Do Socially Harmful Projects Distort Investment Efficiency? Evidence from Very Violent Movie Projects

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What motivates managers to invest in socially harmful projects? We examine the economics of such investments within the context of hypotheses suggested by extant theoretical research. The Management-Interest Hypothesis suggests that managers may invest in socially harmful projects because these projects fetch managerial private benefits like prestige or job security from risk minimization. On the other hand, the Shareholder-Interest Hypothesis, based on value or profit maximization being the ultimate motive for the manager, asserts that these projects enhance investment returns because of some competitive advantage inherent in these projects.

We examine the above hypotheses by conducting an empirical analysis of the economics of very violent movie projects. Our interest in the examination of these movies follows the increased interest to the role of violent media in recent mass shooting incidents in the US, including the ones at Sandy Hook Elementary, Virginia Tech and movie-goers in Aurora. This attention to violent media’s blame in mass shootings is evident both in the popular press and in academic studies by scholars in a variety of disciplines. For example, in a report released in February 2013, the National Science Foundation concluded that a key factor contributing to mass shootings was violent media, based on dependable evidence and a steady set of theories to explain youth violence from decades of research, including research supported by the National Science Foundation, the National Institutes of Health, the National Research Council, and other federal agencies. Whereas much of the extant research on violent media focuses on the sociological consequences of violent media, we examine the economic motivations for investments in the production of violent media.

A paper closely related to ours is Ravid and Basuroy (2004), who also examine, among other things, the economic motives for making very violent movies. Their results show that whereas very violent movies (n=17) as well as movies with sex and violence (n=17) do not decrease returns, they do decrease risk. Although studies with small samples are useful for many reasons, it may be difficult to generalize the empirical results of such studies. In our instigation, we examine a large sample of very violent movie projects to complement and extend existing work and conduct this examination within the context of extant theories by an examination of the returns, risk and the prestige that can be gained from these projects.

Our sample of movie projects includes a base sample of very violent movies as well as a comparison sample of family movies that were released in theaters in North America from 1991 to 2007. For each movie project in both the very violent and family movie project subsamples, we obtain data items from well-known suppliers of data for the movie industry and also manually collect additional pieces of data to identity unique characteristics of each project. Collectively, our dataset includes data items that provide proxies for estimating performance, private benefits and control variables.

Our preliminary findings indicate that very violent movie projects fetch managers with substantial private benefits from prestige but not from risk minimization. However, we also find that financial returns associated with very violent movie projects are not statistically different from those of family projects. Using our preliminary results, we suggest various explanations for the enduring power of very violent movies despite their sociologically harmful effects. Our results should be of interest not just to academics but also to the government and others interested in the debate on the effects of violent media.
Field: Capital projects, Agency Theory, Finance, Media Violence

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