** (0.529)	-1.501*** (0.559)
Vineyards acquired	0.033*** (0.010)	0.057*** (0.012)	0.070*** (0.017)	0.032*** (0.010)	0.031*** (0.010)	0.054*** (0.011)	0.064*** (0.011)	0.049*** (0.012)	0.050*** (0.012)
Foreign subsidiaries	1.126 (0.850)	0.855 (0.814)	0.891 (0.712)	3.315** (1.207)	0.864 (0.840)	1.524 (1.436)	1.399* (0.666)	3.603** (1.117)	1.461* (0.670)
Supermarket brands	2.997** (1.115)	2.972** (1.121)	2.811** (1.059)	2.788* (1.123)	5.350*** (1.585)	5.119** (1.688)	4.368 (2.876)	3.807 (2.722)	6.518** (2.352)
Trad. × vineyards acquired		-0.029* (0.013)	-0.028* (0.010)			-0.029* (0.012)	-0.028* (0.012)		
Trad. × foreign subsidiaries				-1.529** (0.541)		-0.623* (0.318)		-1.315* (0.526)	
Trad. × supermarket brands					-1.425* (0.614)	-1.351* (0.642)			-1.898** (0.697)
Status—rank ordering	1.003 (0.806)	1.091 (0.835)	1.175 (0.780)	1.001 (0.806)	1.115 (0.828)	1.195 (0.858)	0.540 (0.688)	0.503 (0.672)	0.603 (0.670)
Status—product reviews	-0.394 (0.242)	-0.401 <sup>†</sup> (0.235)	-0.428 (0.315)	-0.380 (0.241)	-0.371 (0.240)	-0.388 (0.242)	-0.219 (0.293)	-0.223 (0.310)	-0.302 (0.331)
Status—press coverage	0.074 (0.397)	0.066 (0.385)	0.076 (0.584)	0.091 (0.396)	0.135 (0.395)	0.130 (0.383)	-0.112 (0.293)	0.001 (0.323)	0.043 (0.323)
Board ties outward	-0.037 (0.350)	-0.060 (0.345)	-0.022 (0.396)	-0.038 (0.350)	-0.071 (0.353)	-0.093 (0.348)	-0.040 (0.336)	0.015 (0.340)	-0.033 (0.340)
Board ties inward	-0.258 (0.940)	-0.275 (0.932)	-0.323 (1.394)	-0.273 (0.939)	-0.274 (0.935)	-0.298 (0.928)	-1.985* (0.987)	-1.924 <sup>†</sup> (1.007)	-1.910 <sup>†</sup> (0.987)
Volumes	-0.039*** (0.011)	-0.034** (0.011)	-0.021* (0.009)	-0.039*** (0.011)	-0.035*** (0.010)	-0.031** (0.010)	-0.023 (0.020)	-0.116 <sup>†</sup> (0.067)	-0.119 <sup>†</sup> (0.067)
Vineyards owned	0.063 (0.479)	0.096 (0.472)		0.036 (0.483)	0.050 (0.482)	0.071 (0.481)	-0.552 (0.982)	-0.566 (1.019)	-0.551 (1.009)
ROA	-0.126 (0.088)	-0.122 (0.085)	-0.129 (0.089)	-0.129 (0.088)	-0.134 (0.089)	-0.132 (0.087)	-0.169 <sup>†</sup> (0.089)	-0.169 <sup>†</sup> (0.092)	-0.172 <sup>†</sup> (0.092)
Grape quality	0.009 (0.106)	0.012 (0.103)	0.002 (0.100)	0.001 (0.107)	0.008 (0.108)	0.008 (0.106)	-0.372 (0.448)	-0.422 (0.471)	-0.466 (0.475)
Growing area size	0.006 (0.005)	0.007 (0.005)	0.007 (0.005)	0.006 (0.005)	0.006 (0.005)	0.007 (0.005)	0.046** (0.017)	0.046** (0.017)	0.047** (0.017)
Listed	-0.608 (1.781)	-0.744 (1.799)	-0.747 (1.794)	-0.596 (1.774)	-0.418 (1.805)	-0.557 (1.825)	-2.317 <sup>†</sup> (1.334)	-2.234 <sup>†</sup> (1.336)	-2.206 <sup>†</sup> (1.301)
Constant	20.171* (10.021)	19.651* (9.661)	18.671* (9.403)	21.018* (10.098)	19.743 <sup>†</sup> (10.172)	19.618* (9.864)	17.975* (8.957)	18.450* (9.027)	16.731 <sup>†</sup> (9.081)

Notes:  $n = 636$ . Robust standard errors clustered by buyer in parentheses. All models include year dummies.

<sup>†</sup>  $p < .10$

\*  $p < .05$

\*\*  $p < .01$

\*\*\*  $p < .001$ ; two-tailed tests

and significant, which confirms that less traditional houses are penalized significantly more for vertical integration.<sup>14</sup> Thus, this quasi-experimental design indicates that endogeneity in the decision to acquire vineyards is not driving our results.

**Hypothesis 2.** In Model 4, the effect of *foreign subsidiaries* is positive and significant, showing that firms that operated a subsidiary abroad paid 3.32 euros more per kilo, but this effect was again significantly weaker for more traditional houses, with each increment in tradition reducing the penalty by 1.53 euros. A highly similar result is again obtained through the Mundlak specification (Model 8). This finding supports Hypothesis 2.

As an additional piece of analysis, we checked whether opening foreign subsidiaries that merely distribute Champagne caused houses to experience a price penalty; we expected this to not be the case, as selling (rather than producing) wine abroad is not considered a role digression. Per our expectations, estimates were not significantly different from zero for the main effect and the interaction ( $\beta = .10$ ,  $p < .346$ , and  $\beta = .05$ ,  $p < .360$ , respectively), further raising confidence in our theoretical perspective.

**Hypothesis 3.** The negative interaction in Model 5 indicates that the price penalty incurred for supplying supermarket brands was also significantly weaker for the more traditional houses. On average, the houses paid an additional 5.35 euros per kilo for each supermarket brand supplied, but this penalty decreases by 1.43 euros with each increment in tradition. Again, the results of the Mundlak model are similar (Model 9). These findings support Hypothesis 3. Taken together, these analyses support our overall prediction that more traditional houses received significantly smaller price penalties in response to actions that deviated from their established role than less traditional houses.

