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### Organizational dynamics in social networks : contracts and reputations in the film industry

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## Chapter 5:

### Organizational memory: From expectations memory to procedural memory<sup>7</sup>

#### *Summary:*

Organizational memory is not just the stock of knowledge about how to do things, but also of the expectations of organizational members vis-à-vis each other and the organization as a whole. The central argument of this paper is that this second type of organizational memory – *organizational expectations memory* – is a necessary precondition for successfully creating and maintaining *organizational procedural memory*, which is at the basis of organizational performance. If members of organizations have fewer expectations of being rewarded beyond what is stipulated in formal contracts, these individuals are less likely to risk investing in collective tacit and firm-specific knowledge resources and more likely to focus on building individual and mobile knowledge resources that have value outside the boundaries of the organization. A case study of latent organizations in the Dutch film industry is presented to support the central argument and suggests further avenues of research, in particular concerning the effects of labor mobility on organizational expectations memory.

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<sup>7</sup> This chapter is based on a paper that is accepted for publication in the *British Journal of Management*.

## Introduction

The organizational memory literature concerns itself mainly with the stock of knowledge in an organization that can be put to use to improve performance of the production process or any other supporting task (Walsh & Ungson, 1991; Moorman & Miner, 1998). This literature fits in very well with the resource-based view (Wernerfelt, 1984; Barney, 1991; Barney, Wright & Ketchen, 2001) and even better with resource-based view variant that focuses on knowledge, the knowledge-based view of the firm (Kogut & Zander, 1992; Nonaka, 1994; Conner & Prahalad, 1996; Liebeskind, 1996; Nonaka, Krogh & Voelpel, 2006). In this view, performance differentials between organizations result from certain organizations being more successful in creating, retaining, and transferring knowledge resources. Organizations add value by effectively and efficiently managing existing knowledge within the boundaries of the firm, while at the same creating new or creatively combining existing knowledge into new innovative products.

Knowledge comes in many forms, but the more knowledge is either organization-specific or tacit (Polanyi, 1962) and collective, distributed over a group of people (Walsh & Ungson, 1991), the more difficult it is to transfer or imitate, and the more value such knowledge as a resource will have to the organization. Organization-specific and collective tacit knowledge resources about how to do things in an organization, stored in so-called *organizational procedural memory* (Cohen & Bacdayan, 1994), are therefore prime candidates if one is looking for resources through which an organization can build a sustainable competitive advantage. However, organization-specific knowledge often has little value outside of the organization and collective tacit knowledge is by its very nature never the property of any individual. To be successful at creating and maintaining a stock of such knowledge, an organization must be able to convince individuals to invest time and effort in building resources they cannot individually appropriate.

The central argument of this paper is that another type of organizational memory, *organizational expectations memory*, is a precondition for the protection

and development of organizational procedural memory that in turn, leads to competitive advantage. We define organizational expectations memory, as the stock of explicit and implicit expectations of rewards of organizational members, vis-à-vis each other and the organization as a whole. If they are not rewarded immediately, individuals expect other members of the organization as well as the organization as a whole, to remember behavior that benefited the organization and remember to reward them accordingly at a later date, especially if this behavior contributed to the growth of a resource such as collective knowledge that they cannot individually appropriate. Individuals need to be able to trust that somewhere in the future individual rewards will follow and for this to happen there is a need for these expectations to be stored. The idea that organizational procedural memory leads to competitive advantage is widely acknowledged (Kogut & Zander, 1992; Cohen & Bacdayan, 1994). The first step, from organizational expectations memory to procedural memory however, is not, and this will be the focus of our theoretical argument and case.

We will briefly revisit the basics of organizational theory, especially in connection with knowledge and memory. Next theoretic perspectives on incomplete contracts, implicit contracts, and psychological contracts and how these contracts interact within the boundaries of the organization will be discussed. This will be followed by what we think is our main contribution, arguing how individual expectations of rewards stored in organizational expectations memory support the creation of collective tacit knowledge stored in organizational procedural memory. Next, a case study of producers and directors in the Dutch film industry will show how their behavior can be explained by their expectations. A discussion section will round off the argument and present two further propositions concerning the effects of labor mobility, in and out as well as within the organization, on organizational expectation memory and, therefore, on organizational procedural memory and performance.

