MANAGEMENT OF HYBRID ORGANISATIONS: A CASE STUDY OF A RETAILING 'NETWORK ORGANIZATION'

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ABSTRACT

Hybrid organisations pose important theoretical and managerial questions. We examine a large Finnish retail organisation in order to identify and understand the challenges of hybrids or network organisations in a retailing context. The governance forms and processes identified in the case organisation are discussed with a help of a proposed conceptual framework. We believe that the identified managerial implementations of these governance modes and processes will help us to understand also other hybrid organisations and the management of hybrids in general.

Key words: retailing, hybrid organisations, network management, governance structures

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INTRODUCTION

Over the years increasing research has focused on interorganizational business relationships. These studies have primarily concentrated on the relationships between buyers and sellers, on interorganizational co-operation and coordination, and business networks. The extant research is characterized by different disciplinary backgrounds. Authors interested in the economic efficiency of interorganizational governance draw heavily from transaction cost economics. Those concentrating more on the behavioral and dynamic aspects of business relationships use often social exchange theory (Möller & Wilson, 1995; Möller 1994). The IMP-driven research has further expanded the focus into networks of organizations and into the evolution of networks (Håkansson & Snehota 1995).

While the study of interorganizational relationships has flourished relatively little attention has been given to emerging hybrid organisations and their governance. Within retailing large chains like Wal-Mart and Tesco, that on the one hand are strongly centrally governed and on the other hand have established large supplier networks, represent one mode of these hybrids. In the Nordic countries, especially in Finland and Sweden there exist large co-operative chains that consist of a central unit and a large body of contractually united individual retailers. In these hybrid organisations a major governance problem is the adaptation of centralised hierarchical decision-making, co-ordination and control to the operations of local and autonomous actors, who at best, adapt themselves to the local market in accordance with customer needs (Hyvönen, 1983; Hyvönen 1990; Jarillo, 1988; Jarillo, 1993; Mattsson, 1969). Interorganisational marketing theory and business management are in a great need for new information and understanding of this type of hybrid organisations and their governance systems in particular. (Dwyer, Dahlstrom, & DiNovo, 1995; Frazier, 1999).

Governance systems, as such, have been studied for decades, due to their vitality to the performance of organisations (Coase, 1937; Williamson, 1996). Creating a governance system that best suits the operations of channel and other business organisations is a pertinent issue in management (Ahlstedt & Jahnukainen, 1971; Dwyer & Oh, 1987; Lawrence & Lorsch, 1969). It is also an issue that continues to need further attention (Bradach & Eccles, 1989; Möller & Halinen, 1999).

Hybrid Organisation in Channel Context – Study Objectives

We see a hybrid channel organisation as located between markets (each retailer dealing directly with customers and suppliers) and hierarchies (the central management completely controlling the activities of retailers). These characteristics match our case organisation (K-Alliance, see description in Mitronen & Möller, 2000) that is used as an exemplar of what

Powell (1990) calls a network organisation combining aspects of 'markets' (prices & competition), 'hierarchies' (centralised authority, hierarchical control mechanisms), and 'networks' (interdependence, co-operation, mutuality and trust-oriented norms).

In a channel context, the basic elements of a governance system can be defined as follows: 1) company's links with the external operating environment, in other words competition and co-operation, and 2) company's internal organisational solutions and governance practices. In this study, the term 'governance' is consequently used for covering (a) the practices adopted by companies in their external business operations with other actors, and (b) the organisational and managerial practices adopted by companies in their internal management and control for the achievement of the organisation's goals. By this definition, governance systems include different structural, processual and value-norm characteristics.

Our study aims to develop a conceptual governance model of a hybrid retailing organisation that can be used for deriving normative suggestions for the management hybrid organisations in a channel context. In order to achieve this goal, we analyse different governance systems in an exemplary vertical hybrid retailing organisation (K-Alliance). The tension between the hierarchical control and co-ordination exercised by the chain management and the retail outlets' and retailers' autonomous behaviour provides a key analytical perspective.

The research objective is approached with the help of the following questions:

– What kind of actual governance systems and structural solutions, organisation forms, processes and cultural value and norm solutions are used in the governance of a hybrid retailing organisation?

– What are the strengths, limitations and dysfunctions of different governance systems?

– How to attain a balance between internal efficiency and external effectiveness?

– How to attain balance between centralisation and autonomy?

It should be noted that this is a preliminary report of an ongoing study. Only a limited set of primarily descriptive results is available at this phase. In the next section we discuss the governance forms of hybrid organisations paying special attention to the studies focusing on the marketing channel and its organisations. Then the empirical design of the study is described. Presentation and discussion of the available results concludes the paper.

GOVERNANCE OF HYBRID ORGANISATIONS

First, the characteristics of co-ordination and control, as well as performance are highlighted. Then the literature on hybrid organisations in a channel context is discussed.

Control and co-ordination mechanisms and efficiency in governance modes

There are significant differences between the control and co-ordination mechanisms of the basic governance modes. In a market mechanism, price acts as a major control and co-ordination mechanism and is complemented by competition. An important background in these mechanisms is the occasional or long-established customer relationship based on exchange. In a hierarchy, the key roles of control and co-ordination mechanisms are played by authority and authority-based rules, instructions and regulations. These factors rest on the existence of a contractual or employment relationship. In a network, the control and co-ordination methods are trust, values, norms and interdependence of actors.

