



Claude MENARD
University of Paris (Pantheon-Sorbonne)
menard@univ-paris1.fr

***THE GOVERNANCE
OF
HYBRID ORGANIZATIONS***

**EMNet conference on
ECONOMICS AND MANAGEMENT OF NETWORKS
Rotterdam, June 28-30, 2007**



***THE GOVERNANCE
OF
HYBRID ORGANIZATIONS***

PRELIMINARY REMARK

Part of a chapter on
"THE ECONOMICS OF HYBRIDS"
in Robert Gibbons and John Roberts (eds.)
HANDBOOK OF ORGANIZATIONAL ECONOMICS
Princeton University Press
(forthcoming)

**With my apologies for not having posted the paper:
property rights issue**

GOVERNANCE OF HYBRIDS

PROBLEM (and MOTIVATION)

-> Increasing role of 'structured' cooperation among autonomous entities

Ex. 1: Production of Goods and Services:

Ex. of Alliances : Rapid increase in 1980s - early 1990s (over 3000 in 3 sectors-See CATI)
Apparently now slowing down (consolidation?)

Ex. 2: 'Chain' mode of organization in distribution:

Already over 33 % of total retail sales in the US 10 years ago

GOVERNANCE OF HYBRIDS

PROBLEM (and MOTIVATION)

-> Diversity of forms ...

- ** Alliances and joint ventures
- ** Networks, clusters, and chain systems
- ** Franchising
- ** Supplier parks and subcontracting
- ** Even more extensive? partnership in law firms? Cooperatives?

To sum up: large spectrum of modes of organization,
from arrangements close to markets
to arrangements close to integrated firms

GOVERNANCE OF HYBRIDS

PROBLEM (and MOTIVATION)

-> ... that share some common characteristics

**** Heterogenous collection grouped under 'HYBRIDS' may not be that strange**

**** First approximation: a class of organizations in which **some** strategic **decision rights** are **shared** or pooled among several parties that are simultaneously keeping **ownership** over their **main assets** **distinct**.**

$$N \geq 2$$

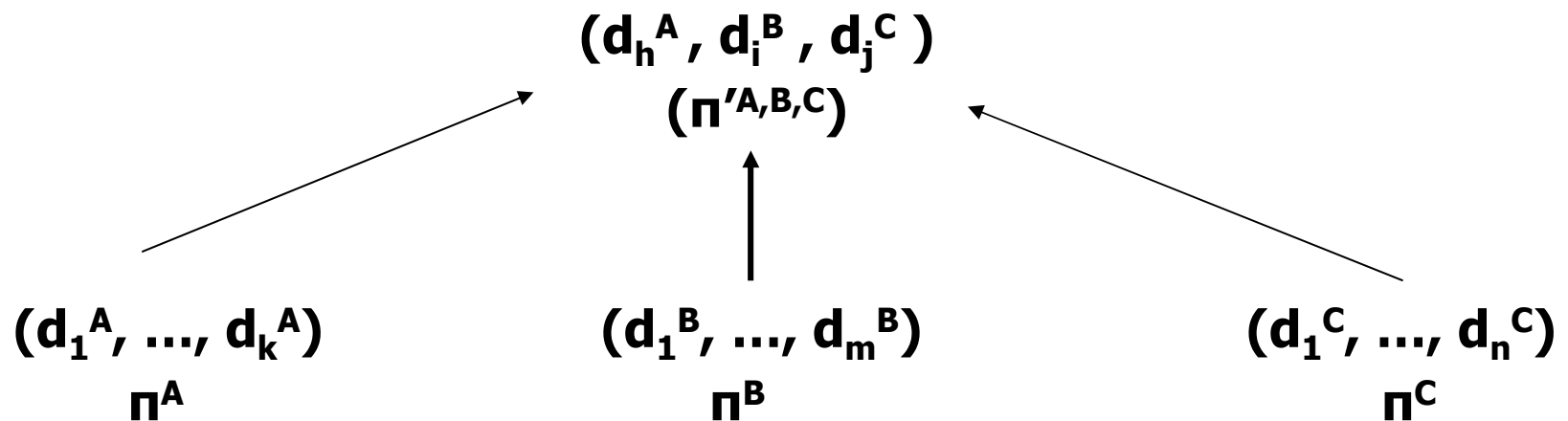
Key role of Property Rights and
Decision Rights

