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Latent organizations in the film industry: Contracts, rewards and resources

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ABSTRACT

The main aim of this article is to study the extent to which the project-based organization (PBO) and the latent organization determine the actual behavior of actors in a project-based industry and how this is mediated by the types of contracts and rewarding practices these organizational forms allow. Labor contracts connected to the PBO are mostly transactional in nature, while the members of the latent organization are linked by relational contracts. Interviews with Dutch film producers show that the transactional contracts connected to the PBO are less important than the relational contracts connected to the latent organization in governing the actual behavior of the involved actors. Relational contracts that structure relationships in the latent organization allow flexible rewarding practices, just as in 'normal' organizations. In turn, employees prove willing to assist the organization in handling environmental uncertainty by making resources available without insisting on immediate compensation.

KEYWORDS

contracts ▪ creative industries ▪ cultural industries ▪ film industry ▪ latent organization ▪ project organization

Introduction

Transaction cost economics (TCE) (Coase, 1937; Williamson, 1981) distinguishes between markets and organizations as governance mechanisms.

The relations between actors in markets are based on contracts, the relations between an organization and its employees are based on labor contracts. In respect to organizations, this article distinguishes between three forms of organization: 'normal' organizations, project-based organizations and latent organizations. In respect to contracts, this article makes a distinction between transactional and relational contracts.

The 'normal organization' is the hierarchical organization that is meant to exist for a long-term or indefinite period of time. The project-based organization (PBO) can be defined as a temporary organization that dissolves as soon as the project is completed for which it was set up (DeFillippi & Arthur, 1998; Jones, 1996). Hybrid forms in-between market contracting and hierarchically organized firms, such as network organizations, are found to be better suited to deal with the strengths and weaknesses of both market contracting and long-term organization (Hennart, 1993; Powell, 1987).

In project-based industries a specific type of network organization was identified by Starkey et al. in their study of the UK television industry (2000). They argued that actors who regularly collaborate in a series of PBOs should be considered to be members of a latent organization. Latent organizations are 'forms of organization that bind together configurations of key actors in ongoing relationships that become active/manifest as and when projects demand' (Starkey et al., 2000: 299). Although the actors in the study by Starkey et al. (2000) are individual persons, the definition can also include actors who are themselves companies – as is the case in our empirical study.

MacNeil (1985) and, following him, Rousseau (1990), distinguish between transactional and relational contracts. These are the two ends of the 'contractual continuum' (Rousseau, 1990: 390), going from transactional contracts with a narrow scope, narrow economic focus, and a specified, usually shorter, time-frame, to relational contracts with a broader scope, broader and also non-economic objectives and an open-ended timeframe. Transactional contracts also have a strong emphasis on short-term financial rewards (Inkson et al., 2001). Relational contracts are indissolubly linked to particular relationships, and the obligations and expectations that result from them are sustained by the value of the continuation of these relationships. Relational contracts allow for flexibility in dealing with unforeseen events, solidarity in problem-solving, and openness in information sharing (Baker et al., 1997, 2002; Bull, 1987; Poppo & Zenger, 2002).

Flexibilization of employment relations, the 'boundaryless career', and more loose contractual relationships between employers and employees have been on the rise (Arthur & Rousseau, 1996). Firms want more flexible contracts to be able to react faster to uncertain market conditions in order to stay competitive and innovative. Short-term contractual labor relations are thought to be an important means to this end. Arguably the quintessential form of flexible organization is the project-based organization (PBO). The discontinuities inherent to PBOs, however, also bring high transaction costs (Williamson, 1981) that are involved with setting up the organization. For each project one needs to search for members, negotiate contracts, and coordinate individual and collective actions.

Additionally, researchers have observed that labor contracts increasingly resemble transactional contracts (Baker et al., 1997; Bull, 1987). This type of employment relations, however, reduces the likelihood of extra-role behavior (Katz, 1964) or organizational citizenship behavior (Organ, 1988).

The latent organization brings advantages that can remedy some of the problems of the project-based organization (Starkey et al., 2000). It provides the organizational continuity in which relational contracts, organizational citizenship behavior, and flexible rewarding can flourish. The main aim of this article therefore is to study the extent to which the PBO and the latent organization determine the actual behavior of actors in a project-based industry and how this is mediated by the types of contracts and rewarding practices these organizational forms allow. While contracting and rewarding practices in normal organizations (Kulkarni & Ramamoorthy, 2005; Prendergast, 1999) and, to a certain extent, project-based organizations (Antcliff et al., 2007) have been subject to earlier research, this has not been the case for latent organizations. This article therefore will attempt, first, to better understand contracting and rewarding practices in latent organizations, and second, to build on this to establish whether actual behavior in project-based industries can be predominantly explained by contracts and rewards linked to the PBO or to the latent organization.