However, the different control and co-ordination mechanisms must be examined in more detail. Organisational control separates two basic alternatives of control modes: the control of an individual and his behaviour and the control of performance and achievements (Ouchi, 1978; Ouchi 1979; Ouchi & Maguire, 1975). The said control modes have their own purposes and targets to which they should be applied. According to Ouchi's research, performance and results control best serves the control of the whole organisation's operations. Behavioural control is best suited to controlling suboperations and those operations which must be performed in a uniform manner. In small companies with relatively few employees, control actions may be less formal than in big companies. Studies have shown that high internal efficiency requires simple performance indicators and controls applicable to the whole company, whereas complicated business operations which are different in each unit require different controls on company and unit level. (Ouchi & Maguire, 1975). The control of performance/goals versus behavioural control plays an important role in agent theory.

On the basis of marketing and organisation studies, control mechanisms can also be divided into formal and informal control mechanisms (Jaworski, 1988). Formal control is based on agreed goals and methods (e.g. strategies, programmes and plans) and their results, with response to any deviations. Formal control includes written, management-based mechanisms which aim at making the personnel act so that the objectives set for marketing are achieved. Formal control is either input, process or output control. The main elements of process control include the measurement of operations, the comparison of results with standards and goals, rewarding and, if necessary, strategy adjustment (Ouchi, 1978).

Informal control relies on an individual's or a group's own control where undesirable or even forbidden activity is handled by methods provided by mutual interaction (cf. Pfeffer, 1982). Informal controls are usually not written, they are typically employee-based mechanisms affecting the behaviour of individual employees or working groups. Informal controls can be divided into self-control (e.g. own values and goals), social control (e.g. norms and trade control) and cultural control (e.g. heroic tales, rituals and the norms of social intercourse), (Jaworski, 1988). Social control emphasizes the importance of reputation, trust, reciprocity and mutual dependence in e.g. various strategic alliances, joint companies and entrepreneur-based companies (Larson, 1992). Larson also includes self-regulation and autonomy in social control. (For more about controls, see e.g. franchising model, Fama & Jensen, 1983 , and marketing channels, Lusch & Brown, 1996).

The objective of control and co-ordination is the attainment of organisation's goals and the enhancement of its operations. There are many different approaches, alternatives and criteria for examining the efficacy of an organisation (see e.g. Scott, 1987; Scott, 1992; Shafritz & Ott, 1996). The perspective that is adopted determines the notions of efficiency, its measurement and means of attainment (for more information, see Scott, 1992, pp. 342-362).

Organisational efficacy can be divided into external effectiveness and internal efficiency. Often the objective is to achieve them both simultaneously, which, according to Williamson (1991), is the key problem with organisations. External effectiveness shows how well an organisation meets the requirements set to its operations by customers and other stakeholders. External effectiveness is reflected in the organisation's operations and results, in e.g. how well customer satisfaction, adaptation to the markets and innovativeness are reached (Pfeffer & Salancik, 1978).

Internal efficiency means the organisation's internal performance level, in other words, how efficient its operations are from input/output perspective. It does not relate to what the company produces, but how efficiently the target operations are achieved (Pfeffer & Salancik, 1978). For the analysis and measurement of internal efficiency, organisations use performance standards, norms and variance analyses.

However, understanding organisational efficacy in terms of external effectiveness and internal efficiency is too rough to be used for any description, analysis or measurement of organisational operations and performance (Quinn & Rohrbaugh, 1983; Scott, 1992). That is why organisation researchers have introduced numerous sets of concepts and indicators. For instance, Campbell (1977) has listed 30 different indicators of organisational efficacy. There the problem is not measurement - the question is what is actually meant by efficacy, and the

whole is easily lost in details. Efficacy is not only a concept or an indicator, it is a multidimensional structure (Quinn & Rohrbaugh, 1983).

Quinn and Rohrbaugh analyse organisational efficacy with the help of three major structural dimensions namely internal vs. external, stability vs. flexibility and objectives vs. means (cf. Lawrence & Lorsch, 1969). By this definition, the question about efficacy is one of the key dilemmas for organisations and organisation research.

The internal dimension refers to people's well-being and development, while the external dimension includes the whole organisation's success and development. The internal dimension sees an organisation as a socio-tehnical system in which the actors have their own sentiments, mutual friendships and arguments, as well as requirements for care, attention, information and permanence of employment. The external dimension examines organisational efficacy as a logically built structure, in which the key positions are held by goals, objectives and the means to achieve them. The other dimension describes the structure and the operations of an organisation, with stability, i.e. regulations, bureaucracy, rigidity and control at on end, and flexibility, i.e. innovativeness, openness to new ideas and ability to change at the other. The third dimension includes the organisation's goals, objectives and means to achieve them. Goals and objectives relate to the organisation's results, performance and productivity. The means include planning and setting of objectives (Quinn & Rohrbaugh, 1983, pp. 369-370).

