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Management of hybrid organisations: a case study in retailing☆

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Abstract

Hybrid organisations present important theoretical and managerial opportunities. We examine a large Finnish multichain retail organisation in order to identify and understand the challenges of hybrids in a retailing context. We are especially interested in how these complex firms try to maintain a balance between the centralised corporate control and the local autonomy and initiative of their retailers. The governance forms and processes identified in the case organisation are discussed with the help of a proposed conceptual framework. We believe that the identified governance problems and practices in the three different retail chains and especially our recommendations will facilitate the understanding of retail hybrid organisations and the management of hybrids in general.

Keywords: Hybrid organisations; Management of hybrid organisations; Governance; Retailing

1. Introduction

Our study focuses on hybrid organisations in retailing. The main aim is to explore what kind of organisational solutions, managerial systems, and processes are used in the governance of a hybrid retailing organisation. We are especially interested in how these complex firms try to maintain a balance between the centralised corporate control and the local autonomy and initiative of their retailers. These aims are prefaced by a background discussion.

Since the 1990s, the relevance of interorganisational business relationships on the competitiveness of firms has become widely recognised (Amit & Zott, 2001; Gadde & Håkansson, 2001; Håkansson & Snehota, 1995). Within business marketing, the relationships between buyers and suppliers and business networks have attracted growing research attention (Ford, 2001; Gadde & Snehota, 2000; Gulati, 1998). An important, but less well explored, issue is how firms operating in an increasingly networked type of environment should manage their internal governance, i.e., through what kind of organisational solutions and management processes firms should govern their internal actors and their behaviour to achieve good performance. In this study, we are interested in hybrid organisations operating in a retailing context.

Why study hybrid organisations? Powell (1990) sees hybrids combining aspects of "markets" (prices and competition), "hierarchies" (centralised authority and hierarchical control mechanisms), and "networks" (interdependence, cooperation, mutuality, and trust-oriented norms). Through these plural managerial forms (Bradach & Eccles, 1989; Gundlach & Archol, 1993; Hennart, 1993), hybrid organisations are expected to have better potential to adapt to changing business environments than traditional hierarchical firms. On the other hand, hybrids involve complex coordination problems that may change their potential benefits into managerial nightmares. Within the Industrial Marketing and Purchasing Group, attention has primarily been on the governance of interorganisational relationships and their formation and management through social interaction and emerging relationship-specific norms (Axelsson & Easton, 1992; Ford, 2001; Håkansson & Snehota, 1995; Möller & Wilson, 1995), although a number of scholars (Cunningham & Homse, 1986; Håkansson & Ford, 2002; Håkansson & Snehota, 1990; Möller & Rajala, 1999) have also explored internal organisational and managerial issues of firms in a network context. In spite of these efforts, and although the basic governance modes (markets, hierarchies, and networks) are relatively well known at the generic level, the mechanisms and processes through which different types of hybrids

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can be effectively managed need urgent attention (Dwyer, Dahlstrom, & DiNovo, 1995; Frazier, 1999; Grandori, 2000; Gundlach & Archol, 1993; Williamson, 1999).

Why study the management of hybrid organisations in a retailing context? The operating environment of the trading sector has undergone significant changes in the 1990s. The international purchasing and new store concepts, the use of data and information technology, the intensified cooperation between industry and trade, the changing roles of the wholesale and retail trade, and the increasing importance of customer relationships are some of the key changes. Traditional divisions into wholesale and retail stores are becoming blurred and have disappeared altogether from chains managed by a single owner.

As a result of these changes, we are seeing the emergence of interesting hybrid organisations in retailing. Large chains like Wal-Mart and Tesco, which on the one hand are centrally governed and on the other hand have established large supplier and institutional networks, represent one mode of hybrid organisations. In the Nordic countries, especially in Finland and Sweden, there exist significant cooperative 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 balancing of centralised hierarchical decision-making and control with the operations of autonomous retailers who are expected to adapt themselves to local market competition and customer needs (Hyvönen, 1990; Jarillo, 1988; Mattsson, 1969).

In order to be able to address these kinds of key questions about how to create and manage effective hybrid retailing organisations, we need a better understanding of "hybrid governance" in this context. The notion of a combination of "markets," "hierarchies," and "networks" is not sufficient. Therefore, our main goal is to examine what kind of organisational solutions, managerial systems, and processes are used in the governance of a hybrid retailing organisation. The fundamental thesis guiding our research is that retail chains differing in the complexity of their merchandise and end-customer relationships need different types of hybrid governance. To examine this notion, we will create a case design comparing three different retail chains belonging to a single major retail corporation. We recognise that there is extensive conceptual literature on the modes and principles of governance; our emphasis, however, is on the empirical case analysis of the implementation of hybrid governance and on the resulting conclusions.