The film industry – the empirical setting of this article – provides a good example of an industry in which project-based production has become the standard form of organization since the demise of the studio system in the US (Faulkner & Anderson, 1987). The outcome of this study has important implications for professionals working in – especially creative – industries that are characterized by short-term projects as it highlights the strategic importance of investing in long-term relations.

We start with reviewing the literature on contracting and rewarding in ‘normal’ organizations. Next, we discuss how contracting and rewarding practices apply to PBOs and latent organizations. We present results of interviews we performed with Dutch film producers about the contracts and rewards they use, and how these help them to manage short-term risks, resources, and long-term relations. These results help us to establish whether the actual relations between Dutch film professionals are primarily determined by contracting and rewarding practices in the PBO or in the larger latent organization. As stated above, the Dutch film industry is the empirical setting of this study, not because of the specific characteristics of film or of the Dutch market, but as a present-day example of an industry dominated by project-based organizations.

Contracts, organizations and rewards

Explicit contracts are agreements the content of which is fully spoken out or written down, implicit contracts are agreements involving expectations and obligations that are not made explicit, let alone written down, but which both parties assume to have agreed among them (Bull, 1987; MacLeod & Malcomson, 1989). Explicit contracts usually have an implicit component, as there are many details taken for granted by both parties without the need to spell them out. Even with the implicit components all contracts still remain incomplete because it is never possible to consider all contingencies beforehand. Individuals or organizations can never achieve more than bounded rationality (Simon, 1976). The more details and contingencies one wants to stipulate, explicitly or implicitly, the more costly the contract will become.

More specifically, labor contracts have even larger incomplete and implicit components than most other contracts. Employers or managers value flexibility, as the precise tasks and responsibilities they want their personnel to perform will vary with changing market conditions (Simon, 1991). Additionally, the incompleteness of a contract can also be understood as an expression of confidence and trust in the skills and abilities of the employee, which can make an explicitly detailed contract less attractive to the employee and therefore the employer (Macaulay, 1963).

As mentioned in the introduction, one can distinguish between transactional and relational labor contracts. Transactional contracts are more likely to be largely explicit, relational contracts will contain a greater proportion of implicit agreements and, sometimes, can be wholly implicit (Baker et al., 1997, 2002). Relational contracts make it more likely that employees will be willing to invest in the organization with the expectation that they will somehow be rewarded in the future. On the other hand, employers or managers need to understand and meet these expectations of rewards in order for this system to work.

The core insight of TCE is that contracting in markets is costly, and organizations provide an alternative means of coordination (Coase, 1937; Williamson, 1981). Accordingly, TCE looks at hierarchy as the device with which the organizations' resources are directed, and it pays relatively little attention to the role of contracts inside the organization. Agency theory (Alchian & Demsetz, 1972; Prendergast, 1999), on the other hand, does look at how contracts can align the objectives of intra- or extra-organizational principals, with those of the agents, by providing an optimal incentive structure. It should be noted that all these approaches tend to ignore the benefits that organizations as such can bring (Ghoshal & Moran, 1996; Simon, 1991), besides merely avoiding the costs of the market.

In the previous section we already suggested that the mere incompleteness of contracts could result in beneficial effects. While greatly detailed contracts can interfere with the building of a mutually satisfactory relationship (Macaulay, 1963), implicit contracts foster extra-role behavior (Katz, 1964), or organizational citizenship behavior (Organ, 1988), where employees take initiatives to act in the spirit of the contract and to the benefit of the organization. Moreover, Simon (1991) suggested that because members of an organization will be loyal to, and identify with other members and the organization as a whole, they are willing to accept more incomplete contracts. Up to a point, organizational members accept changing tasks and responsibilities, accept more flexible rewards, and wait more patiently for rewards, creating organizational efficiencies in the process (Simon, 1991).

The incompleteness of labor contracts also leaves more room for implicit or relational contracts. As implicit contracts cannot be depended on in litigation, the more contracts and rewards are implicit, the higher the risk to organizational members of not being rewarded (adequately) for their contribution and commitment to the organization. The willingness of employees to behave in a way that is most advantageous to the organization, therefore depends on the degree of trust in their managers and the organization that somehow and somewhere in the future they will be compensated for their flexibility and effort (Bull, 1987; McEvily et al., 2003). The key ability of an organization is therefore to build up or establish implicit contracts with its members, and the role of managers is to manage the obligations and expectations that are at the basis of these implicit contracts (Baker et al., 2002).

Contracts usually incorporate obligations and rewards and each organization has its own reward structure, which can be considered as the outcome of the internal competitive process (Coff, 1999), analogous to the external competitive process in a market. However, while there are competitive processes inside as well as outside the organizational boundaries, it has been suggested (Wijnberg, 2004) that precisely the extent to which these two competitive processes are different contributes to the potential of the organization to create the benefits mentioned by Simon (1991). One of the reasons why competitive processes within an organization can diverge from those outside of it is that organizations can offer rewards that cannot be obtained in the market.