Quinn and Rohrbaugh deepen their efficacy model further with four sub-models, each of which have their own efficacy dimensions. The core of their open system model is formed of the adaptation activities of an organisation emphasizing people's spontaneous behaviour, flexibility and differences. The core of their rational goal model consists of the activities performed in order to attain goals and objectives and it highlights behavioural rules which are subject to formal requirements and have been planned and determined in advance. In turn, their internal process model comprises internal co-ordination activities aiming at conformity. The relationship model emphasizes the management of operating models and tensions between individuals. These sub-models enable a better understanding of the different efficacy perspectives of the dimensions and the required objectives, means and indicators (for more information, see Quinn & Rohrbaugh, 1983, p. 374). Another analysis of organisational efficacy, similar to the model prepared by Quinn and Rohrbaugh, is Scott's efficacy model (Scott, 1987; Scott, 1992).

Hybrid organisation as a governance mode in a channel context

Is a hybrid actually a separate governance mode, or a mixture of markets, networks and hierarchies (Bradach & Eccles, 1989)? Several researchers have pondered this basic question (Ouchi, 1980; Powell, 1990; Williamson, 1985; Williamson, 1991). From a governance system perspective, the question is how do hybrids solve their operational control and co-ordination needs and efficacy-related problems. Bradach and Eccles (Bradach & Eccles, 1989, p. 112) write about this key organisational problem as follows: "… how transactions are embedded in a context of other transactions, as well as in a social context and how price, authority, and trust as separate but often intertwined control mechanisms enhance our understanding of inter- and intra-organizational control." They also point out the importance of the ways in which individual transactions and individual relationships are controlled.

Earlier hybrid studies carried out in the trading and service sectors have focused on certain key mechanisms in organisational governance. Brickley & Dark (1987) studied the significance and effects of agent costs on the organisation of functions in a subsidiary and in a franchising system. They argue that the key factors influencing the selection of an organisational system include the units' supervising costs, purchasing frequency of customers and the breakdown of investment costs. Heide (1994) studied inter-organisational governance systems in marketing channels. Mechanisms co-ordinating and controlling inter-company relations and operations distinguish between periods of start, maintenance and end. Maintenance mechanisms include role determination, planning, mutual adaptation mechanisms, evaluation of operations, incentive systems and sanctions.

Hennart (1993) studied the selection of a company governance mode between a pure market system, a hierarchical system and a hybrid, which is a combination of the first two. Hennart developed a model which can be used in the evaluation of the selection criteria of a hybrid organisation. On the basis of the results, Hennart claims that hybrids can be used to minimise the adverse features and effects of markets and hierarchies.

Fladmoe-Lindquist & Jacque (1995) researched the factors influencing the selection of company form between the ownership-based model and the franchising model in an international organisation of a service business. The factors speaking for the practicability of the franchising model include supervisory costs, experience in international business operations and uncertainty of domestic business activity, as well as investments made in the brand. Brown and Lusch (1996) studied the interdependencies between whosalers, retailers and suppliers and their influence on the selection of contract type and distribution channel performance. According to the results, a high mutual dependence between wholesalers, retailers and their

suppliers establishes a confidence in normative contracts. Normative contracts enhance the results and performances of trade. In case a wholesaling organisation is dependent on a supplier, it establishes a long-term relation with the supplier.

Bradach (1997) analysed the governance modes of two restaurant chains. The key processes for a simultaneous attainment of uniformity and adaptation of operations include the processes of modelling, controlling, socialisation and mutual learning. Brown, Chekitan and Dong-Jin (2000) researched the influence of three alternative governance modes (ownership, special investments required by the relationship and norms regulating the relationship) on the pursuit of own interest and its reduction in marketing channels. The relationship-related norms can be used to reduce or control the pursuit of own interest in marketing channels. The pursuit of own interest may increase if ownership or special investments required by the relationship are emphasized by the governance mode.

Previous researches and their results can be summarised by saying that hybrids have both own mechanisms which are distinguishable from markets, networks and hierarchies, and combinations of mechanisms from "pure" governance modes (cf. Williamson, 1991, p. 294). Bradach and Eclles point out (1989, s. 98) that: "Elements of the ideal types (or the poles of the continuum) are often found mixed together empirically; Markets and hierarchies and "combinations" are often embedded in or lead to the formation of collateral social structures", and that: "While transactions are rarely governed solely by market, hierarchy, or trust, these mechanisms do serve as the building blocks for the complex social structures so common in organizational life".

The basic idea in hybrids is that they aim to combine, in an efficient and effective way, the best aspects of different governance systems at the same time as they aim to prevent their weaknesses (Hennart, 1993). Characteristic of hybrids is also the fact that they apply several different organisational control mechanisms simultaneously to one function in one company (Bradach & Eccles, 1989). Control mechanisms typical of hybrids include the use of long-term agreements, reciprocal trading and exchange and explicit rules (Williamson, 1991a). Main hybrid control areas include the norms of reciprocity and respect for others' competences, as well as other controls governing the relationships between parties, and the controls of individual exchanges.