**Robustness.** We also estimated our models decomposing our *traditional* independent variable into its four separate components: *old-timer*, *independent house*, *family CEO*, and *traditional location*. This led to 12 interactions: four with *vineyard acquisition*, four with *foreign subsidiaries*, and four with *supermarket brands*. For reasons of space, we

have not displayed these models in the present paper, but all the interactions—nine of which were statistically significant—were in the expected direction, offering further confidence in our predictions. We also tested whether our results could have been driven by a handful of outlier Champagne houses. To this end, we removed Moët & Chandon and Vranken (very prominent nontraditional houses) as well as Bollinger and Billecart-Salmon (very prominent traditional houses) from the sample. Our results (available from the authors) were fully replicated.<sup>15</sup>

Last, we wanted to rule out the possibility that the aforementioned findings could be confounded by the length of buyer–seller relations, as perhaps traditional houses might have more longstanding relationships. Although data on all buyer–seller relationships within Champagne were not available, we managed to obtain a proprietary data set that consisted of all the sales contracts of 429 grape sellers (growers) over the period 1992–2009. This concerned 5,757 individual transactions in 815 dyads with 58 different grape buyers (i.e., Champagne houses). When we regressed relationship duration on our measure of *traditional* (using seller fixed effects and standard errors clustered by both buyer and seller), the estimated coefficient was negative—suggesting that more traditional houses actually have somewhat shorter relationships—but statistically insignificant ( $\beta = -.17$ ;  $p < .263$ ).

Furthermore, for a different project (Ody-Brasier & Vermeulen, 2014), we had also distributed a questionnaire to 222 growers. Among other things, we asked respondents to identify all their buyers and, for each of them, asked “How long have you been working with this house?” (data we had not used before). We again found that these growers actually had slightly shorter relationships with more traditional houses (using a median-split sample)—namely, 12.6 years ( $SD = 0.32$ ) versus 13.5 years ( $SD = 1.18$ )—a difference that, however, did not approach any meaningful level of statistical significance. To conclude, we found no indication that

<sup>14</sup> In the second stage, we omitted the variable *vineyards owned* for reasons of multicollinearity (variance inflation factor  $> 20$ ), which likely occurs because houses that already owned vineyards prior to the change in regulation were most influenced by it, in terms of their vineyard purchases. Removing this variable from the other models too led to identical conclusions.

<sup>15</sup> A matched sample analysis also led to highly similar results. We matched by splitting firms between “more” and “less” traditional (less = 0 or 1 on the *traditional* measure; more = 2, 3, or 4). We then matched more and less traditional houses on the variables where the two samples differed significantly (statistically and economically) from one another (i.e., *listed*, *number of reviews*, and *ROA*) using coarsened exact matching, reducing the sample size to 508 firm-year observations.

traditional buyers might have more longstanding relationships, making it unlikely to be confounding our findings.

### PHASE 3: QUALITATIVE INTERPRETIVIST STUDY

Our quantitative models in phase 2 of our research, reported above, confirmed our conjecture that non-traditional grape buyers receive a significant price penalty for role deviations—through diversification, vertical integration, or disintegration—whereas traditional firms are treated more leniently. In phase 3 of the research, we engaged in an interpretivist qualitative study to examine the exact mechanism underlying this finding.

#### Objectives

In particular, we wanted to open the black box of sellers' sense-making schemes and why sellers perceive and respond differently to the role digressions of buyers depending on whether they feature traditional characteristics. Bechky (2011), among others, argued that much organizational theory is overly abstract and decoupled from people's lived experiences, because it is constructed without directly examining what happens in social life. She reasoned that conceptual explanations should be based on the interpretation of the individual actors within organizations. Accordingly, to understand what led to the variance in sanctioning behavior that we observed in phase 2 of our study, we wanted to rely on interview data with individual actors in Champagne.

Systematically incorporating interview data implies that our study combines both a variance (phase 2) and a process analysis (phase 3). The former is intended to document the relationships between our observed variables; the latter, to explain how the phenomenon works and why the process unfolds (Edmondson & McManus, 2007). The third phase of our research concerned the process study. Process studies—as Langley, Smallman, Tsoukas, and Van de Ven (2013) explained—address questions about how and why things emerge. They also require abstracting from the particular and making analytical generalizations to the general case (of which our study in the market for Champagne grapes is just one instance), thus moving from description to explanation.

Such generalizations necessitate what Klag and Langley (2013: 149) described as a “conceptual leap,” which involves bridging the gap between

empirical data and theory, as one moves “through and beyond the mechanics of analysis to an abstract and explicit set of concepts, relations, and explanations that have meaning and relevance beyond the specific context of their development.” To achieve this, we decided to analyze our interview data through a process that closely resembles a grounded theory approach (Gioia, Corley, & Hamilton, 2013), yet with constraints. We relied on the basic methodology of a grounded theory process so as to leverage its systematic and rigorous approach, while leaving our exploration open to potentially unexpected findings. Specifically, we wanted to follow the two analytical steps of deriving first-order concepts, using the words of the interviewees, followed by higher-order themes that represent generalized abstractions from these first-order concepts.<sup>16</sup> However, what is unique about our study, given its three phases combining quantitative deductive hypothesis testing and qualitative inductive analysis, is that our induction was bounded by the quantitative findings from phase 2. Specifically, the bookends of the grounded theorizing were already set (namely, that role deviations by traditional actors did not lead to price sanctioning, where role deviations by less traditional actors are punished). Hence, our process analysis focused on explaining how and why these particular relationships emerged.

Our research design led to what Edmondson and McManus (2007) called “intermediate theory,” meaning that we propose relationships between new and established constructs rather than a complete open-ended inquiry about a particular phenomenon (which they referred to as “nascent theory”) or purely hypotheses testing related to existing constructs (referred to as “mature theorizing”). Overall, our combination of both quantitative and qualitative analysis, following the three distinct phases described earlier, led us to iterate between inductive theory development and deductive theory testing, which Fine and Elsbach (2000) postulated need to interact to advance our understanding of particular organizational phenomena. We also hope that “careful analysis of both qualitative and quantitative data increases confidence that [our] explanations of the phenomena are more plausible than alternative interpretations” (Edmondson & McManus, 2007: 1165).

<sup>16</sup> We were open to possibly finding new concepts emerging; however, we were also cognizant of potentially relevant existing concepts—namely, for example, attribution (which we did find to be relevant) or legitimacy (which did not emerge from the data).

## Methods

We started our investigation of how sellers perceived and in turn reacted to norm violations with a sentence-by-sentence analysis of our interviews in which we focused on extracting interviewees' meaning. Following an open-coding procedure, we broke down, conceptualized, and categorized 8,790 distinct rows of interview data in Microsoft Excel. The second step involved an in-depth analysis of these data to cluster information based on how they addressed questions such as "why," "who," and "how" (Lofland, 1976). This process allowed us to generate 57 emergent themes in the interviewees' comments. In the third step, we engaged in a more focused coding phase where the most significant and frequent codes helped us explain the data. To move beyond mere description, we used diagramming to help us visually represent themes. This phase involved moving from first-order interpretations (those closer to our interview data) to second-order interpretations, in which we integrated an emerging framework (Lincoln & Guba, 1985). The last iteration of our diagramming comprised five themes—(1) status quo, (2) norm violations, (3) traditional versus less traditional houses, (4) sense-making, and (5) penalizing actions—each shedding a distinct light on the sense-making process of growers.

After establishing how sellers perceived and reacted to norm violations by different types of buyers, we conducted a third round of qualitative data collection to validate our findings. To do this, we explicitly focused on understanding the sense-making process of sellers. This last step in data collection and analysis clarified the nature of sellers' attribution processes, a key property of the sense-making theme, as well as how it differed from other key properties. We incorporated these insights into our diagram, which we used to finish conceptualizing how the themes relate to each other.