## Theoretical framework

### *The knowledge-based view and organizational memory*

Transaction cost economics originates in the insight that markets are costly and that organizations provide an alternative means of coordination (Coase, 1937; Williamson, 1991), which allows to avoid or minimize the cost of market transactions. This approach entails a somewhat negative view of the organization, primarily as a remedy to a problem. This contrasts with the approach taken by authors (Simon, 1976; Ghoshal & Moran, 1996) who stress the advantages of the organization as such, the opportunities offered by the organization to do more than the market is able to, not just the same more efficiently. People in organizations are willing to cooperate, share resources, and worry less about personal appropriability because of their loyalty to the organization, their capacity to identify with the organization, and their greater willingness to accept the authority of others in organizations (Simon, 1991).

In the strategic management literature, the resource-based view of the firm (RBV) emphasizes the benefits of organizations over markets. According to the RBV, organization-specific resources explain performance differentials (Wernerfelt, 1984; Barney, 1991; Simon, 1991). More specifically, proponents of the knowledge-based view of the firm (Polanyi, 1962; Nonaka, 1994; Conner & Prahalad, 1996; Liebeskind, 1996; Kogut, 2000) identify knowledge resources as the crucial source of competitive advantage of organizations. Theoretical perspectives on what type of knowledge is crucial and how proper management of it leads to a competitive advantage diverge. Whereas some researchers propose that knowledge resides in the individual and it is the organization's task to integrate it in the organization (Grant, 1996), in this paper we will especially focus on knowledge that is either organization-specific or collective (Walsh & Ungson, 1991; Liebeskind, 1996) and tacit (Polanyi, 1962; Nonaka, 1994). Knowledge of both these types cannot be easily

transferred out of the firm and, if valuable, will result in an important, because highly sustainable, competitive advantage (Barney, 1991).

This particular knowledge-based view of the firm implies that there is a certain degree of stability in an organization's human resource base in order to protect collective tacit knowledge. This type of knowledge can be considered to form a major part of the stock of resources stored in so-called organizational memory. Although, Walsh & Ungson's (1991) seminal article set out a new research agenda concerning organizational memory, before that, March & Simon (1958) as well as March and Olsen (1976) used the term organizational memory to refer to either the narrower set of procedures used in the firm or the broader set of past events, promises, goals, assumptions, and behaviors. Later memory research has distinguished between *declarative* memory (Singley & Anderson, 1989) of factual knowledge, and organizational *procedural* memory of know-how or skills (Cohen & Bacdayan, 1994). The latter type of memory is particularly important to store organization-specific or collective tacit knowledge, on which we focus our argument. If such knowledge is important to the firm, it is important to know how it can be created, preserved and managed effectively, precisely because one cannot (easily) codify or store it in manuals, standard operating procedures or formal training.

At the level of organizations or groups, organizational social capital theory offers suggestions how this could work, linking the incentives of individual members to eventual organizational benefits resulting from the creation and preservation of organization-specific and collective tacit knowledge. Organizational social capital theory argues that organizations that are good at developing social capital will in turn be able to create more intellectual capital (Nahapiet & Ghoshal, 1998; Leana & Van Buren, 1999). Leana and van Buren (1999) define it as 'a resource reflecting the character of social relations within the organization.' If the members of an organization possess a high level of collective goal orientation and shared trust, this will contribute to value creation facilitating successful collective action (Leana & Van Buren, 1999: p. 538). This theory builds on Coleman (1990) who found that repeated exchanges among members of a group improve coordination and that social relations in combination with reciprocity-norms represent useful capital resources for individuals as obligations can be conceived of as credit slips (Coleman, 1988).

Repeat exchange facilitates the creation of organizational procedural memory where social credit slips provide an incentive for individuals to invest in organization-specific or collective tacit knowledge. Individuals in organizations constantly generate obligations, between themselves and between them and the organization as a whole. In analogy to investment risk in regular markets, individuals run the risk that other individuals or organizations will default on their obligations and not meet their expectations. If individuals cannot assume that their behavior towards each other and towards the organization is remembered, they will not be able to entertain expectations of being rewarded. In turn this will de-motivate them to invest in acquiring or investing in organization-specific or collective tacit knowledge that, according to the knowledge-based view of the firm, will benefit the firm in the long run. This is reinforced by the notion that employees run the risk of asset specificity (Williamson, 1975) or high switching costs (Shapiro & Varian, 1999) when investing in skills and knowledge that are likely to have relatively low value outside the specific organizational setting.