The researches have shown that the incentive and adaptation properties of hybrids are stronger than those of hierarchies, and that their administrative co-ordination and control mechanisms are stronger than the market mechanism. In comparison with hierarchy, hybrids lose in co-ordination properties but gain in incentive benefits. As a whole, hybrids have rela-

tively efficient administration and adaptation mechanisms (both market adaptation and organisational adaptation) and medium strength judicial agreement mechanisms. Hybrid structures are more flexible than the classic agreement-based operating systems in the market, but on the other hand, they have more contractual and law-based mechanisms than there are in hierarchies (Williamson, 1991a).

RESEARCH APPROACH AND DESIGN

This research has been carried out as a "hybrid study". It rests on previous theoretical knowledge about different governance modes and their governance mechanisms and on the abductive case study method applied to an empirical phenomenon. The research concepts and models are based on the marketing channel management research and the research and theories about inter-organisational marketing and networks. With regard to network theory, the IMP group constructs and concepts have been adopted. Additionally, the key analyses of governance modes and hybrids, in particular, have been used. The problem with this kind of research often is that the characteristics and structures which are crucially important for the research problem are latent, and that the researcher must be able to identify them or to derive them indirectly from other indicators (Heide & John, 1995, p. 531).

In accordance with the adopted research approach, it is acknowledged that the researcher himself is interested in the phenomenon he expects to be important. The research clues used as the starting point are abducted (abduct = take away, kidnap) from existing theoretical information or the phenomenon itself. The research proceeds with the help of these clues. As the research progresses, the clues may be changed or abandoned altogether at any stage. The purpose of the research work assumed after the abduction is to verify whether the chosen clues are scientifically significant (Grönfors, 1982). This enables unusual and even surprising matters to be taken into consideration during the research process, in other words, it enables the researcher to learn (Dubois & Gadde, 1999; Grönfors, 1982; see also Mittilä, 2000).

Systematic combining of previous knowledge, research data and theoretical information is also typical of the adopted research approach. For this research, the most important and primary information sources are interviews and observations made by the researchers. Secondary information sources include various written documents published about the target company, such as annual reports, articles, books, internal memorandums and analyses (cf. Alasuutari, 1994; Miles & Huberman, 1994; Yin, 1994). These form the basis for the research frame of reference, in other words, a preliminary model for the management of a hybrid organisation (Mitronen & Möller, 2000).

The research target if a major Finnish trading group. Kesko Corporation is formed of the wholesale company Kesko and the Finnish K-retailers and the K-store chains. The K-Alliance has 13 retailer-run chains, operated by a total of 1,650 retailers in 16 chains. In public, the K-Alliance is often seen as a group led by Kesko, although in reality, the K-Alliance is a network formed of independent businesses, entrepreneurs and persons. This network consists of 2,000 K-stores; 1,650 K-retailers; 24,000 K-store employees; 30,000 major wholesale customers; 30,000 suppliers and other partners, and the personnel of 11,000 of the Kesko Corporation. Kesko develops store concepts and operating models. Its profit divisions develop store types and the store network. The K-retailers are independent entrepreneurs who are entitled to use the K-logo or other marketing symbols of the K-Alliance. In their entrepreneurial capacity, the K-retailers are responsible for customer satisfaction and the profitable performance of their stores. The K-retailers are Kesko's shareholders and members of the K-Retailers' Association. In the year 2000, Kesko's net sales amounted to EUR 4.95 billion and the sales of K-stores totalled approx. EUR 6.2 billion (Kesko, 2001).

The selection of three store chains for the research was made on the following grounds. Firstly, they had to represent as many of the different factors and mechanisms of a hybrid organisation governance mode as possible. Secondly, the target chains had to include as many different control and co-ordination mechanisms as possible. Thirdly, the selected cases had to illustrate as comprehensively and thoroughly as possible the tension between hierarchical and centralised control and the tension between co-ordination and the autonomy of the retail trade. Fourthly, the cases had to be as illustrative as possible of the simplicity and complicity of business operations with respect to the scope of product selections, differences between product lines and the amount of net sales. These criteria will be used to meet the multidimensional and versatility requirements of the research phenomenon so that the selected cases provide as much contribution to solving the research problem as possible (cf. Easton, 1995; Eisenhardt, 1989; Heide & John, 1995; Yin, 1994). On the basis of the adopted criteria, the following chains were selected as the research target:

− Citymarket hypermarkets, where the K-retailer (a private entrepreneur) is responsible for the grocery retailing, and the hired department store manager, under centralised chain management, is responsible for the non-food trade. This store type combines two governance modes with the K-retailer operating within a strategic network with Kesko, the other K-retailes and the hypermarket department store manager, while the department store manager operates in a hierarchical relationship towards the chain management. About 65% of the Citymarket net sales are groceries and about 35% non-food products, which means that there is also a combination of two product lines with different logistics. At the

end of 2000, there were 40 Citymarket hypermarkets and their sales totalled EUR 1,210 billion.