### Strong Commitment to the Institutionalized Status Quo

Our analysis revealed that interviewees were deeply committed to the *status quo*. This is depicted in Figure 2, on the left-hand side. They had a strong sense that these *rules of the game*, which have taken shape over many years, drive the success of the industry and its various participants, and that change would be unwelcome. For example, one grower said, "It's important, our history explains where we are today . . . generation after generation, people have internalized the norms and respect the rules of the game." Another grower reflected, "Champagne is . . . a place where

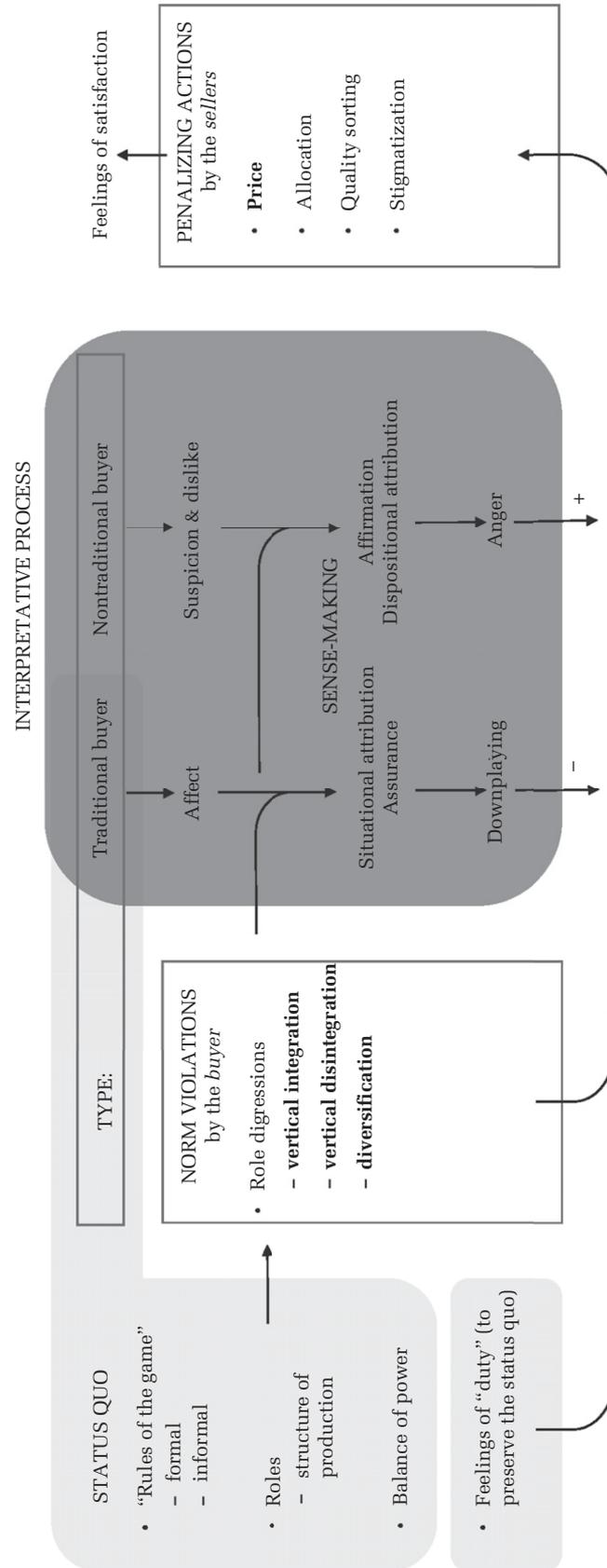
history and culture have shaped the way management and marketing work."

A key part of the rules of the game concerned the different *roles* that the various parties in the industry—particularly growers and houses—have come to adopt, pertaining to who does what in the value chain. The relationship between growers and houses is that of suppliers and buyers, but there is also a clear sense of shared interests. For instance, one grower stated, "Growers grow . . . and houses make wine . . . that's how it works and we all win." Another said, "Everyone has a distinct role to play in Champagne; there's room for everyone, within their own role." A third proclaimed, "We are two families; we are in the same boat, but let's stick to our respective roles." This division of "roles"—a term that many interviewees used explicitly—is seen as a key component of the status quo that should not be disturbed, "a balance that benefits everyone."

In that sense, it is clear that roles have become local norms but also that they are closely related to economic interests. In addition to the word "roles," many interviewees explicitly used the phrase "balance of power," to describe that changes to the status quo would not be to their benefit. The structure of the industry has evolved such that a market (for grapes) is placed between growers and houses, with growers in control over this key scarce resource, which leads to some tension as well as shared interests, and with particularly the growers eager to sustain this situation. For example, one of them said, "The houses and the growers are equal; the first have a role in sales, the second have a role in grape supply, upstream. These two worlds are mutually exclusive." Another said, "In our little Champagne microcosm, the two families must work together and get along for the well-being of all," and a third stated, "Maintaining the balance of power in Champagne is paramount."

Accordingly, we observed strong *feelings of duty to preserve the status quo*. Participants in the industry perceive the status quo—the value of the brand name Champagne and the state of the industry—as a common good (Ostrom, 2000), which they inherited and have an obligation to preserve and protect for future generations. For example, one grower stated, "In Champagne, we are lucky to be in the world's most prestigious appellation for sparkling wines . . . We inherited this gift . . . We must respect, pass on, and not spoil this appellation." Similarly, another grower observed, "We inherited this brand; this implies some constraints but a huge responsibility." It is these feelings of duty that eventually lead to *feelings of satisfaction* (depicted in the top right-hand corner of Figure 2) if violators are punished.

**FIGURE 2**  
**Interpretative Processes**



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Proof Only

Part of the status quo are the characteristics of what constitutes a *traditional buyer* (vs. a *nontraditional buyer*), as depicted at the upper-left side of Figure 2, and as discussed in phase 1. Similarly, the block labeled “norm violations” pertains to the *role digressions* as we discussed them in phase 1; namely, vertical integration, vertical disintegration, and foreign diversification.

### Types of Penalizing Actions

From our interviews, we discovered that, in addition to *charging higher prices* for their grapes, sellers engaged in other types of penalizing actions against role digressions. First, we found that some grape sellers responded to violations through their *allocation decisions*—that is, whether growers would supply a particular house or not. For example, one grower commented:

I choose my buyers carefully . . . The guys who sell to supermarket brands . . . those who buy vines, I think we should not sell to these people . . . I'd much rather work with people who follow the rules.

Another said, “This house, it sells Champagne at Leclerc [a supermarket chain], so it's automatically ‘no’ . . . We will never work with him.” Another stated, “For sure, they [who make sparkling wines abroad] would be people to whom I would stop selling grapes.” While the majority of grape sales occur within multi-year contracts between buyers and sellers (wherein the price is systematically renegotiated at each harvest), growers have leeway to change whom they sell grapes to at the end of the contract. Various interviewees—growers and other industry insiders alike—proclaimed that they often do not supply buyers who engaged in one of the role digressions that we identified.