At the level of the individual, organizational citizenship behavior (OCB) shows that individual employees demonstrate behavior that benefits the organization, but which is not part of an employee's formal explicit contract or role description, and for which no official reward system exists (Organ, 1988). In support of Simon (1991), it was found that being able to identify with the organization is an important antecedent to OCB (Van Dick, Grojean, Christ & Wieseke, 2006). Furthermore, organizational identification can explain turnover intentions, which is partly mediated by job satisfaction (Van Dick, Christ, Stellmacher, Wagner, Ahlsweide, Grubba, Hauptmeier, Hoehfeld, Moltzen & Tissington, 2004), while job satisfaction will normally increase when the employee feels properly rewarded for his/her efforts. Employees that invest in organization-specific or collective tacit knowledge expect to be rewarded for this behavior. Job dissatisfaction and turnover intentions arise, however, when there is a gap between the expected rewards and actual rewards. Rewards and expectations of rewards therefore, need to be managed carefully to build an organizational expectations memory that is beneficial to the firm. The usual way to manage reciprocal expectations is by contracts.

## *Organizations and contracts*

The property rights approach, which sees an organization as a nexus of contracts, is an alternative to the transaction costs or resource-based view on the firm, though not necessary incompatible with either of them. Individual rights of the members of an organization have to be specified in order to determine how rights and rewards are to be allocated among those members. These are affected through contracts that in turn influence the behavior of its members (Jensen & Meckling, 1976). Additionally, the ownership of assets or resources is at the basis of the claim to the residual rights or all rights that have not been explicitly treated in these contracts (Grossman & Hart, 1986; Hart & Moore, 1990). In these studies the assets under consideration are normally physical assets, such as machines and factories.

The property rights approach becomes complicated, however, when this approach is applied to knowledge resources, precisely because much knowledge is difficult to separate from the individuals or groups using the knowledge to the benefit of the firm. First, it may not be in the interest of the organization to try and control knowledge centrally, because it may be more efficient to stimulate decision-making at lower hierarchical levels (Hayek, 1945). Second, it is difficult to contractually control knowledge resources (Liebeskind, 1996). It can, however, be argued that this is only an apparent difficulty, caused by a too narrow focus on formal contracts. It seems helpful for the purposes of this paper to look closer at knowledge resources in connection with incomplete contracts, implicit contracts, and psychological contracts.

First of all, all contracts are in an absolute sense incomplete, because of imperfect knowledge, bounded rationality and the resulting impossibility of taking all possible scenarios into account (Simon 1976). Labor contracts, however, are usually more incomplete than most other contracts. The more an employee has to use knowledge resources and make her own decisions to do her job optimally, the less it is possible to specify beforehand exactly what is expected of this employee. These incomplete contracts may pose a risk to the employees as they may be asked to perform tasks that do not meet their expectations and may not be as rewarding



as anticipated or promised when signing the labor contract (Simon, 1951). The same holds true for the employer who runs the risk that employees will not perform, or unwillingly and inefficiently, when asked to do what is not specified in the contract. Employees, however, accept incomplete contracts because they expect that their manager or the organization will not abuse their tolerance for ambiguity (McEvily, Perrone & Zaheer, 2003), while the employer similarly expects a cooperative attitude from the employees.

Second, besides being incomplete, contracts are to a large extent *implicit* (Bull, 1987; McEvily et al., 2003). The difference between what is incomplete or merely implicit in a contract is that the implicit part refers to what both parties to the contract assume to have agreed between each other, while incompleteness also refers to the much broader category of matters about which no agreement has been reached because they have not, or could not have, been considered beforehand. There are both obligations and rewards, which are considered by both parties to be part of the contract and *could* have been made explicit in the formal contract, but are not. There might, for instance, be an obligation to turn up at the weekly social event or the monthly unit meeting. Employees can be given rewards that have not been formally agreed upon *ex-ante*, for instance that the size of their office increases with promotions. How much can be left implicit depends on the level of trust between the contracting parties (Bull 1987; McEvily et al., 2003). This is especially delicate for the reward of promotion, the allocation of which has a subjective component and therefore contains an evaluation risk. An employee may expect to be promoted but is not.

Thirdly, there are *psychological contracts* (Argyris, 1960; Kotter, 1973; Herriot & Pemberton, 1995). Rousseau (1989) refers to a psychological contract as 'an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party. Key issues here include the belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some set of reciprocal obligations' (Rousseau, 1989). Rousseau's view of the psychological contracts has been said to move away from the original idea of a psychological contract as a two-way employee-organization reciprocal relation (Guest, 1998). From an organizational memory perspective

however, it is precisely this one-way individual's conception of the reciprocal relationship with the larger organization that makes the psychological contract according to Rousseau's interpretation a useful concept. Instead of being a contract in the usual legal sense, something to which two parties agree or may be assumed to have agreed, the psychological contract unilaterally describes expectations in the mind of the employee. However, this does not mean that within the organization there is no interaction between individual psychological contracts. The behavior and attitudes of colleagues, also based on their own psychological contracts, will have an effect on what each individual employee will expect, and thus affect the content of the psychological contract in his/her mind and his/her resulting behavior. There is no need for explicit interaction between colleagues about their expectations for this to take place. For instance, when colleagues work overtime on a regular basis and other colleagues may expect that this will increase their chances of making a promotion and therefore do the same.