− Carrols fast food restaurants. At the end of 2000, there was a total of 73 restaurants and their sales amounted to a total of EUR 73 million. 46 of the restaurants were run by an entrepreneur under a franchising agreement. In the other Carrols restaurants, restaurant managers under the chain management hierarchy are responsible for the operations. Kesko's subsidiary, Carrols Oy, bears the overall responsibility of the Carrols business operations, including the chain management functions related to the development of entrepreneurial, store site, logistics, product selection, marketing and store type matters.

− Andiamo shoe stores. Independent retailers operating in a strategic network with other retailers and Kesko are responsible for the shoe store operations. In 2000, the total sales of Andiamo shoes stores amounted to EUR 28 million and there were 30 shoe stores at the end of the year. The chain unit of Kesko Shoes, which is part of Kesko's division parent company Keswell Oy, acts as the central unit, i.e. chain management unit for the Andiamo store chain. This chain management is responsible for the management and development of the chain in the same way as in the above chains.

HYBRID MANAGEMENT IN RETAILING

Managerial levels and decision domains

One way of investigating the management challenges of any complex organisation is to try to identify the different levels or layers of the major decision domains, the actors involved in these domains and their relatedness, and the governance mechanisms or processes through which the organisation is directed and controlled. In large retailing corporations one can generally discern four major management levels: the corporate level, general chain management level, chain management level, and retailer level. These are described in the proposed Retail Management Framework in Figure 1.

Figure 1. Management Framework of A Retail Corporation.

Management Levels & Decision Domains

External actors

Level 1: Corporate Management
* Corporate policy including decisions about
  the portfolio of chains

Society and Market Environment

Level 2: General Chain Management
* Policies involving the joint management of
  chains (e.g. chain concepts, centralised
  purchasing, site portfolios, management
  principles, coordination and incentive
  principles & programmes)

Suppliers, Competitors, Government
agencies, Consumer agencies

Level 3: Chain Management
* Chain management, retailer and site port-
  folio decisions, implementing coordination
  and incentive systems, developing chain
  concept, and store concepts including
  assortment decisions.

Competing chains, Suppliers, Institutions,
Communities

C1 C2 C3 C4

Level 4: Store Management
* Managing a single store, personnel
  management, customer care, fine-tuning
  the store concept in local competition.

Competing stores, Suppliers' sales agents,
Local authorities and Institutions

R1-n R1-n   R1-n   R1-n

End customers

C indicates the chains in a chain portfolio, R indicates the number of store in each chain.
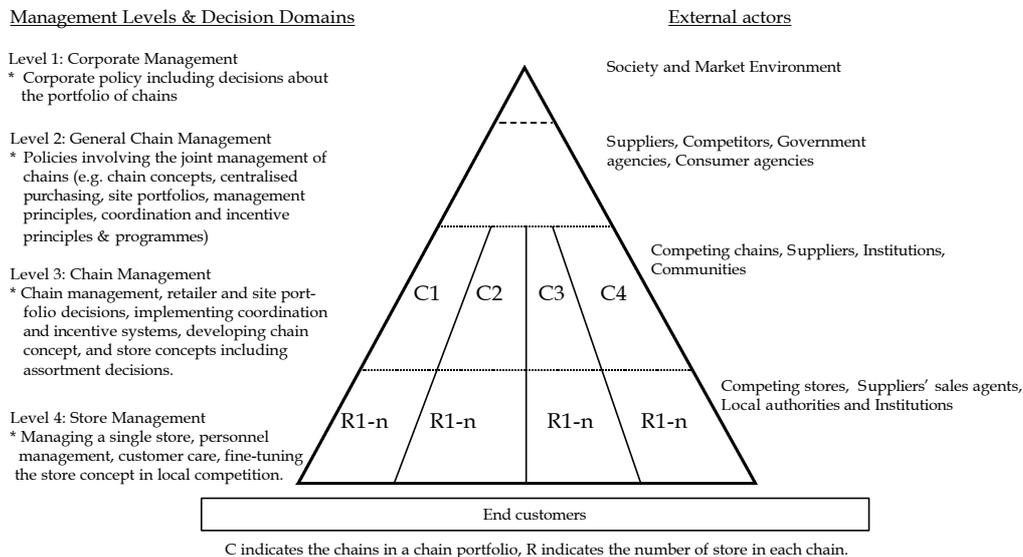
Figure 1. Management Framework of A Retail Corporation

Source: Mitronen & Möller (2000).

In large retailing corporations one can generally discern four major management levels: the corporate level, general chain management level, chain management level, and store management level. The Corporate level contains such high-level decisions as policy about in which retailing sectors to operate – resulting into chain portfolio, and corporate finance and ownership policies and organisational structures.

The second level covers decisions related to the joint management of retail chains (e.g. chains of hypermarkets, supermarkets, footware stores, sportsware stores, farming and gardening products, hardware and home decoration etc.). A key managerial problem is to identify what tasks and activities should be decided and controlled centrally and what decisions should be left to the discretion of chain management. In principle, activities that can be standardised across multiple chains, leading to scale economies and efficient use of resources should be controlled at this level. Whereas activities that need chain-specific knowledge and adjustment belong to the chain management level. Development of chain concepts, general management of the store site portfolios, supply management of cross-chain products and services, and the development of managerial principles and programmes for chain manage-

ment (incentives, coordination tools including financial planning and IT facilities) are generally managed in an integrated fashion. An important issue is the selection of chain directors.

