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the essence of knowledge
Boston — Delft

Annals of Corporate Governance

Published, sold and distributed by:
now Publishers Inc.
PO Box 1024
Hanover, MA 02339
United States
Tel. +1-781-985-4510
www.nowpublishers.com
sales@nowpublishers.com

Outside North America:
now Publishers Inc.
PO Box 179
2600 AD Delft
The Netherlands
Tel. +31-6-51115274

The preferred citation for this publication is

J. J. Reuer and E. Klijn. *Governance of Hybrid Organizations*. Annals of Corporate Governance, vol. 3, no. 1, pp. 1–81, 2018.

ISBN: 978-1-68083-307-2

Annals of Corporate Governance

Volume 3, Issue 1, 2018

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Annals of Corporate Governance, 2018, Volume 3, 4 issues. ISSN paper version 2381-6724. ISSN online version 2381-6732. Also available as a combined paper and online subscription.

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ABSTRACT

The last few decades have witnessed significant changes in corporate governance practices by organizations that aim to improve the credibility and accountability of corporate boards of directors. In parallel with these developments in practice, academic understanding of the composition, function and value of corporate boards has been enhanced in the fields of law, corporate finance and management. However, it is striking that these theoretical advances have not yet been extended to other types of organizations, such as collaborative agreements, despite their overall economic importance as well as their comparable as well as unique governance needs. In fact, corporate governance theory and alliance governance research have largely developed independently from one another and remain separate literatures. The purpose of this essay, therefore, is to identify and develop some bridges between the two large literatures by considering the similarities and differences between hybrids and traditional corporations as organizational forms and by explicating some of the implications for the governance of collaborative agreements. We begin to trace out some new possibilities for a research agenda that would cross-pollinate the disparate streams of research on corporate governance and alliance governance.

Jeffrey J. Reuer and Elko Klijn (2018), "Governance of Hybrid Organizations", Annals of Corporate Governance: Vol. 3, No. 1, pp 1–81. DOI: 10.1561/109.00000008.

1

Introduction

1.1 Corporate governance in hybrid organizations

Over the last few decades the corporate governance landscape has changed considerably. These changes have been the result of numerous calls for reforms by shareholder activists, institutional investors, as well as governmental bodies, all with the intention of enhancing the transparency and credibility of governance practices (Denis and McConnel, 2003; Monks and Minow, 2008). The corporate governance reforms that have occurred over the years can be broadly classified in two domains, namely restructuring in the internal governance mechanisms of organizations and transitions in external governance pressures (Shleifer and Vishny, 1997; Gillian and Starks, 1998; Gillan, 2006). Internal mechanisms broadly include an effectively structured board, compensation contracts for employees or directors that work to align the interests between them and shareholders, as well as ownership stakes held by directors to enhance monitoring quality (Daily *et al.*, 2003). Changes have also been imposed by those outside the organization such as governments, financial institutions, and regulators by means of new guidelines and laws.

There is widespread recognition that corporate governance mechanisms within organizations have the potential to substantially affect shareholder value (Bebchuk *et al.*, 2009). This recognition has spurred public as well as scholarly interest in corporate governance. For example, associations of CEOs (e.g., the National Association of Corporate Directors; Business Roundtable), lawyers (e.g., the American Law Institute), executive search firms (e.g., Korn/ Ferry International), and governmental organizations (e.g., Securities and Exchange Commission (SEC), European Union) have developed specific sets of guidelines on the responsibilities of organizations as well as directors for information disclosures and governance practices. Sets of guidelines are drawn on directors' responsibilities in an attempt to develop and codify best practices. At the same time, these developments in the public policy sphere have been mirrored by a burgeoning literature in finance, management and law on corporate governance. Research on the structural design, functions, involvement, and performance implications of corporate boards of directors is extensive and continues to expand at a remarkable pace (Shleifer and Vishny, 1997; Dalton *et al.*, 1998; Daily *et al.*, 2003; Hillman and Dalziel, 2003; Hambrick *et al.*, 2008; Krause *et al.*, 2014).