First, the organization can offer rewards, which are different in *kind* from those offered in the market. These are rewards that have mainly social, psychological or symbolic value; the many-windowed office, the employee-of-the-year plaque, or the public pat on the back by the boss. Additionally, there are opportunities for personal and professional development or growth through training that the organization can offer. Another very important reward is the possibility to be promoted within the organization, to have an internal career and increase one's status and employability. Finally, there are external career rewards such as receiving a good reference, or a less explicit afterglow of the organization's reputation to a person's own curriculum vitae or reputation (Gibbons, 1998, 2005).

Second, relational contracts within organizations make it easier to be more flexible about the *timing* of rewards. An employee may accept longer postponement of rewards within the organization, as compared with market relationships. This is built on the assumption that the organizational relationship will be of sufficiently long duration for the employee to be fully compensated at the end. Where the literature on this so-called deferred compensation (Prendergast, 1999) mainly refers to financial compensation, it is precisely in respect to the other kinds of rewards that the effect is arguably stronger. Organizations invest in the talent and skills of employees, for instance, by offering them training opportunities, hoping to generate rents somewhere in the future. Alternatively, employees invest in organization-specific skills, accept authority, lower salary, tedious tasks, or work longer hours if they expect that this will help them qualify for a raise or, more importantly, a promotion in the future (Rousseau, 1990).

The division between different kinds and different timing of rewards is not always clear-cut because in many cases they are intertwined, which could further increase their advantageousness to organizations. The pats on the back and marks of status will, apart from immediate enjoyment, reinforce the trust that deferred rewards will eventually come. Of course, relying on such relational contracts brings its own risks, but, as discussed above (Ghoshal & Moran, 1996; McEvily et al., 2003; Simon, 1991; Wijnberg, 2004) the organization can bring its members to accept these risks, to the ultimate benefit of the organization and its members.

Project-based industries, contracts and rewards

The project-based organization (PBO) is an increasingly common form of short-term organization that is believed to be more suitable for innovation and dealing with uncertainties. Although PBOs can be used as an organizational structure within larger organizations (Hobday, 2004), our focus is on the PBO that is not part of another organization but a separate entity. This article focuses on the PBO defined as a temporary organization that dissolves as soon as the project for which it was set up is completed (DeFillippi & Arthur, 1998; Jones, 1996).

The PBO is an attractive organizational form in creative industries where activities are mostly non-routine, demand difficult to predict, and the distribution of success and failure highly skewed, such as the film industry (Faulkner & Anderson, 1987; Jones, 1996). From a TCE perspective this uncertainty makes investments in enduring relationships risky (Poppo & Zenger, 2002; Williamson, 1981). These risks associated with uncertainty can be met either by attaining market (or monopoly) power through vertical integration as was the case in the Hollywood studio system until the 1940s, or through the other extreme of highly flexible short-term contracts and PBOs (Storper, 1989). Besides the US film industry, PBOs in creative industries have been studied in various empirical settings such as the television industry in the UK (Starkey et al., 2000) and Germany (Windeler & Sydow, 2001), the Italian film industry (Delmestri et al., 2005) and the German theater industry (Haunschild, 2003).

The short-term nature of the PBO can explain the fact that contracts in PBOs are in general fairly explicit (Tempest & Starkey, 2004). This short-term character of the PBO might have negative implications for both the organization and its (temporary) members. First, loyalty and commitment to organizations (Katz, 1964; Organ, 1988) are difficult to sustain when careers are based on a series of short-term contracts and a string of organizational memberships. PBOs are less able to reward flexibly, for example, by using the prospect of future promotion, as a tool to build loyalty and commitment. Second, project workers in project-based industries, who have partly taken their careers in their own hands by focusing on projects as opposed to firms for career progression and developing individual skills (Jones, 1996; Tempest et al., 2004), encounter the 'career progression paradox' (O'Mahoney & Bechky, 2006). Although freelancers have an incentive to develop valuable new skills, their contractors usually do not directly benefit. Contractors hire freelancers for projects because of the skills they already have and do not want to invest in them. In order to develop new skills, freelancers try to find jobs for which the required skills largely overlap with the ones they already have, but where they can also learn new skills.

The career progression paradox is an illustration of the general phenomenon that both markets and organizations can offer suboptimal governance structure to achieve the aims of the relevant actors. These aims sometimes can be better achieved in the context of hybrid organizations, such as network organizations that are more flexible than 'normal' organizations, while being less ephemeral than markets (Hennart, 1993; Powell, 1987;

Williamson, 1981). Within the specific context of industries that are characterized by isolated projects, PBOs do not have the continuity of 'normal' organizations and as a governance structure seem to be closer to market transactions. However, when one studies the stable sub-networks of individuals in project-based industries one can identify long-term relationships (Zuckerman, 2004). In their study of the UK television production industry, Starkey et al. (2000) coined the term 'latent organization', which they define as an organization consisting of individuals who collaborate in a series of project-based ventures. Thus, latent organizations can be considered as a subset of the broad class of network organizations within the specific context of industries that are characterized by PBOs.