The management of specific chains takes places at the third level. It includes the development and fine-tuning of the chain concept and store concepts including assortment decisions, pricing, marketing communications, and customer programmes. These activities are guided by the segmentation and positioning decisions, which form the basis of the competitive strategy of the chain. Other major activities include the development and care of retailer portfolio (selection, training and management of the retailers), allocation of store sites among the retailers, and implementing the coordination and incentive systems of the chain. Again, an important issue is what activities to centralise and what to leave for the retailers to decide.

Store management constitutes the final level. It covers the activities related to management of the personnel, customer service, and fine-tuning the store concept in response to the local competition.

The Retail Management Framework was used in organising and analysing the field data. The focus at this phase was to identify governance mechanisms of hybrid organisation, with main focus on levels three and four, in other words, on chain management and store operation levels. For the purpose of reporting the results, the governance mechanisms were divided into (a) structural and organisational solutions, (b) management policies and processes, and (c) values, norms and trust. These were combined with management levels in matrices, which were then used to produce a summary. In addition to the management levels and governance mechanism types, the perspectives of chain management and retailer, centralised control and co-ordination and retailer autonomy, and a comparison between each of the three case chains were adopted for an analysis of the material. At this stage, we can only present preliminary results in a summarised form.

The matrix in table 1 shows the governance mechanisms of a hybrid organisation in the organisation being studied.

Table 1. Management of hybrid organisation in retailing

Governance mechanisms Management levels	Structural and organisational solutions	Managerial policies and processes	Values, norms and trust
Corporate Management Level	Strategies and goals of Kesko and the K-Retailers' Association . Kesko's and the K-Retailers' Association's juridical and structural organisation. Kesko ownership. Membership of the K-Retailers' Association.	Kesko's strategic direction and goals. Management system of Kesko's and K-Alliance's chain operations. Management briefings, education and training. Limits of investment and other decisions. Rewarding principles and systems.	K-Alliance's basic values. Kesko's Ways to Act norms. K-retailer rules. Selection of retailers for governance organisations.
Division parent company or profit division level (General Chain Management Level)	Contract framework. Boards of Directors and management boards. Centralised hierarchical purchasing, logistics, finance and administration and retail services.	As above. Meetings, planning conferences.	As above. Networks between Kesko personnel and retailers.
Chain Management Level	Chain or franchising agreement with retailer, employment contract with Kesko employees. Chain unit, chain planning teams and chain executive committees. Selection of retailers, store site solutions and goods trade according to market mechanism.	As above, plus common processes: concept planning, store location, marketing, purchasing, logistics and chain management processes. Category management. Training and exchange of experiences. Selection of retailers for governance organisations.	As above, plus chain-specific rules.

Management levels

On the corporate management level, structural and organisational, mainly hierarchical governance mechanisms include Kesko's and the K-Retailers' Association's juridical structures and organisations in which retailers participate in their capacity of Kesko's owners and members of the K-Retailers' Association. In practice, the operations are governed with the help of Kesko's strategic direction policy and the objectives included therein (return on invested capital (12%), return on equity (10%), customer satisfaction, success in the market, practices and personnel). On this level, decisions are made concerning the key business areas and their general trading terms (for instance, chain allowances), internal accounting interest rates and the Group's common resources and their allocation (for instance, controlling and office administration, finance and information management). Hierarchical management practices and processes include Kesko's and the K-Alliance's chain management system, rewarding principles and managerial practices, like budgeting, investments, management briefings, education and training with related processes. Corporate level governance mechanisms concerning values, norms and trust include the K-Alliance's basic values and Kesko's and the K-retailers' operating principles. On this level, market mechanism is not used as a governance tool, whereas there is a keen competition between the K-Alliance and the other trading groups for store locations and market shares among other things.

On the general chain management level, the above governance mechanisms are put into practice and applied to the different business lines. Important structural and at the same time hierarchical means include the chain and goods trade agreements signed between Kesko and K-retailers on one hand, and the employment contracts applied to different professions on another hierarchical level on the other hand. Chain agreements control the parties' rights and obligations and determine the organisation, control and co-ordination of the operations among the chain management and the retailers. Co-operating pairs formed of Kesko's division parent companies and the K-Retailers' Association's branch clubs act as organisational tools. In the area of managerial policies, hierarchical governance mechanisms include investments (for instance, logistical and store site investments), network plans of store locations, chain portfolios and rewarding methods. Governance mechanisms based on values, norms and trust include networks formed of Kesko personnel and K-retailers. In accordance with market mechanism, the chains representing different lines of business compete with each other for store locations and investments.