Another form of penalizing actions that emerged from our data was *quality sorting*: growers explained how they would deliver what they viewed as lower-quality grapes (at the same price) to houses that they observed engaging in role digressions. For example, one said, “Some houses prefer to vertically integrate, buy vineyards, vines, and do it themselves . . . we simply don't give them our best grapes.” Similarly, another stated:

We don't sell them [a particular house that supplies supermarkets] the best of our grapes . . . It may seem a bit cheeky but we don't necessarily sell them the best. For the other [houses], we don't differentiate.

When further probed about what “lower quality” means, growers would often refer to more or less “beautiful” grapes within a given cru. Hence, growers

covertly supplied purchasing houses with what they viewed as the “less beautiful” grapes in their harvest. This type of quality sorting does not bring them any direct economic benefits—and, in fact, houses may not even notice—but it was clear that growers derived some satisfaction from doing it (as depicted in the top-right corner of Figure 2).

A final penalizing action that we observed in response to role digressions was *stigmatization*. We heard various stories of social shunning. For example, one grower described how they engaged with managers from houses that made sparkling wines abroad:

When we see some coming to the wine press with their tight, shiny shoes, without naming names, we make sure we point the water hose toward their shoes and they leave.

Again, it was evident that this type of behavior brought them some form of satisfaction. Another grower, for example, stated, “Those who sell cheap bottles in supermarkets, they'd better not be found out. Otherwise, they'll be stigmatized [*laughs*]. It's not well regarded around here.” Sometimes, growers' behaviors spilled over into harassment. One interviewee told us:

About half a hectare became available in the village . . . After the deal, everyone called him [the seller] to ask, “Who got the vineyard? Who got the vineyard?” He told them. It created lots of problems . . . I started to be harassed with anonymous phone calls. One person said they wanted to shoot me. I filed a complaint with the police.

These various penalizing actions may partly have been done for calculative reasons, to protect and reinforce the norm, and, with it, to protect the growers' interests (Mussweiler & Ockenfels, 2013), but it was evident that punishment, even when unnoticed by the wider community or even the perpetrating house itself, also brought sellers personal satisfaction.<sup>17</sup>

### Seller Sense-Making for Traditional versus Less Traditional Buyer Violations

**Traditionality as a signal of commitment to the status quo.** A key finding was that sellers used systematically different sense-making processes for norm violations by more versus less traditional buyers. Where a buyer was placed on the continuum from traditional to less traditional seemed to determine how sellers subsequently interpreted the underlying motive

<sup>17</sup> Personal satisfaction has also been observed as a motive for sanctioning in research on primitive tribes (e.g., Wiessner, 2005).

for a role violation. In general, how our interviewees spoke about traditional versus less traditional houses suggested that they interpreted whether a firm maintains characteristics associated with the traditional features of organizations of its kind as a signal, particularly as a signal of its beliefs and values, and hence its commitment to the status quo. For example, one interviewee explained: “The key attribute is a sense of history, classicism . . . continuity, a conservative thing.” In that sense, featuring traditional characteristics is thought to denote a firm’s commitment to the established order, as it does not challenge the industry’s dominant values. By contrast, a company that does not feature the traditional characteristics is thought to be less committed to the status quo:

These people are very competent at what they do, but they only bring a managerial perspective . . . Champagne has its own cycle . . . It implies thinking in the long term, about continuity, and I think these two visions are not compatible.

**Violations as confirmation versus out-of-character behavior.** Thus, it became clear that the extent of a buyer’s traditionality served as a lens through which sellers made sense of buyers’ deviating from the institutionalized model of organizations’ role division, interpreting it as a signal of buyers’ commitment to the status quo. When a *less traditional buyer*, for example, engages in a role digression such as vertical integration, sellers interpret these actions as confirmation of their suspicions, and that they were right all along to not trust this particular buyer. Consequently, they seemed inclined to penalize such buyers. By contrast, sellers often appeared to “make excuses” for traditional buyers engaging in the same actions, being less inclined to sanction them.

Although, for many growers, the connection between their interpretative process and their sanctioning behavior seemed largely unconscious, in our interviews, we also encountered some sellers who connected the different elements of this process quite explicitly. For example, one grower reflected:

A [traditional] house like Laurent-Perrier, their point is not to lower their costs or negotiate harder with the growers [when they acquire vineyards] . . . The point is to secure their supply, know they’ll have enough to meet their target. I can understand that . . . We’re not going to put the knife under their throat [and charge them higher prices].

Hence, this interviewee connected the interpretative steps from a traditional buyer to a sense-making process that attributed their reasons for engaging in the

transgression to situational circumstances, and to a reluctance to punish the buyer. Similarly, another grower reflected: “Even if a [traditional] house like Billecart tried to purchase some vines . . . my prices would remain the same.” A different grower stated, “Pol Roger, they do things by the book. [They may have acquired vineyards] but, recently, they have also been struggling a bit . . . I don’t want to let them down [and not supply them],” thus emphasizing that his reluctance to stop trading with them, in spite of this house engaging in vertical integration, stemmed from the buyer’s traditional characteristics.

By contrast, others stated explicitly that they punished particular buyers for their role digressions because they were less traditional. For example:

I know this guy [Dubois] . . . today, he’s buying vineyards everywhere. He’s ruthlessly ambitious. He’s charming but ruthless. He says, “If I make a 20 euro-cents profit on my [supermarket brand] bottle, I’m in the green, so no problem.” This kind of mentality kills me . . . Yes, I demand a higher price.

Overall, we observed that sellers attributed transgressions by less traditional buyers to negative predisposition and volition, whereas they were more understanding toward more traditional firms. This is because, when a traditional buyer acts counter to the established, traditional order, its actions are considered to be out of character and sellers perceive that it must not have had bad intentions. Therefore, they behave much more leniently toward them.

**Traditionality triggers differential attribution.** Whether a buyer is traditional or less traditional appeared to trigger different attributional processes.<sup>18</sup>

<sup>18</sup> Studies in psychology mostly focus on attributions about individuals and their actions, but attribution theory is relevant in organizational settings as well (Weiner, 1995). Management scholars have found that attributional thinking plays an important role in how organizations and their actions are evaluated (e.g., Crilly, Ni, & Jiang, 2016; Ford, 1985; Halebian & Rajagopalan, 2006). Crilly and colleagues (2016), for instance, showed that attribution processes explain variance in actors’ evaluation of the social performance efforts of local versus foreign firms. Attributional thinking is particularly prevalent when individuals or organizations engage in negative acts (Wong & Weiner, 1981); therefore, these processes are likely to occur when actors try to make sense of others’ norm violations. In Champagne, our data reveal that, because firms whose core features do not correspond to the industry’s traditional organizational characteristics are perceived as suspicious, transgressions by such buyers are attributed to their disposition, because they are in character and lead to the assumption that they were driven by volition.