Despite the fact that significant contributions have been made over the years, there still remain a number of limitations in the corporate governance domain and a number of important research gaps. First, some have suggested that research has predominantly been theory testing and has not developed as many new predictive insights. Daily *et al.* (2003: 371) observe: "we now know where *not* to look for relationships attendant with corporate governance structures and mechanisms, perhaps even more so than we know *where to* look for such relationships." Existing corporate governance research has primarily studied the composition and performance implications of corporate boards, and insufficient attention has been dedicated to other organizational forms (e.g., Krause *et al.*, 2014), which is the point of departure for our analysis. Opportunities therefore exist to apply and translate corporate governance research that has primarily focused on corporations to other organizational forms. Our objective is therefore to bring corporate governance research to hybrid organizations, thereby opening up new avenues for research and ultimately practice and policy. Despite the fact that these two streams themselves attract a substantial share of research attention in strategy and management as well as related disciplines, it is remarkable that these large literatures have developed as independently from another as they have.

1.2 The value of studying governance of hybrid organizations

The natural question that first arises, then, is why have scholars not yet seriously studied boards and other aspects of "corporate" governance in the context of hybrid organizational forms? We believe that there are a number of reasons for this gap in the literature. For example, among scholars there exists a general perception that organizations are unwilling to provide access to their boards and executives, especially during closed-door discussions. Another practical reality is the fact that secondary data on corporate boards of stock listed organizations are more readily available compared to secondary data on other organizational forms (Krause *et al.*, 2014). The outcome is that most governance research has investigated the practices of corporations and has relied heavily upon such data. The downside of this research approach, however, is that it still remains largely unknown what directors actually do in practice (Daily *et al.*, 2003), or how their capabilities affect the way they undertake their roles on boards (Forbes and Milliken, 1999; Hambrick *et al.*, 2015). As we will explain, given the governance requirements and unique features of hybrid organizations, it is important to understand the roles and value of directors and other governance arrangements in this new context. Moreover, practical research by the consulting firm McKinsey has shown that standards vary widely across hybrid organizations and that governance in these collaborations is often informal. In particular they posit that "[c]orporate governance has become a top priority for executives of public companies. Yet too few of them have raised the bar for governing joint ventures, whose financial-management systems, most executives tell us, just aren't as good as those of wholly-owned businesses" (Bamford and Ernst, 2005, p. 63). In a separate study, Bamford *et al.* (2004) observe:

> In the wake of Sarbanes-Oxley, companies have increased their attention to transparency, risk management, disclosure, and performance management in their wholly-owned

> businesses. But our research shows that companies don't evaluate the performance of their JVs as diligently as they do their wholly owned businesses with equivalent assets. That's a mistake; parents need to treat their ventures and their wholly owned units similarly. This means, for large joint ventures, putting in place an audit process like the ones used at the best public companies (p. 96).

These initial conclusions reveal the importance of studying the governance of hybrid organizations in more detail in order to deliver guidance to practitioners on how to structure these collaborations more formally and systematically. The authors go on to call for the adoption of corporate governance practices in hybrid organizations (e.g., more extensive usage of outside directors), and this raises important questions such as how and when firms might do so, what gains might be achieved, and whether there are downsides to adopting corporate governance practices lock, stock, and barrel in the context of hybrid organizations. Indeed, we will demonstrate how hybrid organizational forms have unique features that imply that the governance practices suitable for corporations might not be appropriate for some collaborations. A contingency approach is ultimately needed, we believe, so scholars and practitioners need to contend with the unique characteristics as well as governance opportunities and limitations for specific hybrids.

Despite the differences that exist in the realm of alliance governance and corporate governance, some fundamental similarities exist between corporations and other organizational forms that offer a basis for beginning to join the respective literatures, however. For instance, shareholders of hybrid organizations just as those of conventional corporations are interested in protecting their investments. The board of directors - as well as alternative governance arrangements such as the contracts that support collaborations - help partner firms curb opportunism and provide solutions to the appropriation of value and the resolution of conflicts (Gulati and Singh, 1998; Wang and Zajac, 2007). The agency problem that occurs within organizations (e.g., Fama and Jensen, 1983; Shleifer and Vishny, 1997) can also crop up in these classes of organizations, and principals can craft mechanism to reduce agency problems. In terms of intellectual heritage, the two fields draw upon a set of common theories in organizational economics and organization theory. Finally, they both consider the ways that different governance solutions might complement or substitute one another (e.g., Agrawal and Knoeber, 1996; Coles *et al.*, 2001; Poppo and Zenger, 2002; Ryall and Sampson, 2009).

In summary, while interesting differences in governance exist across corporations and other organizational forms, the research on corporate governance and alliance governance have been dealing with a set of similar, if far from identical, issues. Thus, there are attractive prospects for extending insights from corporate governance research into the alliance domain while being sensitive to interesting and important domain translation issues that call for new theorizing that would take seriously some of the unique features of collaborative agreements. To provide necessary background information, we first consider how research on collaborative agreements has approached governance over the years. This enables us to be in a position to begin to develop a research agenda for "corporate" governance in hybrid organizations.

