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

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English Summary

Industries that are highly innovative, such as creative industries, often organize their production on the basis of projects. The overall aim of this thesis was to gain insight in the organizational dynamics of project-based industries. Project-based industries are organized around single purpose project-based organizations (PBOs) that are disbanded after completion of the project for which it was specifically set up. Individuals in these industries, often freelance professionals, are continuously searching for new projects to join, or other individuals to join the projects they have set up themselves. Project-based industries, in other words, are characterized by continuously shifting temporary alliances, of which the industry as a whole can be regarded as the social network, the professionals that are active in that industry as the nodes of this network, and the project collaborations among these professionals as the ties connecting these nodes. Looking at project-based industries in terms of social networks of nodes connected by ties, in turn, allows one to study its structure and dynamics by applying the theories and methods developed in the academic field of social networks. The empirical setting of this thesis was the project-based Dutch film industry in which four studies were conducted.

Chapter two focused on the contracts and rewards that govern the relationships in the film industry. It showed that film producers and others professionals in the film industry have a preference to serially collaborate with the same individuals in PBOs that are contractually isolated in the narrow legal sense. These so-called latent organizations are governed by long-term implicit or relational contracts that lower transaction costs. In addition, relational contracts in latent organizations create similar organizational benefits to those of labor contracts in normal organizations such as flexibility of employees in the tasks they have to perform, and flexibility in the kind and timing of rewards. Members of latent organizations are sometimes willing to work under suboptimal conditions in a current project as compensation for having enjoyed certain benefits in a past project or because they expect to be compensated in a future project. The former is can be

referred to as the 'shadow of the past' and the latter as the 'shadow of the future'. Finally, latent organizations allow for quasi-internal labor markets to take root in which individuals benefit from a certain degree of job stability or preferential access to new projects and increased chances of making 'internal' promotions.

Chapter three was concerned with modeling the evolution of social networks of film producers, directors and scriptwriters by estimating the effects of certain types of reputation on tie or alliance formation. Before strong ties among members of latent organizations can take shape – the subject of the former chapter – initial ties need to be formed first. This dynamic process was studied by statistically modeling the evolution of the social network focusing particularly on the effects of individual actor characteristics on the formation of collaboration ties. The main characteristics of interest were reputations derived from the performance of films in which individuals participated in the past that are important carriers of information that aid in determining the value or quality of potential alliance partners. The findings indicated that individuals with a high artistic reputation, based on favorable film critics' reviews, are more likely to form new collaboration ties. Artistic reputations, and the critics' reviews on which they are based, are therefore important drivers of the evolution of the industry network. No similar tendency was found with respect to commercial reputation based on return on investment of past films.

In chapter four the value of certain types of reputation – expert, peer and market – was analyzed in obtaining investment capital for films from different types of investors in the Dutch film industry – expert, peer and market. ⁸ Expert reputation was based on critics' reviews of past films, peer reputation on awards won at the Dutch Film Festival, and market reputation on ticket sales at the cinema box-office. The expert investors are the public broadcasters, the peer investor is the Dutch Film Fund, and market investors are the film distributors. The results of this study showed that certain types of reputation are more valuable if they match the dominant type of selectors in the selection system. We found that expert reputations, derived from favorable critics' reviews of past films, of both producers

⁸ It should be noted that expert reputation is a different name for artistic reputation as used in the previous chapter.

and directors, are strong predictors for obtaining investment capital from public broadcasters that can be characterized as expert selectors. It should be noted that public broadcasters⁹ are the most important film investor in terms of investment share. The dominant role of the public broadcasters in Dutch film investment, and concomitantly the higher value of expert/artistic reputations in obtaining investment capital from this source, may be the underlying reason why the evolution of the industry network, as found in the previous chapter, is to a large extent driven by individuals with expert/artistic reputations.

Chapter five showed that organizational expectations memory, or the web of expectations among members of an organization of being rewarded in the future for having invested in the organization in the present, is a precondition for the ability to build organizational procedural memory. Organizational procedural memory is an important mechanism for storing collective tacit knowledge or organization-specific knowledge. Because of its tacit and collective nature, organization-specific knowledge is a valuable resource that is difficult to imitate or transfer, and as such an important candidate for explaining performance differentials between organizations as postulated by the resource-based theory of the firm. Especially when individuals can identify with, and are loyal to, an organization they have more incentives to invest in organization-specific knowledge – the value of which they cannot themselves appropriate – since they expect the organization to reward them somewhere in the future. Yet organizational expectations memory requires a certain degree of organizational continuity that seems to be lacking in project-based industries. The main finding of this chapter is that a latent organization of individuals who serially collaborate in projects, and who are tied by implicit and psychological contracts allows for the formation of organizational expectations memory and, as a result, organizational procedural memory.

⁹ Including the CoBo and Stifo Funds