The organizational climate or culture (Schneider, Brief & Guzzo, 1996) could make these implicit interactions more likely or stronger, while the strength of expectations memory could have an effect on the development of an organizational climate. However, it should be clear that organizational climate is a different and much broader concept than organizational expectations memory. Rephrasing some of the above in the terminology of the property rights approach, it can be expected that the internal nexus of psychological contracts or interlocking expectations of all employees together can have a significant impact on the organization in general and the creation of collective tacit knowledge more specific.

### *Rewards, mobility and organizational memory*

Contracts incorporate obligations and rewards. The supply of rewards organizations can offer to their members is not unlimited, which means that there will be an internal competitive process. This competitive process among members of the organization is similar to the external competitive process in a market. However, the ways in which one can be successful in the one or the other process

may be dissimilar. Building on Simon (1991), Wijnberg (2004) proposed that precisely this dissimilarity contributes to organizational performance. The argument underlying this suggestion is that when employees are constantly comparing their rewards to the present market value of their contributions to the organization, this would greatly impede the effectiveness of organizational mechanisms - such as acceptance of authority, loyalty to the unit etc - mentioned by Simon (1991) that create organizational benefits. This argument is particularly relevant in regard to organization-specific knowledge and especially collective tacit knowledge that is stored in organizational procedural memory. When employees feel the need to constantly monitor their personal investments in time and effort, and to balance it with the rewards they received in proportion to their relative contributions to organizational performance, it becomes rather unlikely that tacit collective knowledge will be created at all (Osterloh & Frey, 2000).

Especially when it concerns collective tacit knowledge it is evidently impossible to reward all contributors instantaneously. Even if it were possible, it would greatly hamper the easy collaboration and communication that is essential to the growth of organizational procedural memory, if the process was stopped regularly to determine everyone's contributions and reward them accordingly. Here, the importance of implicit and especially psychological contracts manifests itself. The more the employee is able to rely on his expectations of being rewarded, the more likely he will be to accept postponement of rewards for his contributions to the organization. Employees may be willing to put up with an obnoxious or incompetent boss in the expectation that he or she will be replaced sometime in the future and a new boss will better recognize one's qualities. Employees may agree to temporarily perform a task they dislike in the hope of more rewarding work in the future. Employees may accept lower salary or work longer hours if they expect that this will help them qualify for a promotion. These future rewards can be monetary, but also non-monetary in nature.

The fact that some of these rewards are specific to organizational structures already contributes to distancing the competitive process in the organization from that outside of it. Psychological contracts that flourish inside of the organization further increase the dissimilarity, as they lead to toleration of ongoing ambiguity

and postponement of rewards. As expectations and obligations are not made clear and qualification for promotion is subjective, employees do what they expect that the organization needs and what they think will help them qualify for a promotion (Vroom, 1964). More specifically, an employee will accept more and longer postponement of rewards within the organization, compared to what she would accept in a temporary or market-relationship, precisely in so far she assumes that the organizational relationship will be of sufficiently long duration to be fully compensated at the end (Riketta, Van Dick & Rousseau, 1996). In this sense, an organization can operate like an open-ended pyramid-scheme. New employees are willing to accept conditions far below what they would be able to find outside the organization and even farther below what they know more senior members of the organization enjoy because they expect to be in the position of the senior members later on and profit from their underpaid juniors. This is the idea behind deferred compensation (Prendergast, 1999).

Furthermore, psychological contracts allow employees to overestimate their contributions to the organization without being corrected. Given the common tendency to do so, employees will be willing on average to overestimate future rewards and accept even lower present rewards in consequence (Taylor & Brown, 1988; Benabou & Tirole, 2002). Both types of considerations, which can be the subject of psychological contracts and the content of organizational expectations memory, will motivate employees to invest in organization-specific or collective tacit knowledge resources, to the benefit of the firm. This line of reasoning suggests that there might be a relationship between the characteristics of the rewards system within the organization and the relative importance of psychological contracts.