1.3 Generations of alliance research: a historical perspective

The term "hybrid organization" has been used interchangeably in several streams of research ranging from public policy to economics. For instance, hybridity can apply to organizational purposes (e.g., social entrepreneurship, public-private partnerships, etc.). We conceptualize hybrid organizations as forms of economic organization that are intermediate to pure market-based transactions on the one hand and exchanges occurring within organizations on the other (Williamson, 1991). Hybrid organizations can differ in their governance given that some collaborations have more elements of pure market transactions versus organizational hierarchies embedded in them than others (i.e., strategic alliances versus joint ventures). Throughout, we use the terms hybrid organizations and strategic alliances interchangeably, whereas "joint ventures" are a particular form of strategic alliances where two or more partners share equity in a separate legal organization.

Governance of hybrid organizations refers to ways of monitoring and incentivizing these kind of exchanges with the aim of promoting efficiency, while at the same time protecting partners from the interests of the other organization(s) involved. As we will discuss, in some types of collaboration (e.g., joint ventures, in which two (or more) parent organizations share equity in a separate business entity) a board of directors is in place to do so, whereas in other types of alliances (i.e., non-equity alliances) partners use other governance instruments to monitor and incentivize partner behaviour (such as alliance committees, contracts, etc.).

Alliance governance research suggests that parent firms make three, clearly demarcated governance decisions that become more specific and detailed at each consecutive level. It is interesting to observe that that the evolution of alliance governance research over the years can be categorized in three generations of research that broadly parallel each of these three decisions. Figure 1.1 depicts each generation of alliance governance research, as well as highlights the core challenges that are associated with each generation of research. First, organizations need to make an informed decision about the usefulness of hybrid organizations over other alternative arrangements with different governance properties (e.g., organic growth, arms-length contracting, acquisitions) (i.e., *alliance investment decisions*). Second, in the case that partners decide to collaborate they need to decide on the type of hybrid organization that can range from more hierarchy-like equity based arrangements (e.g., joint ventures) to more market-like non-equity arrangements (e.g., research contracts) (i.e., *alliance type decisions*). Finally, partners need to decide on more 'fine-grained' aspects of governance such as control rights, pay-off distribution, allocation of seats on the board or committee, number of directors or committee members on them, etc.) (i.e., *alliance design decisions*).

While scholars have been referring to the board of directors in several ways throughout the development of the alliance literature, very little systematic research has been done on this internal governance mechanisms in joint ventures (e.g., Kumar and Seth, 1998; Reuer *et al.*, 2014) or steering committees in non-equity alliances (Reuer and Devarakonda, 2016). We therefore believe that a fourth generation of