The structural and organisational solutions determined for *the chain management level,* are the development of the chain and its uniform operations. The adopted organisational mechanisms include Kesko's chain units and the function-specific planning groups formed of K-

retailers and members of the Kesko personnel. The K-Retailers' Association's organs involved are the Chain Executive Committees. A chain's hierarchical co-ordination areas include the determination of a common chain product selection (usually 40% of the store's products at the maximum), joint marketing, purchases for the common selections, category management, logistics and concept development. In the area of managerial policies and processes, important functions include the hierarchical co-ordination and operational management of the chain operations. Operations are governed with the help of chain-specific retailer meetings, and conferences and hierarchical governance mechanisms, like decisions, manuals, processes, instructions and training. Additionally, normative and goal-related chain customer promises, marketing material and planograms, as well as quality, customer satisfaction, personnel satisfaction and operational researches are used. In the area of values, norms and trust, governance mechanisms on chain level are the same as on the other levels. Also, chain-specific rules are implemented. In accordance with market mechanism, retailers compete with each other for the best store locations, and the store rent is determined accordingly. Decisions about retailer selection are made independently and hierarchically by Kesko.

On store level, all chains are structurally and organisationally very autonomous. On one hand, operations are governed by a strong market mechanism and on the other hand, by a store-specific hierarchy. Stores compete with each other within the chain and with the stores of other trading groups. Retailers are obliged to price their products themselves and only about 20-30% of the products are priced jointly. With regard to managerial policies and processes, personnel management, customer relationships and the use of other competitive tools, such as marketing and category formation, are the retailer's or the department store manager's responsibilities. Exceptions to this are Carrols and the non-food departments of the Citymarket hypermarkets, whose operations are more controlled by the chain management and adaptation is organised. (Franchising entrepreneurs, however, have greater operational liberty than restaurant managers who belong to a hierarchy.) Retailers' activities are largely governed by their internal norms, which reflect their ideas about an efficient operating system: how to become a successful and rich retailer. A normative mechanism is formed by the retailers' personal, informal but very intensive networks.

The goods trade is based on market mechanism: Kesko acts as the wholesaler and the retailer purchases for his store on the basis of price and quality and compares Kesko with other suppliers. This is very important for retailers and stores both spiritually and financially. On the other hand, this is about how they experience autonomy, in other words about the illusion of independence. But this is not how the hierarchically co-ordinated chain, i.e. the Citymarkets'

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non-food departments and Carrols operate. Market mechanism also works in the determination of store rents.

Chain-specific governance systems and mechanisms

In the management of the *Citymarket department store managers,* network mechanisms are mainly used, despite of the hierarchical relationship. Hierarchical governance mechanisms are mainly applied to profit control, not to behavioural control. Key tools include the governance of the department store managers with the help of the chain's joint and store-specific plans and budgets. "If your budget and profit are OK, the chain management won't bother you" (comment by a department store manager). Additionally, annual department store manager conferences are used. In addition to planning and conferences, chain and department store specific sales and profit information is put to use together with quality, customer satisfaction and job satisfaction surveys. Each actor has access to the others' information, which he can compare and establish his own situation in the chain. This mechanism is also aimed at making them personally committed to the attainment of their objectives.

In the management of the *Citymarket retailers,* mainly network mechanisms are used. Like the department store managers, the Citymarket retailers meet twice a year at a conference, but the role of these meetings is not "imperative", as it is for the department store managers. Neither is it possible for Kesko to interfere with poor or wrong kind of store level operation, except when the retailer's financial situation is poor. Kesko's temporary hierarchical management can be adopted when there is a change of retailer. In store-specific activities, operational organisation, purchasing and related marketing money and its use are emphasized. Retailer networks play an important role in the adaptation to the market and learning from the others.

With *the shoe retailers operating in the Andiamo chain,* mostly the same mechanisms were used as with the Citymarket retailers. The policy adopted in the goods trade was the one used with home and speciality goods: operations are based on the chain's basic positioning, business concept and annual marketing plan, for which suitable products are purchased. Therefore, the chain level product selections determined in advance and the advance sales are very important. Also the internal retailer networks play a significant role.

The *Carrols chain* is operated on franchising basis. The aim is to promote the common interest of the chain management and restaurant managers, or entrepreneurs, in other words, to increase sales and customer volumes and to maximise the financial result. The price mechanism operating between wholesaler and retailer does not exist in these purchasing operations. Instead, the purchase price for the chain is as such the net purchase price for all restaurants.

The franchise entrepreneurs and restaurant managers belonging to the hierarchy meet once a year at a conference. Otherwise, these two groups are managed separately. District managers act as co-ordinators between restaurants and the chain management. In other respects, the same governance mechanisms and internal networks are used as with the chains discussed above.

Control, autonomy and efficacy of hybrid organisation

The hybrid organisation being researched mainly uses performance-related formal control mechanisms, such as customer promises and other qualitative and financial goals and objectives, and indicators or surveys of achievements and results. Additionally, formal or informal values and norms governing behaviour are applied. On store level, in particular, informal retailers' internal norms had a very strong influence on the governance and control of operations. In addition to these, formal and informal values and norms are used for normative behavioural governance. Particularly on store level, the informal internal norms of retailers had a very important governing and controlling influence.

From the efficacy perspective, the hybrid organisation highlighted, in accordance with the Quinn & Rohrbaugh model, the attainment of internal efficiency and control through an internal process model. This was achieved by means of a uniform management system, operating processes and hierarchical decision-making and execution organisations. The mechanisms exercised a governance towards preserving the present status and towards stability rather than towards creating something new or towards flexibility. They also influenced favourably on internal efficiency rather than on external adaptation. Despite the emphasis put on internal efficiency, powerful store and retailer-specific operating models, which as such, strengthen local adaptation and also prevent the adoption of efficient and uniform systems, were typical of the chains (except for Carrols).