A factor that even more obviously can affect the step from organizational expectations memory to organizational procedural memory - the first step of the two-step relationship from expectations to performance - is mobility. The mobility of employees in and out of the organization, as well as the mobility within it, will have an impact on the willingness of employees to tolerate ambiguity in their labor contracts and delay of rewards. By leaving the firm an employee gives up the greater part or all of her expectations vis-à-vis other members of the organization

and the organization as a whole. The employee also takes with her or destroys part of the knowledge resources of the organization. Alternatively, if *other* employees leave the organization this also can reduce the value of the sum of expectations her colleagues have, if only because the ex-colleague will not be likely to reciprocate anymore. Also, collective tacit knowledge may suffer from others leaving the group. This is further reinforced when a high proportion of colleagues leaving and a high influx of new ones will give the average employee the idea that she is relatively easy to replace. On the other hand, some external mobility most often is healthy for an organization, as it permits the inflow of new information and new ideas (Janis, 1972).

## **Methodology and case**

### *Methodology*

In the following case study we will explore the ideas discussed above, focusing on the core of our theoretical argument that organizational expectations memory is positively related to organizational procedural memory, the first step of the sequence from expectations to performance. The second step, from procedural memory to performance is relatively well-established in earlier studies (Kogut & Zander, 1992; Nonaka, 1994; Liebeskind, 1996). However, we also present evidence of the second step showing that organizational procedural memory leads to performance in the sense of efficiency in the production process.

Because the objective of this study is to build rather than test theory we performed a case study (Yin, 2003). We chose an extreme case, the latent organization in the film industry, because it is especially illuminating in gaining insight in a phenomenon (Siggelkow, 2007). Understanding processes in an extreme case will strengthen our argument that this process also plays an important role in more regular organizations. At first sight, the film industry is organized around individual projects and networks of freelancers and small companies that

temporarily align themselves through short term (labor) contracts. Closer inspection reveals the existence of so-called latent organizations, groups of individuals that regularly collaborate in a series of short-term projects and in the process create continuity as a result of which organization-specific collective tacit knowledge can be protected (Starkey, Barnatt & Tempest, 2000). Whereas the isolated projects are governed by the project-based organizations using explicit short-term contracts, the latent organization is governed by obligations and expectations in long-term implicit contracts. Precisely because there are no formal contracts binding the members of the latent organization to each other or to the organization as a whole, the importance of implicit and psychological contracts should be maximal, as will be the impact of reciprocal expectations on the behavior of organizational members. If we find evidence in organizations that are built almost completely on implicit contracts, the chances are higher that the same phenomenon is also relevant in organizations that do exist formally and where contracts, and therefore expectations, are more explicit. More specifically we study latent organizations in the Dutch film industry.

We performed face-to-face, semi-structured interviews with 24 film producers between February 2007 and February 2008. Interviews, as opposed to questionnaires, render fewer incomplete responses, fewer misunderstood questions, and a generally higher response rate (Yin, 2003). The negative impacts of both interviewer and informant bias were tackled by tape-recording the interviews. All informants were granted confidentiality in the reporting of the results. This also served to reduce the negative impact of socially desirable answers (Kumar, Stern & Anderson, 1993). The total population of producers consisted of 34 producers of fiction films with a length of at least 60 minutes and a theater release in the past 10 years. The response rate therefore was 70%. In addition we interviewed 15 film directors to triangulate our findings. We conducted roughly 90-minute interviews with 39 (n=39) informants. All the names of persons and companies have been made anonymous or changed.

## *Case study*

In the film industry, high competitive uncertainty in the market has led to flexible production (Jones, 1996; DeFillippi & Arthur, 1998). Flexibility, however, has negative side-effects because access to human resources or, alternatively, access to work, becomes uncertain. Latent organizations of serially collaborating freelancers can be seen as a counter reaction to this flexibility in search of more stable relations (Starkey, Barnatt & Tempest, 2000). Through being a member of an informal latent organization, freelancers expect to benefit from more job security, for which they are willing to accept a lower monetary reward or salary. Producers, in turn, benefit from lower labor costs of these freelancers in exchange for an informal or implicit agreement that he or she will employ these same freelancers in future projects.

When a project participant works below his normal fee in a low-budget project, I make a promise without putting it in black and white that I hope and strive to re-contract that individual for the next project, because that specific individual also made an investment. That is how you treat them and how you negotiate.

(Producer C)

Producers that have a strong relationship with a director expect that the salary for a subsequent project will not increase much, even when the market value of this director has increased as a result of their earlier shared success. Past contracts and salary agreements between them form the basis of this implicit contract. "When you have a strong relationship [with a producer] I think it is more difficult to say: 'our last film was such a success, I want a higher salary'...because their starting point in the negotiations is our last contract - Director M." Directors can earn a higher salary when they switch producers after they made a successful film but there are good reasons not to do so. When a director with a strong relationship with a producer delivers a flop this does not necessarily mean that his or

her lower market value results in a lower salary in the next project. Additionally, a director also retains the trust, credit and a second chance in a next project.