Attribution theory highlights the contrasting ways in which actors integrate information about others' actions and evaluate their meaning (Giordano, 1983; Weiner, 1974). Depending on the identity of the actor, they may attribute an action to volition ("dispositional attribution") or to external circumstances ("situational attribution"). This implies that a particular transgression may be attributed to chronic dispositions, such as negative traits or motives, for one actor (e.g., a less traditional buyer), and to situational constraints for a different actor (e.g., a traditional buyer) (Islam & Hewstone, 1993).<sup>19</sup>

The right side of Table 3 features quotes that illustrate this process. Growers often harbor suspicions and a negative predisposition toward less traditional houses. When these perceptions are combined with witnessing such a house engage in a role digression, they trigger feelings of condemnation, confirming growers' *ex ante* views that they could not be trusted. In the interviews, we witnessed much negative emotion and signs of real anger toward these perpetrators.

By contrast, when a *traditional buyer* engaged in the same role digressions, a different interpretative process emerged. Many sellers displayed feelings of affection and respect for traditional houses, because of their apparent conformity to the industry's values and traditions. Consequently, when one of them engaged in a role digression, we witnessed growers engage in situational attribution. As the sample quotes on the left side of Table 3 attest, trying to make sense of how the traditional house could engage in such a norm violation, they assumed that it must have been driven to these actions out of necessity, because for them it is out of character. As the quotes also indicate, we witnessed virtually no anger or other negative emotions toward traditional houses that engaged in these norm violations. Instead, their actions were often downplayed, in the sense that they were interpreted as a likely one-off, something that would pass, and that was not a deliberate strategy to change things in the long term to begin with.

<sup>19</sup> Past research has also shown that a perpetrator's identity influences whether people make situational or dispositional attributions. In South India, for example, Taylor and Jaggi (1974) found that Hindus make situational attributions of Hindus performing socially undesirable actions and dispositional attributions of Muslims performing the very same actions (Islam & Hewstone, 1993).

Hence, growers displayed no desire or intention to penalize traditional houses for their norm violations.<sup>20</sup> We found no indication in the data that they interpreted their actions as legitimate, in the sense that they thought that traditional houses had acquired the legitimacy to engage in them. Role digressions were always described as norm violations, even when the perpetrator was a traditional house. The key difference lay—as explained above—in growers' interpretation of the *motives* behind the actions of a perpetrating house: less traditional houses were assumed to act in their own selfish interest and were therefore penalized. By contrast, traditional houses were assumed to act in good faith and to have the long-term interest of the Champagne wine region in mind. Therefore, growers would downplay violations by the latter but not similar violations by the former. In fact, in our interviews, growers frequently spoke up explicitly in defense of the traditional houses that had engaged in a role digression, often actively making excuses for them.

**Conclusions.** To conclude, our qualitative analysis indicates that traditional characteristics are often interpreted by other actors as suggesting that the organization wants to conform to the industry's traditional values and, with it, its institutionalized model of organization. When a traditional firm then violates the boundaries of its established role, its actions are not consistent with its features and are therefore considered to be out of character. Observers, such as sellers, then give the firm the benefit of the doubt, based on the assumption that its actions derive from situational constraints. Put differently, in their attempt to reconcile a house's traditional features with the transgressive actions, sellers interpret them as driven primarily by external circumstances. By contrast, when a buyer with nontraditional characteristics engages in actions that challenge the status quo, sellers interpret these actions as confirmation of their suspicions, and blame the buyers for them.

Our findings also showed that these differential interpretative processes determine to what extent

<sup>20</sup> Indeed, situational attributions typically elicit milder judgment because the transgressor is perceived not as having intended to produce the negative outcome (Fiske & Taylor, 1991) but as having been forced into the action by external circumstances. By contrast, dispositional attributions, which stress individual responsibility, deservedness, and moral culpability, elicit harsher judgment (Cochran, Boots, & Chamlin, 2006; Cochran, Boots, & Heide, 2003).

**TABLE 3**  
**Sample Quotes of the Interpretative Process of Role Digressions**

	Traditional houses		Less traditional houses
Affect	<p>“Ayala is a beautiful house. It has been part of and contributed to the history of Champagne.”</p> <p>↓</p> <p>“Billecart-Salmon, it has built its growth on value . . . It’s a beautiful house . . . They have little to learn from anyone in the industry! <i>I respect that.</i>”</p> <p>“Pol Roger . . . does everything [it] can to move [its] business forward <i>while respecting tradition.</i> Playing by the rules is harder for the bottom line.”</p>	Suspicion & dislike	<p>“I know this guy [Dubois] . . . he is ruthlessly ambitious. <i>He is charming, but ruthless.</i>”</p> <p>↓</p> <p>“Moët . . . pay well, but, for me, it’s a ‘no’ . . . they bat their eyelashes at us, then—bang—we’re <i>caught in their web.</i>”</p> <p>“I don’t think we are careful enough about this issue [vineyard acquisitions] . . . Do you know these guys [Rapeneau]? . . . <i>They are crooks; they are not be trusted.</i>”</p>
Situational attribution Assurance	<p>“I am not mad at them [Deutz]; they have little choice . . . <i>If I were in the same situation, I would do the same.</i>”</p> <p>↓</p> <p>If they [Duval-Leroy] do it [buy vineyards], <i>it must be that they have no choice . . . Can I take this into account when I negotiate with them? Yes, I can.</i>”</p> <p>“I wouldn’t read too much into this [vineyard acquisition by Taittinger], there were a lot of <i>extenuating circumstances.</i>”</p>	Affirmation Dispositional attribution	<p>This type of actor [Vranken], who takes advantage of the system [by supplying supermarkets], <i>they’re bottom of the barrel.</i> It’s disgusting.”</p> <p>↓</p> <p>“These people are always trying to game the system, <i>it’s in their nature . . . growers get upset when . . . they [Pommery] try to purchase vineyards.</i>”</p> <p>“Martell, in the Rapeneau group, they do a lot [supplying supermarkets]. They’ve never bothered building a brand; <i>that’s not who they are.</i>”</p>
Downplaying	<p>“I think Duval-Leroy used to do it in the past [supplying supermarkets] . . . <i>but it was related to the economic climate.</i> Now they focus on their brand.”</p> <p>↓</p> <p>“[Roederer] maintains a separation between the markets [foreign sparkling wines and Champagne] . . . <i>They’re very careful</i> about it.”</p> <p>“<i>Perhaps it is not bad</i> that Champenois [like Deutz] . . . are involved in foreign sparkling wines. It’s a good way to control this secondary market; to keep them in check.”</p> <p>No penalizing actions</p>	Anger	<p>“He [Vranken] does not care . . . He buys land . . . <i>This guy is a bandit!</i>”</p> <p>↓</p> <p>“These people [Mumm], they don’t care about Champagne. <i>All they care about is their own brands!</i> So they have no qualms using their brand to promote products [foreign sparkling wines] that may harm Champagne.”</p> <p>“Arnault [LVMH] is a rat! . . . <i>All he cares about is money.</i> Look at how they integrate!”</p> <p>Penalizing actions</p>

sellers are inclined to react to buyers’ moving beyond their accepted roles. Sellers react to role digressions by less traditional buyers by extending punishment, in the form of denying them access to their produce, charging a higher price for them, delivering goods of perceived lower quality, or stigmatizing the buyer. However, because of the different interpretative processes, sellers punish traditional buyers less severely for the same actions.