This article is organised as follows. After reviewing briefly the governance of hybrid organisations, paying special attention to the studies on marketing channel organisations, we present a preliminary conceptual framework of a hybrid retailing organisation and a number of specific questions to guide our case design and analysis. Then, the focal retail corporation and a comparative case design are described followed by the presentation of key results. We end by discussing the theoretical and managerial implications of our results and suggesting topics for future research.

2. Governance in market channel hybrid organisations

In order to construct an efficient management system for a hybrid organisation, one must have a basic understanding of the characteristics of coordination and control as well as performance in different governance modes. We start with this discussion and then proceed to the extant empirical studies on hybrid organisations in a channel context.

2.1. Firm efficacy and control and coordination mechanisms in governance modes

The usefulness of different governance modes should be examined from the perspective of the costs and benefits involved; i.e., it is important to understand the relationship between governance modes and corporate performance or efficacy. 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 for its operations by customers and other stakeholders. It is reflected in the organisation's results in terms of customer satisfaction and commitment and customer innovativeness (Pfeffer & Salancik, 1978). Internal efficiency means organisation's internal performance level, in other words, how efficient its operations are from the input/output perspective (Pfeffer & Salancik, 1978; Scott, 1992).

There are significant differences between the control and the coordination mechanisms of the basic governance modes (Bradach & Eccles, 1989; Grandori, 1997; Gundlach & Archol, 1993; Powell, 1990; Williamson, 1991). In a market mechanism, price acts as a major control and coordination mechanism and is complemented by competition. In a hierarchy, the control and coordination mechanisms are operationalised through authority and authority-based rules, instructions, and regulations. These factors rest on the existence of a contractual or employment relationship. In a network, where actors are interdependent, the control and coordination methods are trust, values, and relational norms. From a governance system perspective, the question is how do hybrids combine these modes to solve their control and coordination needs and efficacy-related problems. Theoretical notions and empirical results from transaction cost economics (Williamson, 1985, 1991), contractual law (Gundlach & Archol, 1993; Macneil, 1978, 1980), and institutional theory (Powell, 1987, 1990; Stinchcombe & Heimer, 1985) suggest that relatively simple transaction relationships in stable environments tend to rely on price mechanisms, while higher environmental uncertainty tends to increase the reliance on legal contracts, and complex exchange requiring more intensive interaction increases the use of relational social norms. Notions like these, although useful, are still too universal for the practical management of hybrids. Hybrid organisations generally contain mixed modes of governance for specific tasks meaning that we also have to understand the interrelationships of various modes. Only a limited number of empirical studies are available on these issues.

2.2. Evidence of the market channel hybrid organisations

Extant hybrid studies in the trading and service sectors have focused on a limited set of key governance questions. Only studies bearing a close relevance to our case are covered; for a more extensive review, see Mitronen's (2002) study. Brickley and Dark (1987) studied the organisation of functions in a subsidiary and in a franchising system. The key factors influencing the selection of an organisational system included the units' supervising costs, the purchasing frequency of customers, and the breakdown of investment costs. Hennart (1993), examining the selection of a company governance mode between a pure market system, a hierarchical system, and a hybrid of these, suggests that hybrids can be used to minimise the adverse features and effects of markets and hierarchies. Fladmoe-Lindquist and Jacque (1995) studied factors influencing the selection of company form between the ownership-based model and the franchising model in an international service business firm. The factors favouring the franchising model include lower 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) focused on the interdependencies between wholesalers, retailers, and suppliers and their influence on the selection of contract type and distribution channel performance. A high mutual dependence between wholesalers, retailers, and their suppliers seems to establish confidence in normative contracts. Normative contracts enhance the results and performance of trade. If a wholesaler is dependent on a supplier, it tends to establish long-term relations with it. Bradach (1997) analysed the hybrid governance 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. Finally, Brown, Chekitan, and Dong-Jin (2000) studied the influence of three alternative governance modes (ownership, special investments required by the relationship, and norms regulating the relationship) on the pursuit of a player's own interest and its reduction in marketing channels. Relationship-related norms can be used to reduce or control the pursuit of own interest. The pursuit of own interest seems to increase if governance requires special investments.

The extant studies show that hybrids have both own mechanisms, which are distinguishable from markets, networks, and hierarchies, and combinations of mechanisms from "pure" governance. Scholars drawing mainly on transaction cost economics (Hennart, 1993; Williamson, 1985) see hybrids as a combination of "market" and "hierarchy," minimising the adverse effects of these traditional modes. We regard, as Powell (1990) and Bradach and Eccles (1989), that hybrids are independent plural forms of organisational governance, combining aspects of "markets," "hierarchy," and "networks." As such, they can contain both positive aspects and limitations of these basic modes. In this vein, hybrids can apply several different organisational control mechanisms simultaneously to one major function in a company. Control mechanisms typical of hybrids include the use of long-term agreements, reciprocal trading and exchange, and explicit rules. The main hybrid control areas include the norms of reciprocity and respect for others' competencies as well as other controls governing the relationships between parties and individual exchanges. A recurring theme is how to achieve a balance between interests of different parties and how to balance the strengths and weaknesses of governance structures and processes.