It is difficult to ask for a substantially higher compensation or salary when you always work with the same producer. It is better to do this when you start working for a different producer (...). However, the moment things are not going very well it could work against you. At that moment you are better off with a producer with whom you have a strong relation because you are able to continue working under the same conditions.

(Director E)

Rewards are not just monetary in nature. Besides or instead of a lower salary than their market value would permit, employees or members of a (latent) organization are more willing to perform tasks that they do not like in the expectation of doing more interesting work in the future. In our case, in the project-based film and television industry, feature films are regarded as more interesting than television series, but directors are willing to do television series, in the expectation that eventually they can direct a feature film. When a (latent) organization suddenly splits up this will mean that the organizational expectations memory will disappear. This poses a serious risk of not being rewarded for having invested in the organization by having performed tasks that are below the reputation or standard of this individual.

It took years before it [the financing of film X] was completed and in the meantime I kept working for Production Company Y doing many television series (...). I did not have a contract but they tried to make me do a number of television series - something I do not prefer doing - to make sure that I remained more or less tied to their company. At a certain point the film and television divisions of Stellar split up and they made more and more



television series. At that moment I thought I could not expect much more and started spreading my risks again by approaching other producers.

(Director E)

Contracts in the film industry are usually short-term, for only a single project, while much in the contracts is left incomplete. The incompleteness of the contract leaves large parts of the agreement implicit. Mutual obligations are not spelled out and therefore difficult to enforce when not met. The existence of a latent organization mitigates these risks of incomplete contracts because the expectations of both parties that the collaboration will be re-enacted in the future, increases the chance that obligations will be interpreted in a manner that is satisfactory to both of them. In the following quote this is illustrated in the context of a director's obligation to help promote a new film, for example through interviews for television and newspapers.

I know that if I do as much promotion [of the film] as possible, that they [the producers] will like to work with me again in the future... It [the contract] is very vague: 'the director needs to promote the film'. It does not say how many hours, it is very vague: 'as good as he can'.

(Director M)

Another important issue is that freelancers need to manage their agendas carefully in order to plan projects that might otherwise overlap. When there is loyalty between individuals that regularly collaborate – members of a latent organization –, with mutual expectations of working together in future projects, freelance project members are more willing and able to align their agendas. In other words, they are more inclined to give each other preferential access. "Project participants are willing to give us an option [on their services] until a certain date when we think that we have completed the financing of the film. They may have options at other production companies at the same time but I can ask them to stretch their negotiations – Producer M." Other freelancers also extend such

“options” to directors, who usually have a strong vote, together with the producer, in the selection of project participants.

My editor always phones me: ‘when will it start, because I have been asked to do this other project? What are the odds that your project will take off, because else I will do that other project?’ Moreover when Dave [the editor] had the choice between editing a very large film or my small short film, he chose to do my small film.

(Director F)

So far we have illustrated how organizational expectations memory aids in building long term relationships in latent organizations. Individuals invest in projects for which they expect to be rewarded in the future. In what follows we will show how organizational expectations memory serves creating and maintaining organizational procedural memory.

Although individual skills are a prerequisite, the ability to work in a team is very important in the film industry. “The team has to be right. Sometimes you choose someone who is qualitatively not the best but who is the perfect person because he or she understands what the director wants - Producer V.” Collective tacit knowledge is generated by shared experience, both positive and negative. Shared memories and knowledge of one’s tastes or habits in turn, can provide strong efficiency gains. At the question why he preferred working with the same people a producer answered: “Because I know what they are capable of and because they are pleasant to work with - Producer O.” Directors express a similar preference for strong relationships for similar reasons. “I prefer a strong relationship because it produces the most benefits. You know each other and each other’s strengths and weaknesses – Director H.”

The focus on knowledge about each other strongly suggests that organizational procedural memory is mostly tacit and organization-specific. This knowledge is not something one could easily codify or transfer to others. “If you know what to expect from someone, and you collaborate often, you will work more

efficiently - Producer N". On the set during the production or shooting phase of a film, when there is a crew of 30 or more waiting for directions, this is especially relevant. If a director does not need to explain his vision or preferences, this will lead to more efficiency.

It is mainly about communication. It sounds strange but it is true. I only need to signal to make clear what I mean. That way you can communicate very fast. I can be in a situation where I only say 'John [his regular director of photography (DOP)], you know, right?' and he knows what I mean. He knows what I like and what I don't like.

(Director F)

If you share a vision [with your editor] you can mutually enforce one another. If you both understand what you are doing you don't lose hours explaining things. If not, you will get a compromise of two visions. The moviegoer will feel this. Such a relationship has to grow.

