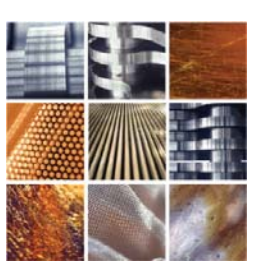


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The Organizational Implications of Creativity

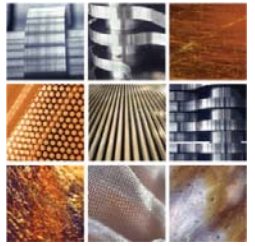
Pablo T. Spiller

Haas School of Business



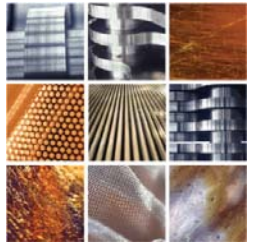
Organizational Drawbacks of Creativity

- Extreme informational asymmetries between talent and management
 - *Ex-ante uncertainty*: what should output be
 - *Ex-post uncertainty*: whether output is optimal solution
 - *Ex-ante & ex-post uncertainty*: whether enough effort has already been spent
- Extremely high monitoring costs
- *Creativity cannot be ordered, can only be fostered*



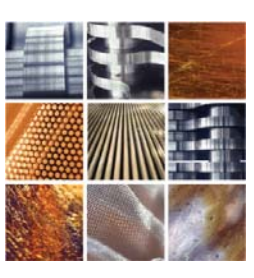
Hazards of In-house or Contract Production

- Creative talent hold up
 - Sequential creative production generates *ex-post* talent specificity
 - *Ex-post and ex-ante* uncertainty limit control over action and interim output
 - Tacit knowledge limits truthful transfer of interim output
 - Lack of control over costs (Ten Ton Turkeys as the norm)
 - Talent may keep best ideas for itself



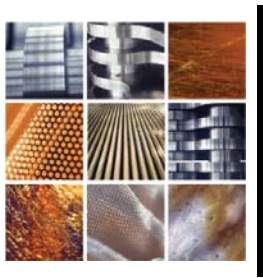
Talent Internalization of Creative Production

- Make talent residual claimant of its efforts
- Reduces informational asymmetries
 - Difficult in team production with highly decentralized creative activity
 - Game software development
 - Appropriate when creative input is localized in small number of individuals
 - Books
 - Opera singers
 - Contrast with opera orchestra musicians
 - Movies



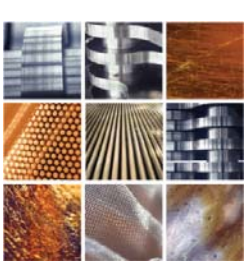
Hazards of Procuring Independent Creative Output

- Previously produced creative product inherently generic
 - Any distributor can distribute an independently produced movie
 - Any publisher can print & distribute a book
 - No distributor has better information about the product's marketability
- Common value auction
 - Winner's curse
 - Not a problem for final consumption items
 - Big problem for distributors
 - Purchasing all its products implies systematic overestimating their marketability



Implications

- Internal/contractual production leads to informational asymmetries & hold-up
 - Increases with creative content
- Procuring finished creative products leads to winner's curse
 - Relatively independent of creative content
- Main Result
 - *Internal/contractual production less prevalent the higher the creative content*



Applications

- Movie production
 - Increased in demand for creative content drives independent movie production
- Radical innovations
 - Difficult to obtain within the corporation
 - Buying start-ups as a way to innovate
- Corporate reorganizations
 - Fail if promoted internally
 - Role of takeovers

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The End