GOVERNANCE OF HYBRIDS

PROBLEM (and MOTIVATION)

-> REPRESENTATION

Let's have three players, A, B and C, d^A , d^B , d^C their decision rights; π^A , π^B , and π^C the respective payoff associated to their property rights; d_h^A , d_i^B , d_j^C the rights they are pooling and π' the related payoff; a hybrid is:



GOVERNANCE OF HYBRIDS

PROBLEM (and MOTIVATION)

-> Economic literature poor on these arrangements

**** They are « theoretical orphan »**

(Borys & Jemison, 1989)

**** They have attracted « little theoretical attention »**

(Baker-Gibbons-Murphy, 2002)

**** More in management sciences (and to a lesser degree in sociology), but ...**

GOVERNANCE OF HYBRIDS

SUMMARY OF PAPER

Section I: HOW DO HYBRIDS COORDINATE AND CONTROL DISTINCT / DIVERGING INTERESTS?

**Section II: ARCHITECTURE OF HYBRIDS
(a tentative typology)**

GOVERNANCE OF HYBRIDS



CENTRAL MESSAGE

- ** A whole class of economic organizations out there**
- ** Neither simple 'intermediate' forms (between markets and hierarchies) nor purely transitory arrangements**
- ** How can we integrate these forms into economic analysis?**



GOVERNANCE OF HYBRIDS

I: HOW TO COORDINATE AND CONTROL DISTINCT INTERESTS?

INTRODUCTION: A short visit to the 'zoo': synthetic table

TYPE	IDENTIFICATION
ALLIANCES	«... enduring interfirm cooperative arrangements, involving flows and linkages that utilize resources from autonomous organizations, for the joint accomplishment of individual goals ...»
JOINT VENTURES	“contractual agreements between two or more organizations and a separate legal (and usually organizational) entity with its own purpose”
NETWORKS	“...durable collective action that requires specific governance mechanisms”
CLUSTERS (ex. supplier parks)	“... a cluster of interdependent suppliers located adjacent to or close to, a final assembly point...”
SUBCONTRACTING	“... a complex network of firms working under the leadership of one entity operating as central coordinator ...”
FRANCHISING	See Lafontaine & Slade, this book
COLLECTIVE TRADEMARKS	“...autonomous entities that have jointly invested in brand name capital which requires coordination on the characteristics of outputs...”
OTHERS: LICENSING, PARTNERSHIP, ...	



GOVERNANCE OF HYBRIDS

I: HOW TO COORDINATE AND CONTROL DISTINCT INTERESTS?

LEADING QUESTION

Once autonomous entities got involved into joint projects requiring specific investments (<=> forces pushing in this direction), central question becomes:

→ What means of coordination are available? (i.e., how does governance work when prices are no more the key factor and hierarchy cannot impose its rules?)



GOVERNANCE OF HYBRIDS

I: HOW TO COORDINATE AND CONTROL DISTINCT INTERESTS?

SUMMARY OF THE SECTION

4 key mechanisms at work

- 1) INFORMATION DEVICES**
- 2) CONTRACTS**
- 3) EXOGENOUS REGULATOR / MONITOR**
- 4) A GOVERNING BODY OF ITS OWN**

DELINEATING VARIOUS DEGREES OF 'AUTHORITY'
**(or: solving a Principal-Agent problem in a
context of radically incomplete contracts)**



GOVERNANCE OF HYBRIDS

I: HOW TO COORDINATE AND CONTROL DISTINCT INTERESTS?

I.1: Information devices

- **Background: asymmetric information while partnership severely constrains role of prices**
- **Information bi-directional:**
 - (a) Among partners**
 - > **getting right information to select partners**
 - > **repeated exchanges as screening device**
 - > **specific information systems**
 - (b) Interface with environment**
 - > **Limited role of prices**
 - > **Role of NTIC (e.g., sharing logistics)**
 - > **Organizational solutions (e.g., dual structure in franchise systems)**



GOVERNANCE OF HYBRIDS

I: HOW TO COORDINATE AND CONTROL DISTINCT INTERESTS?