**GENERALIZATION AND DISCUSSION**

Norms reflect shared expectations about proper behavior in a given situation; they contribute to the

order and functioning of markets (Hechter & Opp, 2001). Because they are more indeterminate and therefore more flexible than formal laws, norms play an important role in regulating behaviors in a variety of settings (Di Stefano et al., 2015; Fauchard & von Hippel, 2008; Reilly, 2018), including providing guidance in terms of who does what in an industry. In the Champagne industry, the established role of a house is to buy the grapes they require from growers, manufacture the sparkling wine, and engage in its branding, sales, and distribution.

We found that grape sellers punished some grape buyers but not others for deviating from this established set of activities. Our analysis showed that a

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crucial distinction is whether a firm, in terms of its organizational characteristics, is seen as a traditional player in its industry. Specifically, in our quantitative analysis, we found that houses with traditional characteristics incurred very little price penalty when they backward-integrated into owning vineyards, expanded into winemaking abroad, or gave up on branding, sales, and distribution by supplying wine for supermarket brands. By contrast, less traditional houses were charged substantially higher prices for their grapes when they engaged in these same actions. We obtained these results controlling for a number of alternative explanations, including buyers' status and embeddedness in the community.

### Sanctioning and the Interpretation of Motives

Our qualitative analysis helped to shed light on why less traditional violators are punished whereas traditional firms are not, despite engaging in the very same behaviors. What our qualitative data indicated is that what matters—in terms of whether punishment is extended or not—is the sellers' interpretation of the motives of the perpetrator; they react to their reading of the motives behind the buyer's actions rather than to the actions themselves.<sup>21</sup> Prior research has suggested that an organization's core features signal its identity and its values (Hannan et al., 2007), thus serving as a "statement of purpose" (Hannan & Freeman, 1984: 155). Consistent with prior literature, our findings advance the view that traditional features are "incarnations of beliefs and values" (Haveman & Rao, 1997: 1611) that signal a commitment to established practices. A lack of traditional features is interpreted by sellers as a lack of commitment to the status quo. When a nontraditional buyer then engages in a norm violation such as a role digression, it is seen as confirming prior expectations. This is closely akin to what Darley and Gross (1983: 20) labeled the "expectancy-confirmation

process." This confirmation of their previously held beliefs is an immediate and swift reaction, which triggers anger, condemnation, and a desire for punishment.

When traditional buyers engaged in role violations, sellers followed a different interpretational process than for less traditional firms. As for less traditional houses, they harbor *ex ante* beliefs about buyers with traditional characteristics (Darley & Gross, 1983), but these are beliefs that come with feelings of affection and a conviction that they have the long-term interests of the industry at heart and remain committed to the status quo. Consequently, their interpretations of the firm's likely underlying motives for their role transgressions were more cautious and understanding (Wong & Weiner, 1981) because their actions were considered to be out of character. Hence, if sellers witness a traditional buyer engaging in a role digression, they perceive them to have engaged in it not in a deliberate attempt to alter the status quo but out of necessity or temporary external circumstances. In various interviews, we heard sellers make excuses for these houses, defend their intentions, and downplay the significance of their actions. They often attributed such actions to external constraints and, eventually, punished them less. Consequently, very traditional buyers were hardly punished at all for the same role digressions.

### Traditionality

Thus, traditionality emerged as an important boundary condition of whether a firm is sanctioned or not. In most industries, like in Champagne, there exists an understanding of what is considered a traditional firm and what characteristics are deemed less traditional. As industries take form, their members converge on particular patterns of features, or ideal types (Weber, 1924/1968). The building-up of the industry's institutional structure of production operates in tandem with the emergence of a set of prevailing organizational characteristics (Coase, 1992; Jacobides, 2005). For example, there exists a sense of a "traditional opera house," a "traditional investment bank," or a "traditional accounting firm" (e.g., Divari, Boone, & Van Witteloostuijn, 2017; Greenwood & Suddaby, 2006). Whereas there might be more than one type of nontraditional organization, there is usually only one traditional type (Negro, Hannan, & Rao, 2010).

As in Champagne, the extent to which a firm is considered traditional usually depends on a number of core features, which fit the original characteristics

<sup>21</sup> Our qualitative analysis suggests that this is not because of legitimacy. At the start of our qualitative analysis, we suspected that perhaps traditional houses were seen as having gained the legitimacy to "break the rules" and engage in role digressions. However, nothing emerged from our qualitative evidence to suggest that legitimacy might explain why traditional firms "were allowed to do it." Similarly, one might suspect that sellers allow traditional firms to get away with norm violations because they are seen as "similar"; however, we also found no evidence of homophily bias or social identity processes. In fact, we saw no evidence at all that sellers would consciously allow anyone to engage in a role digression.

that firms displayed when the industry's structure became institutionalized (Rao et al., 2003). This is because being traditional refers to a sense of history; Rao and colleagues (2003: 808) described it as "the traditional authority of whatever existed before." Whether a firm is traditional or not is determined by not only whether it is new to the industry, but also whether it has other observable characteristics that are considered typical for an organization of its kind. A new entrant can be considered quite traditional if it conforms to the original blueprint on other features, such as having a traditional location or ownership structure (Boone & Özcan, 2016). For example, a law firm may be considered traditional irrespective of its age but based on characteristics such as its governance structure, the background of its employees, its location, and so forth. Similarly, an older incumbent can be regarded as a nontraditional member of the industry if it converts to new organizational features—for instance, by no longer being an independent family firm. Our analysis showed that this notion of traditionality is a key influence on whether a firm gets penalized by its exchange partners for deviating from the industry's status quo.

Although scholars acknowledge significant variance in the punishment for norm violations, extant literature provides limited understanding of how specific identity characteristics affect how observers make sense of an actor's violation and, in turn, how they assign blame and sanctions for this behavior. Because norms are often ambiguous, prior work suggests that a firm's status or reputation provide information to observers that can influence whether they perceive a given behavior as a violation or not (e.g., Graffin et al., 2013; Phillips, Turco, & Zuckerman, 2013). More recent work has shown that some identity characteristics, such as an actor's authenticity, determine whether observers interpret "questionable acts" as norm violations (Reilly, 2018: 933). Our findings add to this line of inquiry by establishing a firm's traditionality as a key moderator in sanctioning role deviations.

Buyers, and particularly consumers, might value a producer's traditionality in settings such as wine, restaurants, and beer (Carroll & Swaminathan, 2000; Kovács, Carroll, & Lehman, 2013) because it is seen as authentic. Traditionality might therefore act as a buffer against norm violations (Lehman, Kovács, & Carroll, 2014). We examine a different situation: our research shows that sellers might also value a buyer's traditionality (Ranganathan, 2018) and that this can act as a buffer against sanctioning in case of violations such as role digressions. That is not because the

sellers value their exchange partners' traditionality per se but because they interpret it as a signal of their commitment to the status quo, which influences their perception of the motives for the violation.<sup>22</sup> This is why the distinction between traditional and less traditional organizations is critical: it is this distinction that leads to differential perceptions of motives.