(Director H)

In other words, there has to be a "click" or mutual "rapport" that is difficult to describe or define. It is especially noteworthy that it is easier to have arguments when there is such a rapport. Open arguments, between creative freelancers with relatively vague job-descriptions, can significantly contribute to the eventual quality of the output, but if one did not know each other well, heated arguments could put the work-relationship at risk.

I know that [anonymous DOP] has a tendency to do certain things that I do not like. I know this and therefore can take that into account. And because he is a friend we can have very fierce arguments.

(Director F)

Furthermore, long-term collaboration also provides opportunities for evaluating earlier projects and benefiting from this in future projects. The continuity

of the work relationship helps to enable the members of latent organizations to recognize each other's mistakes in a more considerate way and to look for solutions instead of playing a blame-game. "Of course, if you do not know each other, you cannot blame one another for the things that went wrong that first time - Director G". Moreover, when there is a larger degree of trust based on past experiences, the problems that are encountered by the producer will be acknowledged more easily by the director. This is particularly important as these problems are often budgetary in nature and can affect the resources available to a director in realizing his vision for the film. Compromising his vision may seriously damage his reputation when the film turns out to be a flop.

When you have a strong relationship, you are more inclined to accept this [budgetary problems]. You understand better and it is easier to accept what the problems are for the producer. You may be able to avoid this next time.

(Director E)

When there is a strong collaboration you can share it when things did not work out, and try to find out the causes. 'How can we do it better next time? It was stupid to spend money on that. We made the wrong choice of actors.'

(Director H)

The acknowledgement that repeated collaboration is related to better and more efficient production allows for more active management of these long-term relations. Mutual expectations about future collaboration will allow latent organizations to work towards a future goal. Learning can therefore be actively supported by designing a roadmap. This is especially relevant in the relation between producer and director.

Better cooperation and communication can develop between the two [producer and director]. You just know what to expect as a couple. As a

producer you have a little more certainty. You can work on an oeuvre. You can make a roadmap stating what and when you want to accomplish something.

(Producer O)

While in this example producer and director seem to have equivalent reputations, it is also possible for a more experienced producer to invest in a young director by providing him or her with the opportunity to make a short or low-budget film. The reward to the producer will be collected in the future when the young director's talent has developed enough to make a large feature film that is much more lucrative. The director, in turn, is rewarded both by the chance to develop him or herself and build a reputation. The investment of the producer is protected when a person – in this particular case a director – voluntarily commits to, or is loyal to, a single latent organization in the absence of a long-term labor contract.

I help individuals plan their careers. I tell them that doing a particular project [with me] will be beneficial for their careers. Someone can be ready for a next step (...). I am primarily focused on new talent. I often produce debut films for people that have been here [at my production company] for a while or with whom I made a short film here earlier. If all goes well and we [director or writer and me] can make a feature length film together, I am very happy. That is where my focus is.

(Producer B)

Besides producers, directors also play an important role in the career development of other freelancers with whom they collaborate often. Most of the success of films is attributed to the director, but this director is also dependent on the rest of his team.

If you have a good collaboration and you are successful you will develop together. That applies to editor, production designer, and DOP. They benefit

from a good and successful collaboration. I play a role in their careers and they do in mine. I am completely dependent on them and vice versa.

(Director E)

We conclude our case with a final quote that explicitly links organizational expectations memory with organizational procedural memory. Project members that belong to a latent organization are willing to participate for a lower salary in the expectation that they will be part of the same team in future projects. Regular collaboration in latent organizations allows mutual expectations to arise and this provides the environment in which organization-specific collective and tacit knowledge develops that helps to produce films more efficiently. Knowledge of how things were done in past projects can be protected through re-enactment of the same project team.

I try to work with the same people until it goes wrong. In that way you can talk reasonably about these [salary] things. It is like: 'OK, this time it is a bit less...' It is not that I promise them anything; it is because you both know that there is a form of loyalty. And of course you built up important shared experience which also very important, even when things go wrong. I prefer an organization where things go wrong in the first project and right in the next, than having to work with uncertain factors every time again.

(Producer R)

## Discussion

This paper has argued that *organizational expectations memory*, consisting of the web of reciprocal expectations within organizations, is the foundation on which *organizational procedural memory* is constructed, which in turn is at the basis of an organization's competitive advantage. Implicit and psychological contracts allow individuals to demonstrate organizational citizenship behavior (OCB) by initiating activities to the benefit of the organization of which it is uncertain whether it will result in personal rewards. Additionally, organizational members may agree to perform difficult or boring tasks on terms that are not optimal in the short run, expecting to be compensated with more challenging work in the future. Finally, they may accept a lower salary in the short run if they expect to be compensated in the long run. In this process members of the organization build and protect knowledge resources much of which is organization-specific, collective and tacit. This so-called organizational procedural memory, in turn, is an important determinant of organizational performance (Kogut & Zander, 1992). It is precisely this type of knowledge that gives organizations a competitive advantage, as it is hard to transfer to others, tied to the organization, and its value difficult to individually appropriate (Liebeskind, 1996).