Where contracts in PBOs are usually short term and transactional, members of the latent organization are bound by longer-term relational contracts. At first sight these relational contracts seem even more risky than relational contracts in 'normal' organizations because there often is a significant time gap between investment in a current, and rewards in a future, project. These risks can be mitigated by mutual 'insurance', based on reputation. The contractor will risk loss of reputational capital if he or she does not reward investments of the contracted individuals (Chiles & McMackin, 1996). This will decrease the ability to recruit the best-qualified project workers in the future. Alternatively, the contracted individual who underperforms will risk losing a chance to participate in future projects with the same contractor, and possibly other contractors.

Research design

As stated in the introduction, we aim to gain a better understanding of whether contracting and rewarding practices connected to the latent organization explain more of the actual behavior of individuals in the industry than those connected to the project organization. We chose the film industry because it is a clear example of a project-based industry (DeFillippi & Arthur, 1998; Jones, 1996). As in other cultural industries, there is an oversupply of labor (Menger, 1999), which will depress the average financial rewards that have to be offered. However, this will not affect the core question of our study, the *relative* importance of contracts and rewards connected to the PBO and to the latent organization.

Faulkner and Anderson (1987) identified the tendency of film professionals to collaborate mostly with those having a similar reputation or market value. However, they focused on isolated individuals and projects even though they did refer to the phenomenon of 'ties of obligation and reward' between these professionals. Others identified the practice of serial collaboration in the film industry in the absence of explicit long-term contracts (Zuckerman, 2004) or found that these stable relations between producers and distributors led to negative commercial outcomes (Sorenson & Waguespack, 2006). These studies however, did not look into the black box of the specific (relational) contracts and (flexible) rewarding practices between these film professionals that might explain part of the underlying organizational and career dynamics.

In order to shed light on this phenomenon we performed interviews with Dutch film producers. We chose to interview producers because they have the strongest managerial role in film productions, are involved in most contractual issues in a film project, and therefore are the most obvious source of information regarding contracting and rewarding practices. We performed a series of face-to-face and semi-structured interviews as opposed to questionnaires or surveys for the following reasons. Compared with questionnaires, interviews lead to fewer incomplete responses, fewer questions that are misunderstood, and the response rate is generally higher (Yin, 2003). All interviews were tape-recorded and subsequently typed out verbatim. Moreover, all informants were granted anonymity in the reporting of the results. This served to reduce the negative impact of socially desirable answers (Kumar et al., 1993). Respondents, therefore, did not have to feel restrained in their answering for fear of negative reactions from their environment.

The total population consisted of 34 producers of fictional films with a length of at least 60 minutes and a theater release in the past 10 years. These producers were either (co-)owner or Chief Executive Officer (CEO) of production companies, which often also produce television drama, and in some cases commercials or theater plays. Between February and July 2007, we carried out 24 interviews (see Table 1 for details of sample at production company level). Before data collection we pilot-tested the interview with one of the producers and adjusted it based on the acquired information and feedback. A second interview was held with this producer to complement the first test interview. Subsequently, we sent letters of request for an interview to the other 33 producers. We performed roughly 90-minute interviews with 24 producers ($n = 24$), which represents a response rate of 70 percent. The experience of the respondents as both CEO and producer is on average 14 years.

The interview was divided into four parts. First, we identified company-specific characteristics such as size, production output, and specialization. Second, film producers were asked about the contracts they use. Third, we asked about compensation, and rewarding practices. Finally, we inquired about the existence and nature of long-term relations they had in

Table 1 Descriptive table of production companies

Name	*Founding year*	*Size in full time equivalents*	*# features per year*	*Activities*
24 FPS Features	2000	2	0.5	Film
Armadillo Film	2001	1.5	Debut	Film, commercial, and documentary
BosBros. Film-TV Productions	1989	5	0.67	Films, television
Column Producties	1999	3	2	Film, documentary, and television
Dutch Mountain Movies	1999	4.5	0.5	Film and television
Eyeworks Egmond	2006	12	1.5	Film, documentary, and television
Fu Works	1997	4	2	Film, documentary, and television
Graniet Film	1993	1	0.33	Film, television, and theater
IdtV Film	1999	6	1.5	Film and television
IJswater Films	1992	3.5	1	Film, documentary, and television
Kasander Film Company	1981	4	2	Film and documentary
Lagestee Film	1995	3	0.75	Film and documentary
Motel Films	1995	5	2	Film and television
NL Film	2001	8	1.5	Film and television
Phanta Vision Film International	1990	3.25	0.67	Film, documentary, and television
Pieter van Huystee Film & TV	1995	4.5	0.2	Mainly documentary
Pupkin Film	2003	4	1	Film and television
PVPictures	1988	3	1	Film and television
Rinkel Film & TV Productions	2003	4	0.33	Film and television
Shooting Star Film Company	1987	8	2	Film, commercials, and television
Sigma Pictures Productions	1972	1	0.5	Film
SNG Film	1979	3	0.2	Mainly documentary
Staccato Film	1989	2	1	Film
Waterland Film en TV	1994	5	2	Film and television