### Sanctioning and Emotions

Our findings suggest a key role of emotions in the interpretation of motives and hence in differential sanctioning. Although, in the context of norm enforcement, emotions are seldom studied empirically (Elster, 1989a), whether sanctioning is generally "cold" and calculative or "hot" and driven by a fundamental desire to retaliate is a key debate in the conceptual literature on norm enforcement (Di Stefano et al., 2015). Our findings reveal a critical role of emotions in responding to role digressions, which were clearly present in many of our interviews. Because sellers had clear "feelings of duty to preserve the status quo" (displayed in our model in the bottom-left corner of Figure 2), people obviously felt an emotional obligation to protect the common good, the state of the industry, and the brand name of Champagne. This led to clear feelings of satisfaction (top-right corner), when they engaged in penalizing actions toward perpetrators. It made people feel that they acted to fulfill their duty. Elster (1989b: 100) stated that "social norms have a grip on the mind that is due to the strong emotions they can trigger," referring to Djilas (1958: 107), who described the feeling of a person enacting vengeance as "the wildest, sweetest kind of drunkenness." In our context, growers' sanctioning behavior was clearly often "hot," rather than calculative, as the growers derived no economic benefit from their actions.

Importantly, our study reveals a pivotal role of emotions in determining whether actors will extend punishment for norm violations or not. That is because, as suggested by Bicchiery (2006), different emotions apply to different interpretations of a norm violation. We encountered clear affect when interviewees discussed their regard for traditional houses (in the top-left corner of the interpretative process category of Figure 2); these were not "cold" assessments of the characteristics of traditional buyers but

<sup>22</sup> Thus, a boundary condition of our findings is that sellers value the status quo and hence their buyers' traditionality.

were spoken about with obvious affection and warmth. Anger has been demonstrated as a key driver of sanctioning (Fehr & Gächter, 2002). Our findings suggest that, when feelings of affection prevent anger, sanctioning may be suppressed. By contrast, we witnessed the strongest emotions when people discussed role digressions by nontraditional houses. Interviewees gave both visual and verbal cues of real anger (displayed in the bottom-right corner of the interpretative process category in Figure 2), and at times their language became profane. Thus, overall, it is clear that emotions play a pivotal role in people's interpretation of an actor's motives and that these emotions influence the extent to which perpetrators are punished for role digressions. Our research answers a call to account for the "emotional tonality of norms" (Elster, 1989a: 109) and to pay more attention to the role of emotions in norm enforcement (Bicchieri, 2006) and in strategic management (Huy, 2012).

### Systemic Consequences of Sanctioning Behaviors

In industries, over time, stable patterns of organization take form, in terms of who does what (Coase, 1992). This status quo, in the form of the organizations' role division, becomes embedded in norms (Battilana, 2011; Fligstein, 1996; North, 1990). Because norms come with sanctions—as we also show in this paper—they tend to reinforce the existing structure of a field, by deterring entry, restricting movement between groups, and preserving traditional conduct. Hence, sanctions nudge individual firms into traditional sets of activities, thus protecting the established role systems within a field, leading to stable macro structures (Ingram & Clay, 2000; Ody-Brasier & Vermeulen, 2014).

Conventional wisdom assumes that structural change within a field will often stem from less traditional firms because, as relative outsiders, they are less constrained by vested interests and organizational inertia. Yet, various students of market creation and structuration have noted that less traditional firms often seem to fail to challenge the status quo (Greenwood & Suddaby, 2006; Hill & Rothaermel, 2003). Burt (1992), for example, concluded that, whereas relative outsiders may envision structural change, they often appear unable to implement it. Our findings suggest that one reason why less traditional firms may still find it difficult to initiate change is because they face particularly strong retaliation for their actions. A naïve view might suggest that traditional firms are penalized more for

role digressions because, as core members of their industry, they are held to higher standards (Negro et al., 2011). However, our findings show that this is incorrect: exchange partners in the market with control over scarce resources often retaliate more fiercely when relative outsiders engage in actions that are seen to undermine the status quo than when traditional players do so. As our study showed, this is because actors often respond to their interpretation of the motives underlying the actions, and they suspect more malign motives for less traditional firms.

Through these findings, our paper departs from firm-centric conceptions of structural change: instead of focusing on the inertia and constraints experienced by the actors themselves, we explored contextual constraints, in the form of interpretation and reaction by their exchange partners. This amounts to a form of contextual inertia—which appears particularly strong for less traditional firms—that acts to prevent field-level change, while preserving the established role systems in a field, such as in the market for Champagne grapes.

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## APPENDIX A

## SAMPLE QUOTES OF PERCEPTION OF MORE VERSUS LESS TRADITIONAL FIRMS

<b>Old vs. new</b>	<p>“For me, a beautiful house, it’s a house with a history. One that lasts over a long period of time.”</p> <p>“Looking at their history [of several of their buyers] . . . these are beautiful histories . . . It matters.”</p> <p>“Billecart-Salmon has a long history and tradition in Champagne. It’s a beautiful house.”</p> <p>“[Ayala] is a beautiful house. It has been part of and contributed to the history of Champagne.”</p> <p>“The key attribute is a sense of history, classicism . . . continuity, a conservative thing.”</p>
<b>Family vs. professionals</b>	<p>“What’s a beautiful house? It’s a house that offers some permanence and continuity to Champagne.”</p> <p>“Family management is important in terms of approach to our profession . . . In many houses, the spirit of what we do doesn’t exist anymore. They have lost their soul—that is to say, the spirit of their founders. Some are able to keep this soul, like Krug, but that’s because, at Krug, there are still Krugs at the head.”</p> <p>“It’s very important. Some have lost the spirit, the philosophy of their founders, even their style of wine . . . It’s not a good thing.”</p> <p>“So there are still some family houses, but they’re becoming rarer and rarer, and smaller and smaller. Like, a house like Deutz is lovely.”</p> <p>“It [Billecart-Salmon] is one of the few houses that has kept its family spirit in Champagne, when many fell prey to large groups. This family spirit is important . . . It’s about how we view the profession. These people are passionate . . . and that’s very important. It’s fundamental, in fact.”</p> <p>“By definition, a beautiful house has remained in the founder’s family, like Laurent-Perrier [or] Pol Roger.”</p> <p>“The house that I work with is a family business, dealing with real people personally, people who care about their work; they put their souls into it.”</p> <p>“When I go and see someone, there’s a value to being a family house. ‘Mister [name], I know who you are, you own the firm, you have a mid-term vision, you carefully selected us, we’re going to work together for a relatively long period of time.’”</p>
<b>Local vs. outsider</b>	<p>“We see managers coming from outside the region; before they were with Nestle, later they will be with BMW . . . The negative side is that Champagne as a framework depends on complex interactions, both social and economic. Outside managers may not understand how these relationships work.”</p> <p>“Some large companies move their marketing teams from Champagne to Paris so that all their marketing teams can interact together. But by doing so, you’re cutting off people who may not have come from the region in the first place from the day-to-day understanding of the region, the growers.”</p> <p>“The people from outside may not understand the relationships with suppliers. Production is a given: you just make what you want, like handbags or vodka. They do not understand that agricultural products are different.”</p> <p>“It’s different, Bruno Paillard [CEO of Lanson-BCC] is new, but he’s a Champenois. The other guy [CEO of Vranken] is Flemish.”</p> <p>“I brought up this issue 10 years ago, that we should prepare the growth of Champagne in terms of vineyard area. They told me I was a Bourguignon [from Burgundy] so I didn’t understand Champagne.”</p> <p>“We are managed by Champenois, so they understand the business. We don’t need to deal with absurd requests from shareholders.”</p> <p>“Coming to Champagne and succeeding overnight by breaking all the rules, it’s not possible. No one has ever succeeded like this here. People from outside who come and quickly succeed by throwing money at the problem, it simply doesn’t exit.”</p>
<b>Independent house vs. corporate group</b>	<p><i>Long- vs. short-term perspective</i></p> <p>“Champagne has always been, whatever people say, a product that requires a long-term view—production takes time.”</p> <p>“Some people thought they could get rich in Champagne . . . The return on investment, you must calculate it on 15 or 20 years. Not on five or six years. These people, typically, they are finance people. And they’re typically disappointed, so they sell shortly after.”</p> <p>“Many houses seek continuity, in their decisions. They understand that to develop their firm requires thinking in the long term. But there are actors who are much more short term oriented. People who say, ‘I’m in Champagne, what are the assets here, what can I take and benefit from without contributing?’”</p> <p>“One of the problems is some of the houses see their success as many international companies see their success, in terms of short-term profits and share value . . . They don’t concentrate on the long term but on the short term . . . By putting . . . shareholders first, there may be a danger in the long term.”</p>