2.3. Retail management framework and research questions

Based on the brief literature review and the lead author's experience of the retailing sector, we first propose an exploratory framework model of a retail corporation, depicted in Fig. 1, and then put forward a set of questions to guide our qualitative case study. One way of investigating the management of any complex organisation is to identify the different levels of the major decision domains, the players involved in these domains and their relatedness, and the governance mechanisms through which the organisation with its layered players is directed and coordinated. In large retailing corporations containing several chains, one can generally discern four management levels: the corporate level, general chain management level, chain management level, and retailer level. These are described on the left side of the retail management framework in Fig. 1. On the right are the main external actors who form the context of the planning and management of retailer activities and to whom the activities are targeted.

The corporate level contains policy decisions, which retailing sectors operate on (resulting in a chain portfolio), corporate finance and ownership policies, and decisions on organisational structures. The second level covers decisions related to the joint management of retail chains (e.g., chains of hypermarkets, supermarkets, sportswear stores, home decoration, etc.). A key managerial problem is identifying 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 economies of scale and efficient use of resources, should be controlled at this level, whereas activities requiring chain-specific knowledge and adjustment should be controlled at the chain management level. Development of chain concepts, general management of store site portfolios, supply management of cross-chain products and services, and development of managerial principles and programmes for chain management (incentives and coordination tools including financial planning and IT facilities) are generally managed in an integrated fashion. An important issue is the selection of chain directors.

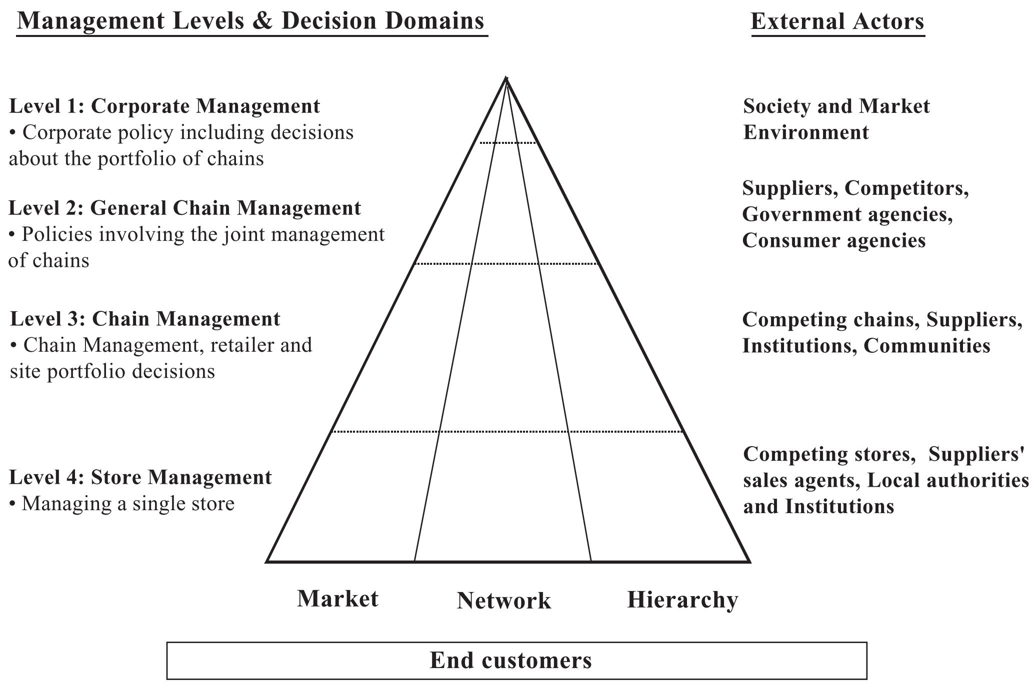

Fig. 1. Management framework of a retail corporation.

The management of specific chains takes place 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 the retailer portfolio (selection, training, and management of the retailers), allocation of store sites among the retailers (unless owned by them), and implementation of the chain's coordination and incentive systems. 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 local competition.

As our main interest is in the hybrid management of different types of chains, Levels 3 and 4, covering the interplay between centralised chain management and autonomous retailers, form the core focus. However, the governance solutions made at Levels 1 and 2 are also highly relevant as they provide the context for the chains' operating management. The following questions guide our empirical study:

- What kind of structural organisational solutions, managerial systems and processes, and cultural values and norms are employed in the governance of different types of retail chains?
- What kind of strengths, limitations, and dysfunctions do various hybrid management modes exhibit?