this short-term project industry. The results of the study are presented below and grounded by verbatim excerpts of the interviews. When using quotes from producers we included their experience. Experience is coded as the number of years the producers has been active as a CEO and independent producer. We used five-year intervals instead of exact number of years in order to protect our informants' identity and anonymity.

Results: Contracts and rewards in the film industry

Contracts in project-based organizations: Financial rewards

Contract negotiations in the Dutch film industry largely deal with the amount and timing of financial compensation. In the Netherlands, producers are at the center-stage of contract negotiations with project participants and generally receive a fee for their services that consists of a production fee and overhead costs comprising roughly 10 percent of the total budget. Artistic project members such as directors, writers, art directors, editors and composers each in general receive a lump sum for the whole project in return for their services. The producer's choice for a lump sum with these freelancers can be explained by the fact that there is no natural cut-off point that indicates when the artistic work is finished. The artistic members of the crew bear the risk of how much time is needed to achieve a satisfactory end product. Most other project members are either paid per day or receive a lump sum based on the number of days their services are needed on the set.

There are two types of financial rewards that depend on the commercial success of the film: deferral and profit sharing. First of all, rewards are deferred when part of the salary depends on the success of the film. Project participants will receive part, and in extreme cases, all of their salary only at a later stage. First the distributor is allowed to recoup the costs of the film copies for the theaters and the marketing campaign – the so-called print and advertising (P&A) costs – and his or her distribution fee. Then, depending on the precise contracts that project participants have, certain investors first have to earn back (part of) their investment. This practice of deferred salaries, possibly in combination with a risk bonus, is most common in low budget productions.

> The budget of film X was so low that we actually could not pay everyone their normal rates. At that moment I said: 'you will share in the revenues, should the film make any money'. In the end everyone got his or her money. In that case you agree on the daily fee someone gets, but you will only pay half of that. If the film turns out to make money these people get the rest of their normal fee with a certain percentage in risk bonus.
>
> (Producer J, >20 years' experience)

A second type of reward that depends on the future success of the project is profit sharing. Profit sharing participants receive a percentage of the profits of the film on top of their salaries should the film become a success. This can be a share of the gross profits or the net profits. Unlike Hollywood, where this practice is fairly common (Squire, 2004), *gross* participation on first earnings in theaters, was never mentioned in practice by Dutch producers. When a film turns out to be a success, producers usually receive a *net* profit share after the theater owner, distributor, and certain investors have received their money. This net profit that is paid to the producer, in turn, is shared according to a preconceived contractual agreement between producers, writers, directors, and sometimes cast members.

> There is always *net* profit sharing (. . .) meaning the producer's share to which we are entitled and which we receive from the distributor, broadcaster or sales agent. Part of the producer's share is subsequently redistributed among these people [other profit participants that have a deal with the producer].
>
> (Producer A, 10–15 years' experience)

Lead actors receive a profit share on top of their salary less often. This mainly serves as a mechanism to lower the fixed compensation of expensive cast members, not as an incentive to perform better during the shoot or promoting the film in the media afterwards. 'We had it once with [anonymous actress]. She said: "I will accept a lower salary in exchange for a profit share." She wanted such a high salary that we were not able to finance the film' (Producer G, 5–10 years' experience). Other project members rarely receive a profit share unless it is a low budget production where everyone agrees to participate for less than their regular salary in return for a profit share. However, although agreements about profit-sharing are often included in contracts with at least some of the participants it is important to note that they rarely lead to actual payments, as Dutch films, often relying on subsidies, hardly ever make a profit. 'We have produced nine films but never made a profit. You break even. You earn money producing a film, not through profit sharing' (Producer E, 5–10 years' experience).

Contracts in project-based organizations: Non-financial rewards

In addition to financial rewards, we found all kinds of *non-financial* rewards and the list could be endless, depending on what someone values. This is illustrated by the examples given by one producer: 'Good catering, number of seats at the premiere, film copies, choice of assistants, for example, costume or make up artists' (Producer I, <5 years' experience). Important non-financial rewards are often related to freedom of choice or decision rights. An important one is the freedom to choose heads of department or assistants whom one wants to work with. Although besides the choice of scriptwriter and the director in the preproduction stage, producers are heavily involved in the choice of the heads of department in the production stage. Giving directors freedom of choice in selecting heads of departments and the heads of department freedom of choice in selecting assistants is seen as a reward. 'They [potential project participants] can be granted freedom of choice in selecting assistants for camera and direction' (Producer D, <5 years' experience).