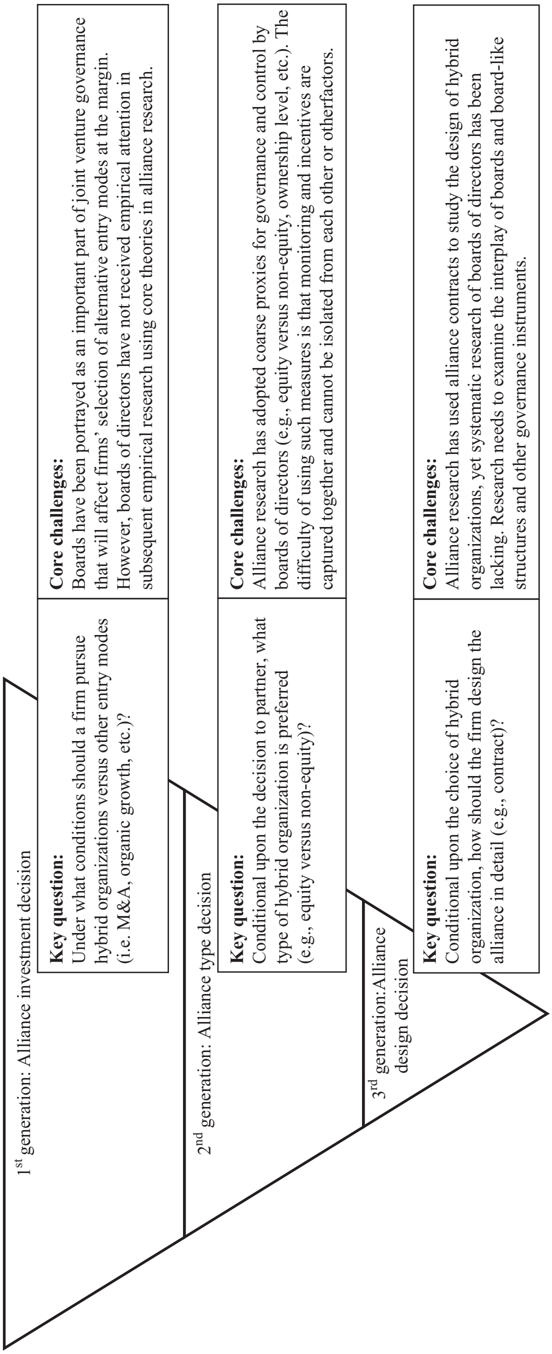

Figure 1.1: Generations of alliance governance research

alliance governance research is called for to better understand how hybrid organizations employ boards and other supporting governance mechanisms (Reuer *et al.*, 2011). We explain each generation of alliance research in more detail below.

1.3.1 First generation of alliance governance research: Alliance investment decisions

In a first attempt to understand the unique governance properties of hybrid organizations, alliance scholars routinely used acquisitions as a baseline for evaluating the appropriateness of collaborating. Given that strategic alliances are positioned in between market-based transacting on the one hand and internal organization on the other hand, alliance governance research focused on conditions under which full equity control (i.e. acquisitions) would be less efficient compared to joint ventures and other types of alliances (e.g., Kogut and Singh, 1988; Hennart and Reddy, 1997; Wang and Zajac, 2007). While research in this first generation of alliance governance research used multiple theoretical lenses in order to understand conditions when firms prefer hybrid organizations compared to acquisitions such as the resource based view (e.g., Wang and Zajac, 2007) or information economics (e.g., Balakrishnan and Koza, 1993), transaction costs economics was often employed and was valuable in insisting upon comparative organizational analysis (e.g., Hennart, 1988; Hennart and Reddy, 1997; Yin and Shanley, 2008). Although alliances themselves present firms with certain risks and inefficiencies (e.g., hold-up, misappropriation of technology, etc.), they can be useful when acquisitions are inefficient for various reasons. In identifying the core governance features of alliances in this manner, the theory of alliances evolved to become to a large extent a theory of acquisition failure. For instance, acquisitions would be less efficient compared to joint ventures when cultural integration and management costs would be significant (e.g., Kogut and Singh, 1988), when acquired assets are inalienable (Hennart and Reddy, 1997), when information asymmetries exist concerning the quality of the target's resources and prospects (e.g., Balakrishnan and Koza, 1993), or when sunk costs and uncertainty are large (e.g., Kogut, 1991; Folta, 1998; Yin and Shanley, 2008).

This first generation of alliance governance research had already started to acknowledge the importance of boards as a central features of joint ventures. For instance, Balakrishnan and Koza (1993) suggest that boards enhance information sharing so a firm can better understand a partner's resources and prospects before completing an acquisition. More specifically, the formation of joint ventures over acquisitions can avoid a terminal sale in the presence of information asymmetries, enabling a firm the possibility of obtaining first-hand experience with the target's resources and capabilities, which a board can facilitate. Others argue that boards can curb moral hazard by partners and risks such as knowledge misappropriation (Inkpen and Curall, 2004; Oxley and Sampson, 2004; Reuer *et al.*, 2011).

1.3.2 Second generation of alliance governance research: Alliance type decisions

The second generation of alliance governance research is concerned with firms' decisions to choose between different kinds of hybrid organization. Firms possess the opportunity to decide upon a broad range of different types alliances, and this generation of research is concerned with the conditions upon which firm select an appropriate mode of collaboration. Hybrid organizations can range from a relatively 'simple' contract to more hierarchical forms of organization such as equity joint ventures. Each discrete governance structure has advantages and disadvantages. For instance, compared to non-equity alliances, participating in joint ventures involves shared ownership as well as joint control via a board of directors overseeing a separate business (e.g., Pisano, 1989; Oxley, 1997). The formation of equity-based structures also serves to align the incentives of partners to help curb opportunism (Williamson, 1991). At the same time, such structures are costly and inefficient especially when a collaboration can be organized by a simpler method such as through a contractual, or non-equity strategic alliance. Minority equity investments are also a type of equity alliance, but this form of hybrid organization does not entail the establishment of a separate business entity. In this organizational form, a parent firm owns a fraction of another firm in its entirety and can have a seat on the parent firm's board of directors with or without voting rights (e.g., Robinson and Stuart, 2007). In line with the third generation of alliance governance research, research that falls within this second generation has primarily used a TCE lens which tends to be contrary to the first generation that has been approached from various other theoretical angles such as information economics and real options theory.