The issue of potential tension between the interests of the central chain authority and the autonomous retailers provides a special perspective for the analysis of the second question. It prompts us to examine what kind of governance solutions address this tension and how successfully.

3. Case study approach and design

We examined the hybrid management solutions in three retail chains belonging to Kesko, the largest retail organisation in Finland. A brief argumentation and description of the methodological choices is presented. The reason for choosing a case study approach is the in-depth knowledge needed about organisational processes, contractual arrangements, and complex performance indicators. Information about these phenomena is often confidential and latent, and the researcher must have good access to an organisation to be able to identify them (Heide & John, 1995; Yin, 1994). Besides the issue of depth, the present study required access to at least two different types of retail chains in order to be able to investigate the differences in their hybrid governance.

A solution was found via Kesko and K-Alliance, the leading retail alliance in Finland. K-Alliance constitutes Kesko, the Finnish K-retailers, and the K-retailers' Association. It is a true hybrid formed from independent businesses and entrepreneurs as well as centrally governed business functions. This hybrid organisation consists of 16 chains and their 2000 stores, 1500 K-retailers, 24,000 K-store employees, and Kesko's personnel of 11,000. Kesko is engaged in retailing in close cooperation with the K-retailers and in wholesaling directly to industry, restaurants, and other wholesale customers. Kesko develops store concepts and operating models. Its profit divisions (retail chain organisations) develop store types and the store network. K-retailers are independent entrepreneurs who are entitled to use the K-logo or other chain marketing symbols. In their entrepreneurial capacity, K-retailers are responsible for customer satisfaction and the profitable performance of their stores. The K-retailers' Association's basic function is to develop retailers' entrepreneurial capabilities and their mutual cooperation.

We argue that Kesko forms a good base for conducting a hybrid governance study of a retailing organisation because it contains many different retail chains. To be able to compare presumably different modes of hybrid management, we constructed a comparative case design by selecting three K-based retail chains on the following theoretical grounds. First, the target chains should include together as many different control and coordination mechanisms as possible. Second, they should illustrate the tension between the hierarchical and decentralised control and the related tension between coordination and autonomy of the retail trade. Third, the cases should illustrate the simplicity and complexity of business operations with respect to the scope of product selections, differences between product lines, and amount of net sales. By adopting these criteria, we try to cover the complexity of hybrid governance as comprehensively as possible and include such antecedents that should drive different governance solutions. By keeping the field (retailing) and the corporation constant, we enhance our possibility of tracking down the causal links between exchange characteristics and governance solutions.

In terms of case designs, our solution is a multiple-case study but conducted within a one-case corporation. In Yin's (1994) terminology, it is an embedded multiple-case design, as the cases are studied from multiple viewpoints and levels of analysis. It is also a comparative case design as we try to increase our understanding of the differences in hybrid governance by comparing three theoretically selected retail chains. On the other hand, the cases are also complementary in the sense that together they provide us with a more comprehensive view of hybrid governance (Dubois & Gadde, 2002; Easton, 1995; Eisenhardt, 1989; Yin, 1994).

On the basis of the adopted criteria, three chains, with altogether five subcases in terms of their governance solutions, depicted in Fig. 2, were selected:

– Citymarkets are hypermarkets with an average sales area of 7500 m^2. They include a food section (approx. 2500 m^2) and an extensive nonfood section (approx. 5000 m^2), including clothing, leisure, electronics, and household goods. These sections have different governance solutions. A Citymarket Food is managed by a retailer who has a contractual relationship with Kesko and buys a certain share of their merchandise from Kesko. This case exemplifies market-dominated governance. A Citymarket Nonfood is run by a hired department store manager, working under chain management: this typifies hierarchical governance. At the end of 2000, there were 40 Citymarket hypermarkets and their sales totalled EUR 1210 billion.
– Carrols fast food restaurants have a similar concept to McDonald's or Burger King. At the end of 2000, there were a total of 73 restaurants and their sales amounted to EUR 73 million. Two governance solutions are used: 46 restaurants are run by entrepreneurs under a franchising agreement—this solution illustrates network governance. The remaining 27 restaurants are owned by Kesko and are operated by restaurant managers working under chain management: this represents hierarchical governance.
– Andiamo shoe stores are a chain specialising in footwear. Independent retailers, operating under a contract with Kesko, are responsible for shoe store operations. Andiamo stores characterize market-dominated governance. In 2000, the total sales of the 30 Andiamo stores amounted to EUR 28 million.