The relation and tension between centralised control and co-ordination and autonomy varied from one chain to another. A major tension in the retailer chains was caused by the implementation of purchasing, pricing and marketing, which is based on retailer activity supported by other operations for which Kesko is responsible. The main mechanisms of centralised control and co-ordination used were the goals and objectives set and retailer meetings and conferences. The tension is weaker in the non-food departments of the Citymarket chain and in the Carrols chain, because the operations cover the whole chain of functions from customer to producer, which leaves no room for store-specific partial optimisation. Store-specific autonomy was manifest in store-wise adaptation to the market and behavioural self-control.

Conclusions and discussions

In a networking operating environment, hybrids enable companies to grow outside their traditional and juridical "limits" by making use of governance modes which differ from the market and hierarchy mechanisms in that they are more social, e.g. reciprocity, close-knit co-operation, long-term relations and good reputation. With regard to type and functions, these hybrid forms do not, however, represent the traditional arm's length market contracting forms of co-operation or networks based on markets or vertical integration (Powell, 1990). Within the K-Alliance, this is manifest in the fact that substantial net sales (a total of approx. EUR 13 billion), personnel (a total of approx. 35,000) and supplier relations and the network they form (a total of approx. 50,000 actors) can be governed in an efficient manner without organising all operations into the Kesko hierarchy.

A hybrid system is best suited to operations and organisations which simultaneously require good incentive, adaptation and control properties (cf. Williamson, 1991). According to the experience of the organisation under research, K-stores maintain their profitability during recession better than units which are managed hierarchically. But on the other hand, the extent of performance dispersion grows. Why does it happen? The very hybrid mechanisms and properties may act as contributory factors allowing more autonomy in comparison with hierarchy but less autonomy in comparison with market.

On the other hand, a hybrid system is less workable when the uncertainty and disturbances in the operating environment are big, owing to the fact that a hybrid system adapts slowly and requries the approval of all parties involved. This is exactly the case in the K-Alliance where small changes can be implemented rapidly, but where big changes must have the approval of practically everybody, in other words, the approval of Kesko and the 1,650 retailers, or a vast majority to back any major changes. This is why any major changes are slowly implemented and even then, through good new examplars only. Therefore, a hybrid model is the weakest of all in situations of change where efficient co-ordination is needed, because it has the most difficult and the slowest adaptation mechanisms in comparison with a market mechanism and hierarchy. If uncertainties are different and variations big, the governance system properties of a hybrid improve, because it has a greater variety of adaptation mechanisms than hierarchy and markets.

The co-ordination of internal competition and co-operation in hybrids is a very demanding task, which means that a market mechanism is combined with hierarchical and network mechanisms. Internal competition is aimed at feeding market-driven adaptation and success, whereas co-operation is used to establish rules and to improve internal efficiency. Internal

competition is also used to find the best individuals for retailers and managerial duties in Kesko. In their combination, key roles are played by the structural solutions of a hybrid organisation and common operating processes, interests, norms and trust. If the hybrid has no internal norms, a market competition resembling zero sum game will ensue.

The hybrid organisation being researched revealed a major financial tension between the retailers and Kesko: the retailer normally aims at maximising his profits and optimising his sales while minimising all costs. Kesko, in turn, normally aims at maximising sales and optimising the financial result and costs. No mechanisms have been found for an efficient governance of this core problem. This kind of structural problem does not exist in the franchising system of Carrols.

For a hybrid organisation, where some actors are entrepreneurs and some hierarchical employees, it is very important to establish an efficient co-operation system. This means systems for both strategic planning and management and operational systems. Retailer and entrepreneur based hybrid systems are particularly sensitive to interest and governance conflicts: "All I care about is my money" and "I won't be ordered to do anything, and if they did, it would be against my principles to obey" are comments made by a Citymarket retailer. In co-operation, the importance of retailer networking and being a member of a group were emphasized: "A retailer's best friend is a retailer" (a Citymarket retailer). Acceptance to a particular group or rejection from it were experienced as an important incentive or a major sanction respectively. Internal networks and those which are not visible for outsiders are very important in adaptation, learning and internal solidarity. Formal governance mechanisms cannot compensate for these informal mechanisms.

Hybrids, as chain operations governance systems, include a managerial relationship between the parties, which is clearly different from ownership or customer relationships. A managerial relationship requires a "spiritual management" of the network and the actors therein, because the operations cannot be governed by prices, trading or formal authority only. At least in the case being studied, the success of this spiritual management requires that the parties accept, consciously or unconsciously, operational and norm-based rules and mutual trust. The establishment and use of the managerial relationship highlight the role of common interests and their adoption on both store and chain management level. If no common interests exist, or own interests are dominant, an overall management is very difficult, if not impossible. The pursuit of own interests, limited rationality and uncertainty about the future will "win", which means that competition and short-sighted pursuit of profit is adopted as mechanism.

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