Additionally, the precise nature of credits is an important non-financial reward. It is important not just that one receives credit, but also the type, style, size, and place of credits can be important. 'Credits are always part of the negotiations: Size, length, and place (. . .). A common one is a director that wants the credit: A film by . . . I never give them this credit because making a film is teamwork' (Producer F, 15–20 years' experience). Although credits are part of the negotiations ex ante, in some instances they are a reward to credit someone ex post as a compensation for extraordinary performance.

> Credits are often not very common [non-financial rewards] but you could say: I put you a bit higher on the credit roll. If for instance a line producer has managed everything very independently I give him the executive producer credit. This can be valuable for these people.
>
> (Producer A, 10–15 years' experience)

As one can read in the last quote, non-financial rewards can be granted near or at the end of a project. A higher credit can be a valuable reward to the freelancer and a valuable management tool for the producer. For a – in this specific case production department – freelancer this 'promotion with hindsight' increases the chance of being selected as an executive producer in future projects. For producers that negotiate these contracts there are two benefits to crediting post-hoc. First, it creates a powerful incentive for line producers to perform better within the project. Second, it will increase their choice of talent in the future, as other line producers might want to work for this particular producer in the hope of earning this credit that could allow them to bid for an executive producer role in a subsequent project.

Contracts in latent organizations: Financial rewards

Within latent organizations obligations and expectations of past and future collaboration, extends the scope of contracting and rewarding practices beyond the PBO. For example, negotiating and drawing up contracts brings along transaction costs that will decrease when there has been collaboration in the past on which the current contract can be modeled.

> When you have never collaborated with someone before and that person tells you that he or she has earned more at another producer, you have to start negotiating from the beginning. That is what I like about recurring collaborations. You can always revert to an earlier collaboration.
>
> (Producer X, 5–10 years' experience)

Sometimes a series of PBO-contracts are in fact explicitly bundled. This means that producers agree with other actors about more than one contract, each for another project, at the same time. Such a series of bundled contracts stops short from becoming equivalent to a long-term labor contract. The producer has the advantage of secured access to human resources. In addition it often also leads to lower labor costs. Freelancers such as directors or cameramen, on the other hand, benefit from financial certainty because they have work for a longer period of time, sometimes in exchange for a lower salary. Additionally, all parties benefit from lower transaction costs. Producers do not have to search and screen unknown candidates and subsequently negotiate labor contracts, while the project participants do not have to search for new projects and negotiate contracts. It is important to emphasize that this form of bundling rarely occurs but as a consequence of an existing long-established relationship. Therefore, though the individual contracts are PBO-contracts, the bundling itself should be considered as a contractual relationship linked to the latent organization.

> If we have several projects lined-up for production, we try to find a small group of heads of departments, generally with whom we have worked before, and bundle the projects. That leaves more room for contract negotiations while at the same time production costs go down as the projects can be more efficiently produced together.
>
> (Producer B, 10–15 years' experience)

Bundling, however, is in most cases implicit or based on implicit or relational contracts. A freelancer will work below his or her normal fee on a current project in the expectation that the next project with the same producer will be better paid. This practice is quite common in low-budget productions. Although nothing is explicitly promised, the producer is aware of the expectations of the freelancers.

> When people work below their normal fee they do so based on the fact that they worked with us on many occasions in the past. Of course however, there is an expectation that you will collaborate with them again in the future. But no solid agreements are made.
>
> (Producer H, 5–10 years' experience)

However, it is not only producers who feel indebted to freelancers. It can also be the other way around. Producers think that project members can or should feel obliged to reward the producer ex-post for having granted them many projects in the past and, in the process, provided them with a stable income and professional continuity. These individuals may feel a certain loyalty and obliged to work below their normal fee to compensate the producer for having granted them a steady stream of projects in the past.

> With a couple of people I have some sort of relationship. They are sort of in my stable. Of course there are projects where I phone a cameraman, whom I would normally pay his regular rate, and ask him to work a day for free.
>
> (Producer V, >20 years' experience)

Contracts in latent organizations: Non-financial rewards

There are ex post rewards in a PBO that producers have at their disposal to express their gratitude for a successful collaboration. An important reward is offering the director to collaborate again in a future project. In addition, a director can be rewarded by giving him or her freedom of choice in choosing the subject matter of the next film. These rewards are usually based on a subjective assessment by the producer of the product or quality of the film and the process or collaboration in the team.