The data collection and analysis included systematic combining of previous knowledge, research data, and theoretical information. The most important primary information

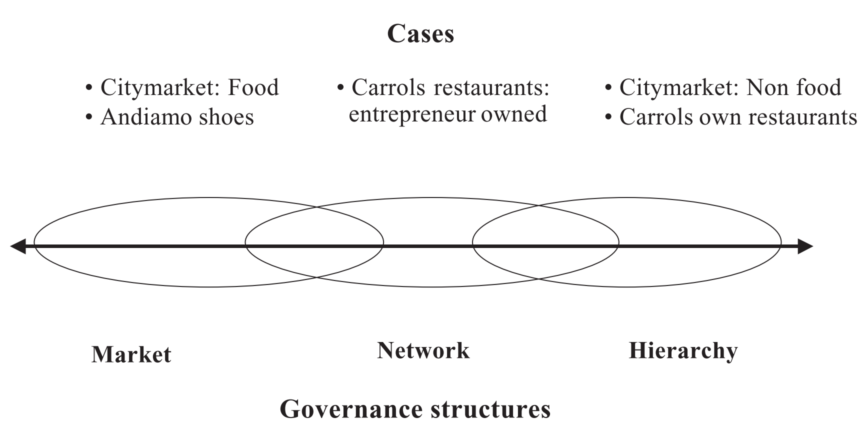

Fig. 2. The research cases. Note: The retail chains are positioned on the "governance mode continuum" on the basis of their formal governance mode within Kesko. This may not present their real governance situation that we try to reveal through the case analysis.

sources were 25 retailer interviews and 25 interviews with members of Kesko personnel. Secondary information sources include various documents about the target company, such as annual reports (Kesko, 2001), articles, books, internal memorandums, and analyses.

4. Hybrid management in retailing

The retail management framework was used in organising the field data. The first aim was to identify the governance mechanisms of hybrid organisation, the main focus being on the chain management and store operation levels. For the purpose of analysis, the governance mechanisms were divided into (a) structural and organisational solutions, (b) management policies and processes, and (c) values, norms, and trust. These were examined at each management level across the three retail chain cases and summarised in matrices. In addition, the perspectives of chain management and retailer, centralised control and coordination and retailer autonomy, and a comparison between each of the three case chains were used in the analysis. Only the main results in a summarised form can be presented in this context.

4.1. Hybrid governance at different management levels

Table 1 summarises the governance mechanisms employed in Kesko at different management levels.

On the corporate management level, the structural and organisational solutions contain mainly hierarchical governance mechanisms including Kesko's and the K-Retailers' Association's juridical structures and organisations in which retailers participate in their capacity as 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. On this level, decisions concern the key business areas and their general trading terms (for instance, chain allowances), the internal accounting interest rates, and the Group's common resources and their allocation (controlling and office administration, finance, and information management). Hierarchical management practices and processes include Kesko's and K-Alliance's chain management system, rewarding principles, and managerial practices, such as budgeting and investments procedures. 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 the general chain management level, the above governance mechanisms are put into practice and applied to the different business lines. Important structural and hierarchical means include the chain and goods trade agreements signed between Kesko and K-retailers and the employment contracts applied to different professions. In accordance with the market mechanism, the chains representing different lines of business compete with each other

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.
Store management level	Formation of store-specific product selection and purchasing, pricing, marketing, customer relationships, and personnel management. Purchasing according to market mechanism.	Budgeting and financial monitoring. Surveys of company image, customer satisfaction and personnel's job satisfaction. Annual reviews with entrepreneurs and personnel. Sanctions and incentives. Chain manuals.	As above, plus internal norms of retailers and Kesko employees. Retailer networks and Kesko personnel networks.

for store locations and investments. Chain agreements control the parties' rights and obligations and determine the organisation, control, and coordination of the operations among the chain management and the retailers. Cooperating 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), plans of store locations, chain portfolios, and rewarding methods. Corporate level governance mechanisms concerning values, norms, and trust include the K-Alliance's basic values, Kesko's ethical and other operating principles, and the K-Retailers' Association's and K-store operators' operating rules. Values emphasize the importance of trusting partners, store concepts, and the K-Association and in fulfilling willingly agreements made between the partners.

The structural and organisational solutions at *the chain management level* concern the development of the chain and the uniformity of its operations. They include the contractual agreements with retailers and the function-specific planning groups formed of K-retailers and members of Kesko's personnel. The K-Retailers' Association's organs involved are the chain executive committees. A chain's hierarchical coordination covers the determination of a common chain product selection, joint marketing, purchases for the common selections, category management, logistics, and concept development. In accordance with the market mechanism, retailers compete with each other for the best store locations, and the store rent is determined accordingly. Kesko also makes the decisions about retailer selection. In the area of managerial policies and processes, important functions include the hierarchical coordination and operational management of the chain operations. Operations are governed with the help of chain-specific retailer meetings combined with such hierarchical mechanisms as manuals, process protocols, and training. Additionally, goal-related chain customer promises, marketing material and planograms, and quality, customer satisfaction, personnel satisfaction, and operational studies are used. Officially, emphasized values and norms were the same as those noted at the corporate management level. Official and unofficial networks formed by Kesko personnel and K-retailers complemented them. Daily activities were in fact greatly influenced by peer-generated values like the maximising of one's own result instead of customer satisfaction. This clashed with official values.