I.2: Contracts

- **Background: a significant (but likely overstated) role**
Problem of incompleteness, and need for adaptability in a changing world
- **Solutions**
 - > **Self-enforcing mechanisms (formal: financial guarantees; or informal: goodwill and trust)**
 - > **Contracts as facilitators**
 - * **Blueprint for orienting joint actions**
 - * **Setting partners expectations**
 - * **Reducing misinterpretation**
- **Confronted to main problem of allocation of residual rights**



GOVERNANCE OF HYBRIDS

I: HOW DO THEY COORDINATE AND CONTROL DISTINCT INTERESTS?

I.3: Exogenous monitoring

- **Background: either because of incomplete contracts and/or because impulse to cooperate is exogenous**
- **Public authorities as initiator / regulator**
 - > **directly: through bureaus or agency (ex. *Galileo*)**
 - > **Indirect: through subsidies, incentives and conditional support (Ex. technology parks)**
- **Private**
 - > **independent arbitrator**
 - > **joint committee**
- **Mixing private and public: ex. of certifying organizations**

GOVERNANCE OF HYBRIDS

I: HOW DO HYBRIDS COORDINATE AND CONTROL DISTINCT INTERESTS?

I.4: A governing body of its own

- **Background: Formal framework within which contracts are initiated, negotiated, monitored, enforced and terminated**

- **Building a formal depository of 'authority':**
 - > **define process for collective action or joint strategies**
 - > **design enforcement mechanism**
 - > **implement rules**
- **Can take different forms**
 - > **co-owners assembly**
 - > **Delegates**
 - > **Specific permanent entity: 'strategic center'**
- **Involves significant degree of 'centralization', 'formalization', and control over property rights**

GOVERNANCE OF HYBRIDS

I: HOW DO HYBRIDS COORDINATE AND CONTROL DISTINCT INTERESTS?

CONCLUSION TO I:

**A Tradeoff among arrangements
from **loose form**
(focusing on separation of rights)
to **tight control**
(focusing on shared rights)**

GOVERNANCE OF HYBRIDS



II: ARCHITECTURE OF HYBRIDS

ORIENTATION OF THIS SECTION

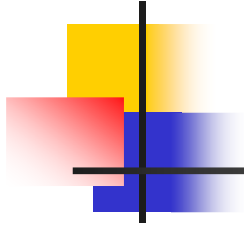
Richness of arrangements may suggest continuum.

At the same time, when we talk about strategic alliances, we *'know'* we are not talking about joint ventures.

Q: Can we formalize this?

i.e. can we establish theoretically-grounded classification?

GOVERNANCE OF HYBRIDS



II: ARCHITECTURE OF HYBRIDS

SUMMARY OF THE SECTION

II.1: An overview of some classifications

II.2: An integrating typology

GOVERNANCE OF HYBRIDS



II: ARCHITECTURE OF HYBRIDS

II.1: A short review of some typologies

Several tentative classifications, mostly since mid-1990s

(a) Organization theory (Grandori & Soda, Park, ...)

**** degree of centralization, degree of formalization, coordination mechanism**

**** different names, converging approach: empirical ground (not derived from unified theory)**

(b) TCT (Oxley, Gulati & Singh, Ménard)

