

Dr. Philip Marcel Karré (Amsterdam University of Applied Sciences, p.m.karre@hva.nl)

Prof. dr. Cor van Montfort (Tilburg University, c.j.vanmontfort@uvt.nl)

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Hybrids and hybridization in public management and organizations

The (non-)credible hybrid:

A model to analyse hybrid organizations and to discuss their credibility

1. Purpose and contribution to research

Hybrid organizations that mix characteristics of agency and enterprise (Dahl & Lindblom 1953) play a prominent role in the debate on how governments can realign themselves with society at large and address the financial and economic crisis. This discussion is rather polarized: some see hybridity as a way out of the crisis and point to its long history and arguably success story in many European countries, where the modern welfare state could not function without organizations spanning sector boundaries. In this view, hybrid organizations create synergy and innovation by bringing state, market and society together, which leads to several benefits, such as a more effective and efficient public service provision. Besides creating financial savings, hybridity is also understood to enable and facilitate collaboration between government, businesses and citizens by breaking down boundaries and by enabling creative approaches to societal problems.

Others claim that hybridity is one of the main reasons for the recent crisis - after all, FannyMae and FreddyMac were hybrids too (Koppell 2003) – and that rather than bringing state, businesses and citizens closer together, it drives them apart. These critics lament the inherent weaknesses of hybrid organizations, as they, as for example the *Economist* (Dec. 3, 2009) put it, “*are inherently confused organisations, buffeted by all sorts of contradictory pressures. This means that their internal operations can be hard to understand and their behaviour difficult to predict.*” This not only makes control and accountability an issue but also means that hybrid organizations are often perceived by citizens and politicians alike as neither fish nor flesh.

The combination of fierce criticism and grand expectations make hybrid organizations a fascinating subject for research to examine what exactly their role could be in a world of government-society collaboration due to scarce resources. However, even though many a European country has a rich and long tradition of mixing public and private, there is not yet wealth of literature on the subject. Also, the texts that are available tend to be, *“sparsely spread across many academic disciplines over several decades”* (Billis 2010, p.55). In our opinion this is a major deficiency in the debate, as it, to again speak with Billis (2010, p.46), means that *“we have stumbled into a period of intense organizational hybridity in which we appear to be drifting up the (welfare hybrid) creek not only without a paddle, but also without a reliable map.”*

The purpose of our paper is to address this lacuna by presenting a multi-dimensional model of a hybrid organization. We show how this model can not only be used as a descriptive but also as an analytical tool, by linking it to the possible positive and negative effects ascribed to hybridity by its advocates and critics. Tensions not only arise because an organization is hybrid on one dimension but also due to contradictory or reinforcing scores on different dimensions. In the full paper, we will illustrate this by using our model to describe findings of research of several hybrid organizations, based on several in-depth case studies (Algemene Rekenkamer, 2005; Karré, 2011; Brandsen & Karré, 2011). In discussing the conclusions of this research, we will ask what the effects of hybridity are not only to an organization's legitimacy but also its credibility, as the loss of the latter is an urgent problem in the Netherlands, where public and political opinion has lately grown weary and very critical of hybrid organizations. We conclude the paper by discussing several possible ways for how they can deal with this development, based on Mark Moore's (1995) theories on public value management.

2. Main findings and contributions

Through developments such as the rise of New Public Management and New Public Governance, the borders between state, market and society have eroded. There now is a plethora of hybrid organizations on the continuum between the agency and the enterprise, which mix public and private on a variety of dimensions (Dahl & Lindblom 1953; Fottler 1981, Wamsley & Zald 1973; Perry & H. G. Rainey 1988; Bozeman 1987; van Thiel 2000;

Evers et al. 2002), which can (for clarity's sake) be clustered into three groups: (1) structure and activities, (2) values and strategy and (3) governance and politics (Karré, 2011).