The film industry is an ideal test-case to study our thesis that is particularly relevant for – an increasing amount of – industries in which the relative importance of knowledge resources vis-à-vis physical resources is particularly high, as is the case in the film industry (Miller & Shamsie, 1996). Additionally, it is an extreme industry case where explicit and long-term labor contracts, which in 'normal' organizations at least partly serve as an insurance on which the expectations of future rewards for OCB can be based, are practically non-existent. In the absence of formal long-term labor contracts in the film industry, there are latent organizations, the membership of which consists of the group of people who regularly work together in a series of project-based organizations in (Starkey et al., 2000). The continuity of these latent organizations is largely built around implicit or psychological contracts. Within these

latent organizations, organization-specific and collective tacit knowledge can be built up, as members expect that their individual contributions and investments will be remembered and rewards will eventually follow. The continuity of the latent organization makes it capable of possessing both an organizational expectations and an organizational procedural memory, safeguarding the relationship between them, and in the process building a competitive advantage.

In the discussion of the theory the issue of mobility already came up and it was touched upon at several occasions in the case-study. Rounding of the paper allows us to explore this relation further. In general, the two-step relation proposed in this paper presumes a certain degree of continuity in the human resource base of, either latent or normal, organizations. Life-long employment practices, and a well-defined internal career path, however, are currently less pervasive. More flexible labor relations have led to larger turnover rates and careers and promotions taking place within a larger number of organizations (Arthur & Rousseau, 1996). According to the argument of this paper this could endanger the build-up and protection of organization-specific knowledge resources.

At the same time organizations and economies increasingly rely on knowledge intensive activities, the complexity of which demands close interaction and collaboration by specialists. While our findings would not suggest a return to long-term labor contracts in the legal sense, it does point out to the strategic importance of building long term commitment and engaging in more active expectations management.

Additionally, several authors studying specifically project-based industries have questioned whether long-term investments in human resources can be sustained when careers are more and more based on a series of projects (Inkson, Heising & Rousseau, 2001; Tempest & Starkey, 2004). Our case study result suggests that the film industry, at first sight seeming to lack any continuity, beyond these project-based organizations form latent organizations, where in the absence of formal long-term labor contracts, relations are built on implicit and psychological contracts.

Furthermore, if external mobility is high there will come a point that the average employee will be less and less likely to trade direct rewards for expectations



of future rewards, organizational expectations memory will crumble and with it organizational procedural memory and, finally, organizational performance. The balance between the advantages of external mobility and the disadvantages will depend on the characteristics of the industry and product, especially how great a role organization-specific and collective tacit knowledge plays in efficient production. There are threshold values of external mobility, below which and beyond which organizational expectations memory will decline and organizational procedural memory will decline as a result.

On the other hand, internal mobility or movement of employees within the organization can function as a reward, especially if it involves promotion. A high degree of such mobility will enable expectations (to be rewarded in this way) to grow. Also, high internal mobility will motivate individuals to invest in organization-specific and collective tacit knowledge (Prendergast, 1999) and enables both to disperse further in the organization and it increases the value of organization-specific knowledge to each employee. Again, there are potential disadvantages to high internal mobility too: people who have been disappointed in their expectations will find it harder to again rely on new expectations if their colleagues and managers form part of the same set of people with whom they had disappointing experiences. Also, too much internal mobility will close off opportunities to get new people in the organization, which can have deleterious effects, especially in fast-changing industries. Very high internal mobility has negative effects on the two-step process proposed in this paper, but so has very low internal mobility. The precise points at which the negative effects set in will again be dependent on the industry and product. This suggests two propositions:

Proposition 1: There are industry-specific threshold-values of internal mobility, below which and beyond which organizational expectations memory will decline and organizational procedural memory will decline as a result.

Proposition 2: There are industry-specific threshold values of external mobility, below which and beyond which organizational expectations memory will decline and organizational procedural memory will decline as a result.

From the theoretical viewpoint of this paper it might be most interesting to focus on the upper threshold of external mobility, beyond which the organization loses the ability to transform expectations memory into procedural memory, and the lower threshold of internal mobility, below which expectations will not likely to be strong enough to motivate employees to invest in organization-specific and collective tacit knowledge resources.