On the store level, all chains are structurally and organisationally very autonomous. Operations are simultaneously governed by a strong market mechanism and by a store-specific hierarchy. Stores compete with each other within the chain and with the stores of other trading groups. The goods trade is primarily based on the 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. The market mechanism is used in the determination of store rents across all chains. Retailers are obliged to price their products themselves; only about 20–30% of products are priced jointly. With regard to managerial policies and processes, personnel management, customer relationships, and use of other competitive tools, such as marketing and category formation, these are the retailer's or the department store manager's responsibility. Exceptions to this are Carrols (fast food chain) and the nonfood departments of the Citymarket hypermarkets, whose operations are more controlled by the chain management. Retailers' activities are largely influenced by their internal norms, which reflect their ideas about an efficient operating system: how to become a successful and prosperous retailer. These norms and values are socially constructed in retailers' informal, but intensive, social networks.

4.2. Chain-specific governance systems and mechanisms

In the management of the *Citymarket Nonfood sections*, the formal hierarchical relationship with the department store managers is supplemented with both formal and informal networks. The former are regionally created management groups headed by a regional manager; the latter are informal but are the influential peer groups of three to five managers. Hierarchical governance mechanisms are mainly applied to profit control, not to behavioural control. Key tools include the chain's joint and store-specific plans and budgets. Annual department store manager conferences are also used. Chain and department store-specific sales and profit information is utilized together with quality, customer satisfaction, and job satisfaction surveys. Each manager has access to all the information, so that he/she can see his own position in the chain. This aims at enhancing the commitment of managers to the attainment of their objectives.

In the management of the *Citymarket retailers*, market and 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. Nor is it possible for Kesko to interfere with mediocre or the "wrong kind" of store level operations, except when the retailer's financial situation is under par. Kesko can exert temporary hierarchical management when there is a change of retailer. Retailers emphasized their purchasing freedom and the "market promotion" funding they received from the suppliers as important sources of their power base. Informal retailer networks play an important role in learning from others and in constructing personal "effective retailer schemas."

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 in the nonfood department: operations are based on the chain's basic positioning, business concept, and annual marketing plan, for which suitable products are purchased. That is, the chain level product selections are centrally determined in advance and the advance purchasing is very important. Also here, the internal retailer networks play a significant role in shaping retailers' behaviour and expectations.

The *Carrols fast food chain* is operated on a franchising basis. The aim is to promote the common interest of the chain management and restaurant managers and franchise entrepreneurs, i.e., to increase sales and maximise the financial result. The traditional price mechanism between wholesaler and retailer is not used. Instead, the purchase price achieved by the chain is the net price for all restaurants. The franchise entrepreneurs and restaurant managers belonging to Carrols meet once a year at a conference. District managers act as coordinators between restaurants and the chain management. In other respects, the same governance mechanisms are used and internal networks have emerged as with the chains discussed above.

5. Discussion

5.1. Control and autonomy

In analysing the efficacy of Kesko's governance system, it became clear that Kesko applied primarily performance-related formal control mechanisms, such as financial goals and objectives, customer promises and other qualitative indicators, and various surveys of achievements and results. Additionally, attempts have been made to use formal or informal values and norms governing behaviour. On the store level, in particular, informal retailers' internal norms had a very strong influence on the governance and control of operations. Fig. 3 illustrates the spread of governance mechanisms used.

From the efficacy perspective, Kesko's hybrid organisation highlighted, in accordance with the Quinn and Rohrbaugh (1983) multidimensional model (internal vs. external perspective, stability vs. flexibility perspective, and objectives vs. means perspective), the attainment of internal efficiency and control through an internal process model. This was pursued by means of a uniform management system, operating processes, and hierarchical decision-making and execution organisations. These mechanisms tend to preserve the present status and are biased towards stability rather than facilitating innovation or enhancing flexibility. In sum, they increase internal efficiency but do not support external adaptation.

The control and coordination mechanisms in use were partly compensatory and overlapping. For example, the norms acted not only as informal social means of control but also as formal controls controlling the targeted behaviour. The different forms of control were also partly conflicting. For example, although attempts were made to increase internal efficiency through formal plans and processes, they at the same time complicated external effectiveness by preventing the birth of creative situation-specific solutions. Fig. 3 and Table 1 also show that the K-Alliance was simultaneously using informal (e.g., values, norms, self-control, and social control of the community), formal (e.g., financial control of investments, wages, and salaries), and system controls (operating systems, goals, and targets).