**** attributes of transaction, mostly AS**

**** Appropriation concern (contractual hazards)**

GOVERNANCE OF HYBRIDS



II: ARCHITECTURE OF HYBRIDS

II.2: An integrating typology

**** Background: OEW (1996) modified by B-G-M (2004)**

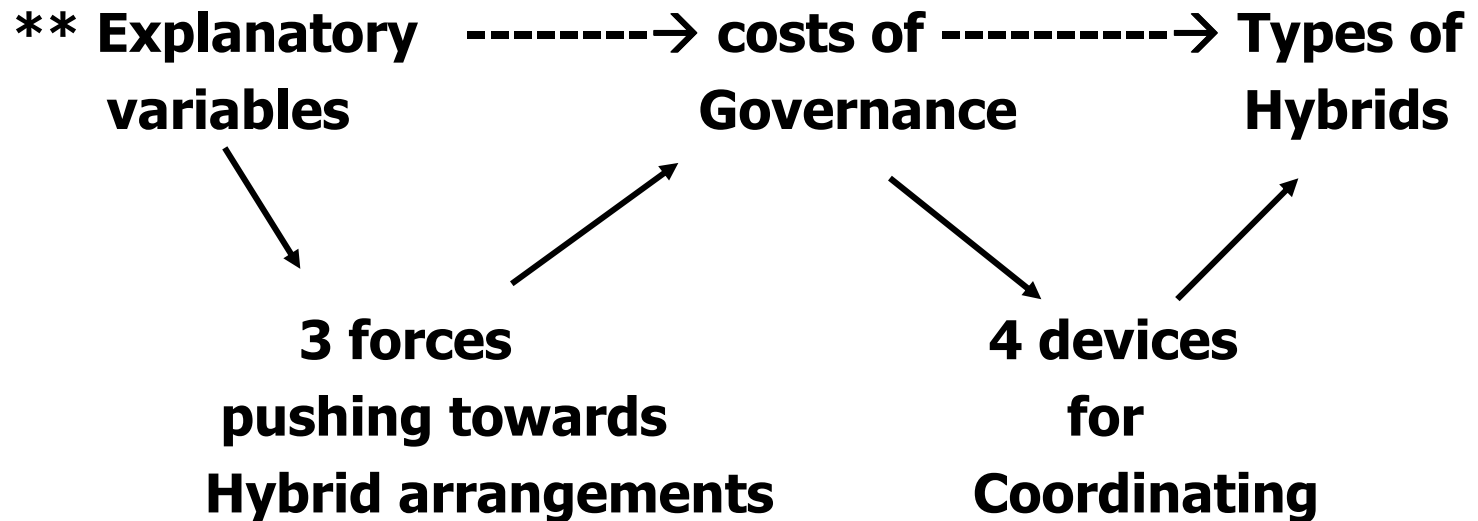
**** Explanatory variables -----> costs of Governance -----> Types of Hybrids**

GOVERNANCE OF HYBRIDS

II: ARCHITECTURE OF HYBRIDS

II.2: An integrating typology

**** Background: OEW (1996) modified by B-G-M (2004)**



GOVERNANCE OF HYBRIDS

II: ARCHITECTURE OF HYBRIDS

II.2: typology (continued)

**** Explanatory variables: forces pushing towards specific hybrid arrangements:**

→ Allocation / Concentration of Property rights when interdependent specific investments can create value added:

*** The more concentrated they are, the easier it is to coordinate**

→ Concentration of joint decision rights when AS combines with U:

*** The more concentrated they are, the more intense is the joint monitoring**

→ Centrality of control over residual claims when hybrid creates value:

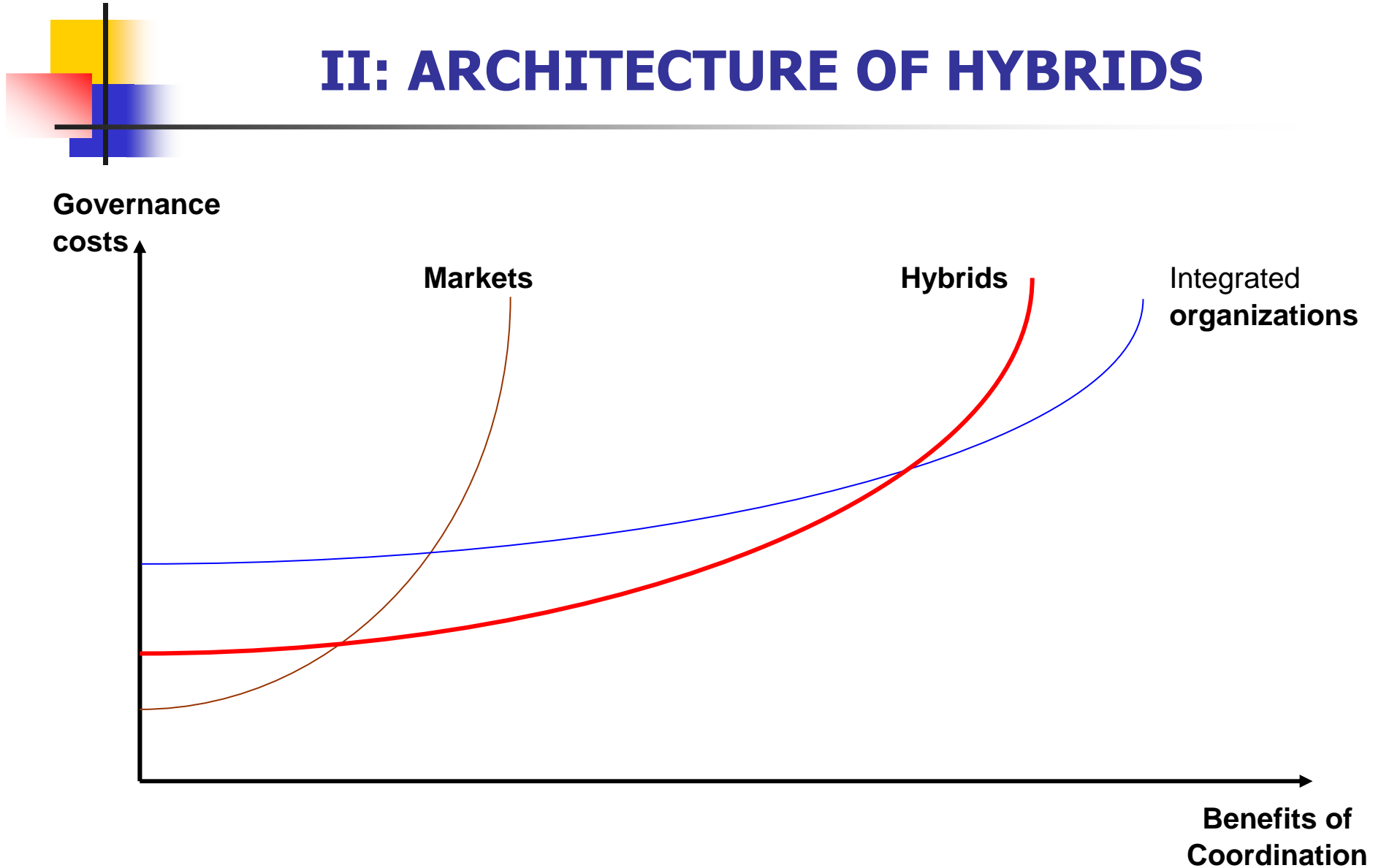
The more centralized residual claims are, the easier it is to coordinate

=> Converge on proposition # 1: the higher the benefits of coordination / complexity of transaction, the higher the costs of governance needed for getting that coordination

→ HENCE TRADE OFF

GOVERNANCE OF HYBRIDS

II: ARCHITECTURE OF HYBRIDS



GOVERNANCE OF HYBRIDS

II: ARCHITECTURE OF HYBRIDS

II.2: typology (continued)

Where are these costs coming from?