**APPENDIX  
(Continued)**

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<i>World of wine vs. world of finance</i>	<p>“These people are very competent at what they do, but they only bring a managerial perspective . . . the way you could see it in any other industrial or commercial sector. Champagne has its own cycle, which requires a long-term perspective. It implies thinking in the long term, about continuity, and I think these two visions are not compatible.”</p> <p>“It’s a financial view of the world. A financial perspective on management that does not belong in Champagne . . . When you try to force some financial imperatives and short timelines, you’re necessarily in contradiction with Champagne. That’s not a good thing . . . we must fade behind the product, it’s the product that dictates what it needs, whether it can be sold in two or five years. And, unfortunately, these financial imperatives too often take precedence.”</p> <p>“Champagne is first and foremost a wine. Over the last few years, some houses stopped considering Champagne as a wine, talking about it as a wine, but rather as a luxury product. It is . . . a complete disconnect between the intrinsic value of the product and what’s invested in marketing.”</p> <p>“In Champagne today, there are two types of houses: on the one hand, you have those houses that focus on volumes, invest a lot in marketing, go to large markets with huge budgets and refund rates, and, on the other hand, you have family houses that sell not a marketing product but a renowned wine.”</p> <p>“Champagne can be two things: status for some, epicurism for others. If you’re looking for status, you go with the brand—Moët or Veuve Clicquot. If you’re epicurean, you are interested in the wine. So you want a high-quality wine, like Bollinger, Roederer, or Pol Roger.”</p> <p>“The biggest threat for me, as a grower, is . . . the increasing prevalence of finance in Champagne . . . The houses need to have nice, clean balance sheets for their shareholders and for the stock market at the end of the year . . . This is a threat. We need to take this into account.”</p>
<i>Artisan vs. industry</i>	<p>“We must remain artisans, artists, men of the vine, and . . . men of wine and not become agro-food industrial groups.”</p> <p>“Making Champagne, it’s not an industrial process. You don’t just press on a button when you have access to the raw material.”</p> <p>“The goal . . . isn’t to put forward a major brand but to showcase the artisanal side of things.”</p> <p>“There are some houses where there is still something artisanal about the process. When we talk about the Champagne houses, some talk about an industry . . . Personally, I hate this word. I can’t stand it, it’s a word that doesn’t belong in Champagne. Champagne is . . . an artisanal product; it relies on human skills . . . the hand of men remains vital and important to define the product, the quality, a lot of things . . . and its human value lies here. If we make it an industrial product, where is the human value? It disappears. What’s important is to have some respect for the men who make the product. The growers. To be considerate of those who make the product and respect the raw material we give them to make their blend.”</p> <p>“I was with a friend of mine, who is an export manager for a small house, and he was talking scathingly about his equivalents at a large drinks company, coming from a spirits background. ‘These guys ask in February, can we make more Champagne? We need to make more Champagne now.’ They don’t realize you don’t harvest in February!”</p>

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**APPENDIX B**

**INSTRUMENTAL VARIABLE APPROACH**

A key factor in a grape seller’s decision to sell their vineyard to a grape buyer, as opposed to passing it on to a family member, is that the taxes involved in transmitting businesses are relatively heavy for family successors. In 2003, however, Renaud Dutreil—then Secretary of State for Small- and Mid-Size Businesses—introduced a law to facilitate the transmission of businesses between family members. In addition to reducing the administrative burden for successors, the law introduced a significant decrease in the taxes collected from family successors (from a

50% to a 75% tax exemption). The law was labeled a “game-changer” for family businesses in legal publications, and the grape sellers’ professional trade publication described it as a “special treatment” that “greatly facilitates” the keeping of vineyards within families. A legal professional we interviewed confirmed having drafted a number of these “very advantageous” deals since the law’s introduction. Thus, this legal shift led to a decrease in the availability of vineyards for purchase by grape buyers (Champagne houses).

The second piece of information we incorporated in our instrument builds on the notion that, whenever possible, grape buyers may favor sourcing their grapes from one geographic area within Champagne—perhaps to maintain

consistency in the style and quality of their wines. We call this geographic area a buyer's "primary sourcing region" and define it as the region where the buyer itself is located. This is important because Champagne houses would be particularly keen to purchase vineyards in their primary sourcing region. We therefore gained access to confidential information by Le Comité Interprofessionnel du vin de Champagne, a government-controlled agency that, among other things, collects annual information on the number and age of all grape sellers within the five sourcing regions of Champagne (Aisne, Aube, Marne, Haute-Marne, and Seine-et-Marne). For each buyer-year, we entered the

number of vineyards managed by sellers over 60 years old in a given year—60 being the legal age of retirement for French farmers. Following the approach taken by Kortum and Lerner (2000), our instrument is an interaction between this variable and the aforementioned dummy for policy change: before the introduction of the law in 2003, the *policy change* instrument takes the value 0; afterward, it takes the value of the number of vineyards operated by growers 60 years and older in the region where a given house is located. As expected, in the first-stage regression, our instrument was a negative and significant predictor of vineyard acquisition ( $\beta = -.01$   $p < .002$ ).

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