Despite the emphasis on internal efficiency, informal but powerful retailer-specific operating models were typical in

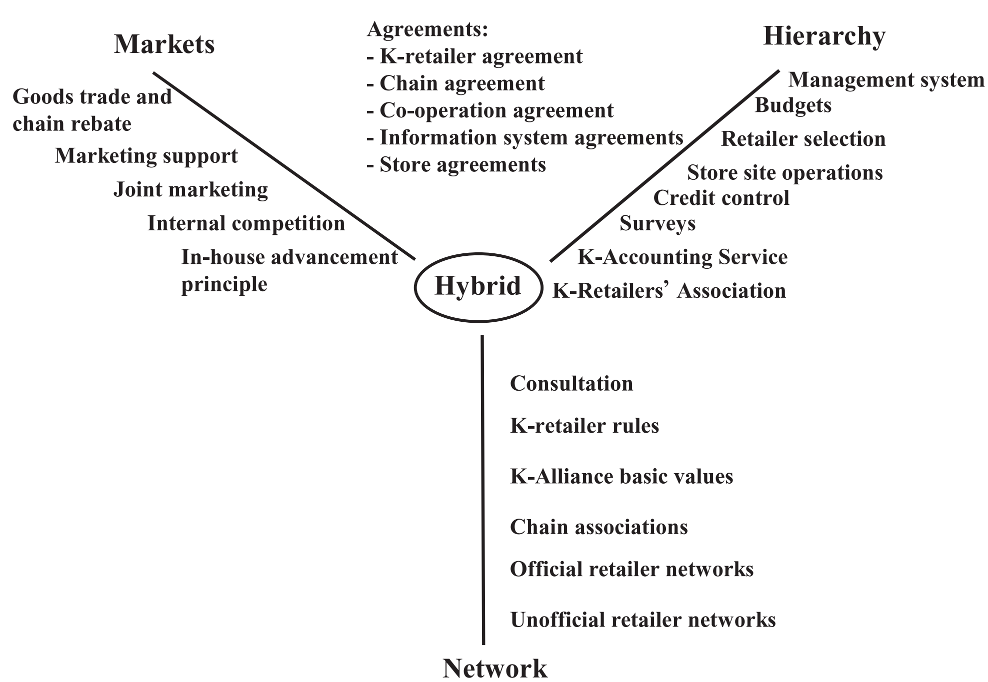

Fig. 3. Governance mechanisms of a retail hybrid organisation. Note: The practical governance mechanisms identified are positioned along the best matching basic governance dimensions. Agreements are seen as located between markets and hierarchies.

food retailing (Citymarket-hyperstores). These—individual store specific "purchasing rebates" and "marketing funding" from the suppliers—favoured retailer's profit maximisation but disturbed the adoption of standardised chain systems. This was one of the major factors creating tension in the system.

5.2. Tension in hybrid organisations

Tension may occur on four different domains in a hybrid organisation (Campbell, 1977; Grandori, 1996, 1997; Scott, 1961/2001), in the governance structure and mechanism domains, on the player domain, and on the activity domain. Governance structure tension occurs if parties understand the basic business logic and the players' roles differently. Tension in the governance mechanism domain is due to a contradiction experienced by the parties with respect to the governance mechanisms adopted or the ones that are available. On the player domain, tensions may exist between individuals and organisations related to responsibility or authority. Tensions in activities relate to the division of duties, responsibilities, or authority. Whether the outcome of tensions is positive or negative depends on their solution.

Governance structure domain tension has been high within the K-Alliance three times, when the division of duties inside the Alliance has been changed in a radical manner. During those periods, the interests of Kesko and K-retailers have seemed to be irreconcilably conflicting. Basically, these tensions have been about the conflict between independent entrepreneurship and enhancement of centralised control and about disagreement on the division of financial results. 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 Group financial result and costs.

Player domain tensions are manifested in differences between interests and in questions about functions, responsibilities, and authority. The players' several parallel roles, positions, and available resources or their allocation were typical causes of tension. Player tensions culminated between the players' freedom of operation and independent decision-making and the chain management's or superiors' exercise of power.

Activity domain tensions typically focused on organisation and the division of duties. This type of tension was manifest between uniformity and store specificity, standardised and ad hoc practices, and between retailer's independence or self-control and centralised coordination. Tension also occurred between formal and official rules and values and informal ones.

5.3. Strengths and limitations of hybrid governance

Due to the internationalisation of the competitive environment for Finnish trade in the 1990s, operating conditions for trading companies changed rapidly. Chains based on trade-specific operations and on wholesale and retail market relationships lost their competitiveness to centrally managed chains integrated under one owner. This change highlighted the control problem related to hybrid organisations. Our results support Williamson's (1991) proposal that a hybrid system is best suited to operations and organisations, which simultaneously require good incentives, adaptation, and control properties. On the other hand, it seems that a hybrid system faces difficulties when the business environment is characterised by high uncertainty and disturbances. A hybrid system may adapt too slowly if the adaptations require the approval of all the parties involved.