- *Structure and activities:* The hybrid organizations that are the result of New Public Management and the switch from government to governance can have various owners and legal forms, both public and private. They do not only provide services for their political overlords anymore, but also for private companies and individual citizens. By doing so they mix different streams of funding, combining governmental appropriations with income generated on the market place. They do not only operate in one context or market environment but in several, which means that they have to deal with increased dynamics: they are no longer monopolists but have to compete with others for contracts. As market players they are also subject to more rules and regulations, not only from local, national governments but also from Europe.
- *Values and strategy:* Because of their hybridity, organizations providing public services have to combine different sets of values. They have to behave like commercial companies and learn how to be competitive, show initiative and enterprise, value innovation and efficiency. Simultaneously they still have to adhere to the traditional values of the public sector, by embracing tradition, obedience and hierarchy, by being disciplined and loyal and by attaching special value to expert knowledge. Hybridity also asks of organizations to combine functioning in politico-administrative contexts with being competitive and with cooperating easily with other societal actors in the multi-level world of governance.
- *Governance and politics:* Finally, hybrid organizations providing public services also have to combine different and contradictory forms of management: traditional public sector management, with the need to find political approval for every decision, and New Public Management, with a focus on managerial and executive autonomy. Interlaced with both is the need for Public Value Management, which is aimed at creating value for society.

There already are several theories on how hybridity effects an organization's economic and financial position, performance, culture and governance on these dimensions (see Karré, 2011, chap. 3 for an overview of these theories and references):

- *Economic effects:* Hybridity can benefit an organization's financial and economic position by for example getting access to new markets and new ways of funding. In a time of financial crisis, this can help boost an organization's credibility as it shows that it is willing to generate new incomes on the market place to substitute for a decrease in governmental appropriations, as long as this is done with the ultimate goal to keep up the quality of the public services. Hybridity can pose a danger to an organization's credibility when this substitution of public with private funds is achieved through various forms of unfair competition, such as risky investments with public money. Then a picture might arise of an organization that does not have public service provision at the heart of its activities but that is using its privileged position to play shop while seriously obstructing other companies.
- *Performance related effects:* Hybridity can also have a positive effect on an organization's performance, as it can serve as an incentive to increase efficiency and effectiveness through the embrace of market-type mechanisms, such as new ways of funding focused on outputs rather than on inputs. Again, this can be seen as a boost to the organization's credibility, as it can now provide "value for money" for a society that increasingly does not make a distinction between goods and services being delivered by private, commercial companies or the public sector: both have to be provided in a timely, efficient and effective fashion. But also the positive performance-related effects of hybridity on an organization's credibility can have another, more negative side. A focus on efficiency and effectiveness can also lead to a situation in which only those services that have been paid for are delivered and others, which cannot be translated into measurable outputs but are nonetheless essential (such as a friendly chat between service providers and elderly people in home and personal care) are cut away. Such behaviour can seriously damage an organization's credibility as it is now perceived to be focused less on delivering public services than on making a quick buck. This negative image can be further reinforced should an organization (at least in the eyes of the public) neglect its public tasks in favour of commercial activities, especially if those promise more or easier profits.
- *Cultural effects:* The traditional bureaucratic values of the agency often seem to be at odds with the call for efficient and effective public services. Nowadays, citizens rather see themselves as customers of public services than as subjects of their government. Hybridity can strengthen an organization's credibility when it manages to combine the best of both worlds by bringing the most prominent values of the public and the

private sector together. This helps make public sector organizations more customer-oriented, while they remain rooted in the cultural traditions of the public sector. But introducing market values into public service provision can also have detrimental effects on an organization's credibility, when market values clash with public sector values. This seems to be a real danger, as private sector values are commonly seen as stronger than public sector values, since they are based on individual self-interests rather than on altruism. Introducing market values can also undermine the credibility of the organization's management in the eyes of its staff, especially when introducing market values goes hand in hand with attracting new employees with a commercial background as vanguards of the organization's new culture, and generally earn more than its veteran staff.