> When we are content with a certain person, we arrange an exit talk with that individual. This is mainly the case with directors. The last question is always: 'We are satisfied with you and we would like to maintain our relationship with you. Is there any book or have you seen any work of a scriptwriter you would like to direct?' This way you try to establish a long-term relation with people. Although producers do not have the financial means to hire someone on the basis of long-term contracts, we are able to look for opportunities of starting a new project with them.
>
> (Producer G, 5–10 years' experience)

A future promotion is another very powerful reward. Not only is there a promise of a future project, in addition, the job could have more responsibility or prestige. Having a higher rank in a future project is a promotion, but also participating in the same rank in a larger (budget) project is generally considered a promotion. It is a chance to work with relatively more reputed colleagues and to build one's curriculum vitae and reputation 'by association'.

> Promising someone a future project can be interesting. You would tell someone: 'We will do a small film now and if all goes well you could also be part of a larger film'.
>
> (Producer A, 10–15 years' experience)

In this case there is an explicit but vague promise. The credibility of this promise, and therefore the value as a reward, is higher when it is made by producers who have a larger annual output of productions. However, it is safer for producers to show their intentions without explicitly making a promise. In other words, making such promises part of an implicit contract between producer and freelancer.

> Through the commercials we produce we work with a lot of people and we have the opportunity to test these people. If someone performs well there, we think: 'that is a good one', and select him or her for a feature film (. . .). We try to build ties with directors. For instance through our commercials branch, where they can develop their talents in other projects (. . .) When I see someone in our commercials branch of the production company, who is an assistant but wants to be Director of Photography I wait for a project where this is possible and give someone the chance to do this. The same is true for light technicians.
>
> (Producer C, 5–10 years' experience)

In the film industry one can make a distinction between promotions within the same department, which is much more common, and promotion across departments. An assistant to a head of department can be asked to participate in a project as an assistant with the promise that he or she can be head of a department in a future project. That next project is often a low budget project.

> The promise of a promotion can also be effective. You could tell someone: 'If you collaborate as an assistant now, you can be the head of department the next time'.
>
> (Producer A, 10–15 years' experience)

> I give them [assistants at departments] more responsibility in low budget productions. That is where you would ask them. The chance of doing it [being head of department] is the carrot. This occurs on the basis of personal credits that someone has with us.
>
> (Producer D, <5 years' experience)

Besides promotion within departments, there is the possibility of promotion *across* departments although this is less common, because the boundaries between jobs are very clearly defined and the role structure and division of responsibilities in the film industry is very strict. Precisely, this allows a project to be set up very fast and to be productive right from the start. In most cases, horizontal promotion applies to scriptwriters who want to direct their own script.

> An example of a scriptwriter that directed his own script is person X who directed film Y. He never directed a film before, but on the basis of this script he wrote and the fact that I knew him from a prior project, I trusted that he could do it.
>
> (Producer J, >20 years' experience)

It is also possible that, instead of producers rewarding freelance professionals through an explicit or implicit promise of future collaboration, it happens vice versa. A producer can agree to do a project they believe is below their standard, or commercially uninteresting, as a way of investing in relations with freelancers, especially directors. Often such understandings are only of value to a producer if the freelancer has an exceptional talent or reputation. For instance, a producer can be willing to undertake a project that is not of interest to him, in the expectation of collaborating on another project in the future that will be more interesting.

> In principle we are not unwilling to invest in people, for instance, if they want to do something we are not very enthusiastic about. If someone wants to make a short film and we don't really want to, we are still doing it if we think we will also be able to do a feature length film with this person.
>
> (Producer A, 10–15 years' experience)

Freelancers' loyalty can also be very valuable during the project, especially during film shoots in circumstances that are difficult to control. Going into overtime during a shooting day is not uncommon but can be very costly. If the extra hours of the crew are paid, overtime is also more expensive than regular hours. However, when shooting on a location it often is even more costly or even impossible to come back another day to complete the shoot.

> Loyalty becomes important when the circumstances are difficult. Many projects can grind to a halt as a result of bad weather conditions. At a certain moment you will have to stop and that is when loyalty is needed for doing that one extra shot. This is only possible when you have a loyal crew or else it will not happen. Crewmembers will look at their watch and think: 'It's time, we're going.' That is reality.
>
> (Producer P, 10–15 years' experience)

Additionally, professionals in project-based industries can reward one another for their loyalty by providing preferential access. As discussed above, freelancers that have proven their ability in the past can be rewarded by producers in the sense that they can expect to be the first – or one of the first – in line when new projects arise. At the same time, producers expect that freelancers will reward them by giving them preferential access to their services, especially by allowing the preferred producer more time to complete the deals necessary to start up a project.