This is exactly the case in the K-Alliance where small changes can be implemented rapidly, but major changes have to gain the approval of practically everybody, in other words, Kesko and the majority of its 1500 retailers. Radical changes can be implemented only if positive examples can be shown to the retailers. A hybrid model seems not to function well in situations requiring fast and efficient coordination compared to a market mechanism and hierarchical governance. If uncertainty is related to a variety of different underlying change factors, the governance properties of a hybrid improve, as it has a greater variety of adaptation mechanisms than a hierarchy or markets.

The coordination of internal competition and cooperation proved very demanding. Internal competition aims at market-driven adaptation and success, whereas cooperation is used to establish rules and to improve internal efficiency. Internal competition is also used to find the best individuals as retailers and potential managers in Kesko. If the hybrid has no internal commonly accepted behavioural norms, a market competition resembling a zero sum game seems to ensue.

For a hybrid organisation, where some players are entrepreneurs and some employees, it is very important to establish an efficient cooperation system and a shared value base. This means systems for both strategic planning and management and operations. Retailer- and entrepreneur-based hybrids seem particularly sensitive to interest conflicts. Internal networks, generally invisible to outsiders, are very important sources of learning and peer acceptance for retailers. If these informal norms clash with formal control mechanisms, retailers' group solidarity produces severe conflicts in the hybrid system. This phenomenon requires close attention in constructing any hybrid organisation.

6. Managerial conclusions

Control and management of a hybrid organisation is demanding, and success therein requires a comprehensive understanding of overlapping governance mechanisms. In a hybrid organisation, it is necessary to establish and combine well-organised structures, management policies, control and coordination mechanisms of independent flexibility and centralised operations, and the values and norms supporting these. We believe that the attainment of these goals can be improved with the help of the following suggestions.

6.1. Managerial systems and structural solutions

Increasing the organisation's flexibility and its internal efficiency and external effectiveness are the cornerstones of competitiveness, which must be improved simultaneously. An organisation is able to improve adaptation and innovation with the help of balanced principles, operating models, rules, and behaviour. Performance control must not focus on traditional financial figures only; it must also take a broader set of qualitative and culturally based indicators into consideration. A successful system based on hybrid governance requires the players' areas of cooperation and autonomy to be determined.

Efficient operation of a hybrid requires a clear cooperation system. On the one hand, a hybrid organisation must have a well-organised hierarchical structure with support bodies and exchange of information and on the other hand an unofficial communication and meetings infrastructure where issues can be discussed and prepared before they are made official. These mechanisms make it possible to exchange information and develop innovations as well as relieve latent and actual tensions and differences of opinion, unavoidable in hybrid organisations, in an efficient and controlled manner. Regular development discussions with entrepreneurs are an efficient tool for sharing information, knowledge, and innovations.

6.2. Processes

A governance system must form an integrated entity where, in addition to structures and policies, suitable processes, indicators, values, and norms are taken into consideration. Unambiguous operating processes, division of duties, and performance indicators are necessary elements of a governance structure. Additionally, efficient operations require that official norms and rules as well as unofficial internal norms and related success models are specified. Values and norms guiding operations should be established and maintained in a transparent and cooperative manner rather than spontaneously.

Entrepreneur-run retail operations require efficient development of store type concepts under the direct control of chain management. The purpose of wholly owned units is to test operations and develop them on a continuous basis, to increase competence, and to control operations at a store, restaurant, and chain level. Since the retailers pay for using a store/marketing concept, they want to be sure that the concept works, requiring the chain management to test the market validity and operational functioning of concepts.

6.3. Cultural values and norm solutions

It seems that hybrids should have a special managerial relationship between the parties, the chain management, and the retailers/entrepreneurs, which is clearly different from ownership or customer relationships. The chain management must understand their role in a broad way. It is not only about the hierarchical implementation of decision-making, control, and sanction rights given by agreements or treating retailers as customers. It is rather about capitalising on the mental leadership to be gained through receptivity and voluntarism and about building partnerships with the help of values, trust, and respect for others. Establishing this kind of management relationship requires discipline and consistency from the management in order that knowledge can be cocreated and shared, competencies and best practices refined, and conflicts handled in a constructive manner.

This managerial approach requires "value-based management" of the network, because prices, trading, or formal authority alone seemingly cannot govern operations. In the cases studied, the success of value-based management requires that the parties develop and accept, consciously or unconsciously, operational and norm-based rules and mutual trust. In the establishment of the managerial relationship, the role of common interests and their adoption on both the store and the chain management level is essential. If no common interests exist, or the players' self interests are dominant, overall management is very difficult, if not impossible. If the pursuit of own interests with local rationality and short-term orientation becomes predominant, the hybrid is taken over by the short-sighted pursuit of single player profit.

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