- *Governance related effects:* Hybridity can positively influence an organization's credibility by bringing its relationship with its political overlords and, via these representatives, with society as a whole, on a new, more business-like and therefore more transparent footing. Generally, this means switching from hierarchical management to service levels written down and agreed upon in a contract, which is open to public scrutiny. But putting an organization at arm's length and allowing it to enter the market place, can also prompt to it develop an own identity and opportunistic behaviour. A hybrid organizations that is perceived to focus on its own interests, not only becomes a less dependable partner for its political principals in the provision of public services , but will also lose much of its credibility among citizens.

Not all hybrid organizations are subject to all these effects. Organizations whose hybrid character is chiefly due to their structure and activities, mainly have to deal with hybridity's economic and performance related effects. Those that are hybrid because of their values and organizational culture have to see to hybridity's cultural effects. And those organizations that mix traditional public sector management with New Public Management and other market-type mechanisms, are faced with effects on their governance, or (in other words) on their relationship with their political overlords.

Also, the ten dimensions of this model should not only be examined independently, as scores on different dimensions can either reinforce or contradict each other. For example, an organization that conducts rather a lot of commercial activities next to its public ones but still is located rather close to politics itself (eg. as part of a local government bureaucracy) might

cause government problems with the competition authority, as this can be construed as market distortion. Other possible tensions due to a mismatch of scores, arise in organizations in which management has chosen for a more commercial strategy but has neglected to take into account whether the organization's employees already have embraced more market-like values. This can lead to a clash of values. However, in a case where the management of the organization and its staff embrace the same values, this could act as a catalyst for the organization's economic success.

3. Discussion: Coping strategies

We stated in the introduction to this paper that hybridity can undermine an organization's credibility. We illustrated this point by linking hybridity's effects to this issue and concluded that, since a hybrid organization has to play several roles simultaneously and is subject to often contradictory pressures and expectations, it is never clear from the outset in which guise it confronts us at any given time. Is a publicly funded university a public organization, even when it is selling educational programmes on the market place? Or is it a commercial company, that happens to have government as one of its clients? Where should that line be drawn, when both public and commercial activities take place in the same building at the same time and involve the same staff?

Based on our observations in several case studies, which will feature more prominently in the full paper, we draw several lessons for how a hybrid organization can uphold its credibility in the eyes of politicians and citizens. In doing so, we use Moore's strategic triangle as a framework. Moore states that in order to operate satisfactorily, every organization in the public domain has to be clear about how it defines public value, how it legitimizes its operations and which operational setting will help it achieve its promises:

1. *Performance*: as any other organization, a hybrid organization has to perform well. If it does not do so for a longer period, it loses its credibility in the eyes of its stakeholders.
2. *Openness*: a hybrid organization has to be very clear about its achievements for each stakeholder group. Because hybrids have to serve a wide variety of public and private stakeholders they have considerably more explaining to do about their strategic choices, performances and considerations than single purpose public task

organizations. A lack of openness will sooner or later reduce the organization's credibility in the eyes of the uninformed stakeholders.

3. *Relational*: related to both former preconditions is the one that hybrid organizations must invest in communication and relations with their stakeholders. They do not only have to explain what they are doing and why but also have to invest in a fruitful relationship with their stakeholders.
4. *Responsiveness*: being responsive to the needs and wishes of its public and private stakeholders is extremely important for the long term credibility of any hybrid organization. If it does not take the signals into account it gets from its stakeholders, its credibility will disappear.
5. *Practice what you preach*: Hybrid organizations often claim that they are responsible social entrepreneurship and also claim to create public value. But in many cases their practical behaviour and performance do not meet the high expectations created by their words. Therefore practice what you preach is also a very important precondition for credibility.
6. *Management of expectations*: Hybrid organizations often create high expectations among the public, for example that their public entrepreneurship will lead to innovation, improved public service, cost efficiency etc. But the real world often seems to be more recalcitrant and the promised results are often not achieved. An active management of expectations is crucial for a long term and sustainable credibility.
7. *Autonomy and responsibility*: In order to really combine the best of both worlds (the public and the private sector), hybrid organizations need autonomy, responsibility and freedom to act. The concept of hybridity and public entrepreneurship will lose credibility on the one hand if the hybrids do not have enough freedom to act but also if they use their freedom to act in a wrong way.

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