> [There is a sense of loyalty] in that 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. I can ask them to stretch their negotiations with other producers, to buy us some time in case our financing takes longer.
>
> (Producer G, 5–10 years' experience)

Discussion and conclusion

The results of our study of contracting and rewarding practices between producers and other freelance professionals in the Dutch project-based film industry show that, in general, flexibility is highly prized, the incompleteness of contracts is not seen as a disadvantage, and that rewards that are uncertain in respect to value and timing are not an exception. Although we find that the single PBO allows for some flexibility of rewarding, most of this flexibility can be attributed to the latent organization of serially collaborating professionals and companies (Starkey et al., 2000). Many, especially non-financial, rewards are linked to relations outside of the isolated PBOs. The interviews show that professionals in the Dutch project-based film industry are not merely looking for short-term gain in isolated projects, but can be committed and loyal to a latent organization, which can also result in extra-role (Katz, 1964) or organizational citizenship behavior (Organ, 1988). Individual investment decisions that transcend the temporal boundaries of the PBO are accompanied by mutual expectations and obligations that form part of the relational contracts involving members of the latent organization.

For example, we see freelancers willing to participate in projects for less than their regular salary, or to work harder or longer than formally agreed, in the expectation of being compensated in later projects. This compensation can take the simple form of receiving a higher than average salary in later projects or producers can offer them a chance to collaborate in other more prestigious projects with higher budgets that have greater value for their reputation and career. A particularly interesting issue concerns the way the latent organization offers the possibilities of promotion as a reward linked to the relational contract. Producers can offer a vertical promotion by granting junior level professionals a future project where they have senior level responsibility for which they also receive the subsequent credit. Also, producers can give horizontal promotions, the most common example being a scriptwriter who is given a chance at directing his or her new script, as a reward for having written a successfully filmed script in the past.

In general, the results indicate that the transactional and explicit contracts connected to the PBO are less important than the relational and implicit contracts connected to the latent organization in governing the actual behavior of the involved actors. In other words, many features of the transactional contracts governing the relations between the members of the separate PBOs can be understood as determined by the features of the underlying relational contract governing the relations between the members of the latent organization. Studies of the relation between implicit and explicit contracts in normal organizations suggest that inter-organizational continuity is built on long-term explicit contracts and supplemented or complemented by implicit contracts (Baker et al., 1997, 2002; Poppo & Zenger, 2002). Yet, our results show that implicit relational contracts – the ones that govern the latent organization – are at the basis of relations among film professionals and that the actual explicit contracts – the ones that govern relations within the PBO – *follow* from them. So, instead of relational and implicit contracts supplementing or complementing transactional contracts, it works the other way around in the context of our study: the transactional contracts governing the single PBO supplement or complement the relational contracts governing the latent organization.

In addition, implicit or relational contracts provide insights into how freelancers in project-based industries with strictly defined roles, such as the film industry, deal with the career progression paradox. Professionals in these industries are hired by employers because of their current expertise and therefore face difficulties learning new skills and progressing in their careers. In order to overcome this paradox they expand their skills by taking up projects that partly overlap with their current skills, which allow them to learn new skills (O'Mahoney & Bechky, 2006). In the film industry, however, there is a very strict division of roles and responsibilities. Although 'stretching' skills poses less of a challenge between or within junior or assistant level positions, it is a very large step from a junior or assistant, to a senior or head of department position. We show that latent organizations allow for flexible contracting and rewarding practices, that create possibilities for 'semi' internal labor markets and career paths. This, in turn, increases the opportunities for career progression in project industries, particularly those with a strictly defined role structure such as the film industry.

Our empirical study has a number of limitations. We only looked at one industry in one country. Furthermore, the negative side of latent organizations is only partly addressed. It would be interesting to find out to what extent these negative aspects of latent organizations are similar to those of 'normal' organizations. Finally, we did not conduct a longitudinal study that would allow us to see, for example, whether latent organizations have a higher survival rate.

The conclusions of this study are generally applicable to all industries in which project-based organizations dominate and network ties are strong enough for latent organizations to arise. More specifically, our results serve to emphasize the importance of reputation management in project-based industries. Project managers or other short-term contractors can benefit from flexibility in contracting and rewarding only if they have a reputation of being a loyal contractor who values long-term relations and remembers whom to reward in future projects for extra efforts made in past projects. This also includes remembering whom to offer promotions. This reputation is preserved by careful management of expectations (see also Ebbers & Wijnberg, in press) and can be damaged when the contractor is either unable or unwilling to meet these expectations (Wilson, 1985).

Finally, our findings also have implications beyond project industries. In markets and industries that are increasingly relying on knowledge production and integration, the competitive advantage of 'normal' organizations is increasingly derived from its human resources. Such resources can be highly mobile and explicit labor contracts may not suffice to keep them within the boundaries of the organization (Sturman et al., 2008). In other words, in building organizational continuity, attention may have to shift away from explicit labor contracts, toward being more conscious about building and maintaining relational labor contracts.

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