**** 4 devices for coordinating (ranked by increasing benefits and increasing costs)**

- INFORMATION DEVICES**
- CONTRACTS**
- EXOGENOUS REGULATOR / MONITOR**
- A GOVERNING BODY OF ITS OWN**

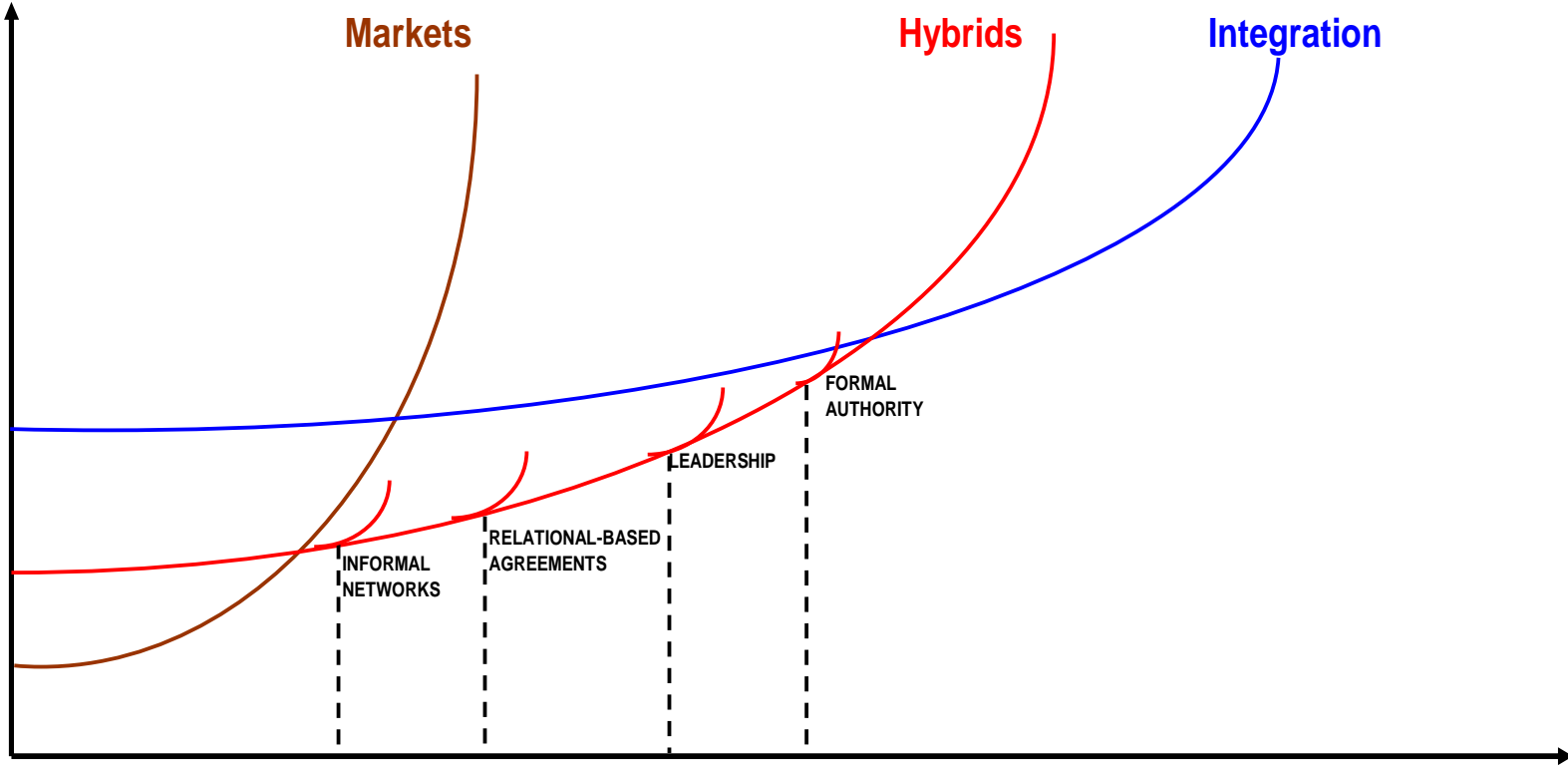
=> Proposition # 2: The higher the benefits expected from coordination, the more centralized this coordination tend to be.

Proposition # 3: The more centralized the coordination of transactions is, the higher are its costs of governance

GOVERNANCE OF HYBRIDS

II: ARCHITECTURE OF HYBRIDS

Costs of
Governance



BENEFITS OF
COORDINATION

GOVERNANCE OF HYBRIDS

CONCLUSION

ONE MAIN LESSON ...

- A class of its own with distinctive characteristics ...**
- ...that is not that well understood: need for integrating model/theory**

GOVERNANCE OF HYBRIDS

CONCLUSION

... AND SEVERAL UNSOLVED PROBLEMS

- **Coexistence of different forms: what explanation?**
- **Dynamics: what forces at work?**
- **What role for technological changes (e.g. NTIC)**
- **What interaction with institutional environment (e.g., definition and enforcement of property rights)**
- **What changes needed in competition policies?**