The board of directors clearly serves a more prominent role in this stream compared to the first generation of alliance research, however the broad proxies (i.e., equity versus nonequity decisions) used in this literature limit the possibility of drawing direct or accurate inferences about the monitoring role or other functions that boards of directors undertake. Equity based joint ventures simultaneously possess other features including incentive alignment through shared ownership and a separate business, for instance. Moreover, scholars have often assumed that the equity distribution mirrors the representation on boards (i.e., Kumar and Seth, 1998: 585), but a recent study suggests that this need not be the case for many joint ventures (Cuypers *et al.*, 2017). The fact that monitoring and incentive dimensions of control are conflated when comparing nonequity alliances and joint ventures or collaborations with different equity allocations, indicates it can be difficult for alliance governance scholars to address two of the most central features of alliance governance in a clear and compelling manner based on current evidence that exists.

1.3.3 Third generation of alliance governance research: Alliance design decisions

This generation of research is concerned with the details of alliance design and governance. Research has primarily investigated the contractual foundations of collaborative agreements (e.g., Parkhe, 1993; Luo, 2002; Carson *et al.*, 2006; Reuer and Ariño, 2007; Anderson and Dekker, 2005; Ryall and Sampson, 2009). In a sense, research has used contracts as 'keyholes' through which to study governance issues (e.g., the composition of the board) that appear in hybrid organizations, though this research has mainly been occupied with the individual contractual provisions that firms might craft in collaborative agreements rather than investigating the full complement of governance instruments firms can employ. Of course, contractual provisions come in many varieties, making it possible for parents involved in establishing hybrid organizations to have substantial leeway in adopting clauses that enable them to safeguard and coordinate their collaborations. In fact, the substantial heterogeneity in alliances is at odds with simplistic depictions of different forms of alliances along the markets-hierarchies continuum (Reuer and Ariño, 2007). At the same time, this stream of research has also extensively discussed the complementary or substitutive nature of governance solutions vis-à-vis one other. For instance, while formal governance mechanisms (i.e., contracts) can potentially drive out trust or substitute for relational governance, it is also possible that detailed contractual provisions promote clarity and mutual expectations of cooperative behaviour by reducing short-term gains from opportunism (e.g., Poppo and Zenger, 2002; Mellewigt *et al.*, 2007; De Man and Roijakkers, 2009). In addition, the fact that partners have formed prior relationships helps them to learn about each other, provide new opportunities for exchange, and learn how to craft more detailed agreements (e.g., Mayer and Argyres, 2004; Argyres *et al.*, 2007). Interestingly, joint venture boards (e.g., Kumar and Seth, 1998; Reuer *et al.*, 2014) or alliance steering committees (e.g., Reuer and Devarakonda, 2016) that serve as alternative governance mechanisms have not received much research attention in this generation of alliance research despite their importance as specific instruments of alliance governance. While the contract provides a useful "fossil record" of alliance design and partners' governance intentions, it is interesting that this structural aspect of contracting and alliance execution has been neglected.

1.4 Objectives and structure of this issue

Despite considerable advances in the domain of corporate governance research, to date alliance scholars as well as corporate governance scholars have not begun to systematically analyze important governance issues related to the size, structure, dynamics, processes, and implications of joint venture boards and alliance committees. As we will highlight in subsequent sections, significant opportunities exist to draw from the expanding corporate governance literature and bring such questions into the research agenda of alliance scholars. The existing research on JV boards of directors has very often treated governance in an indirect fashion by relying on crude proxies such as the form of the hybrid organization (nonequity versus equity alliances) or the division of ownership. Given that detailed information on joint ventures' governance characteristics in secondary data sources is largely unavailable, opportunities exist to enrich the theory of boards of directors in joint ventures, but primary data collection efforts will be required. The use of broad indicators will no longer suffice as the alliance governance literature develops as these indicators can be associated with many other factors, such as partners' incentives, bargaining power, decision rights, contracts, managerial commitments, and so forth (e.g., Mjoen and Tallman, 1997; Dhanaraj and Beamish, 2004; Choi and Beamish, 2004; Barden *et al.*, 2005; Zhang *et al.*, 2007; Beamish and Lupton, 2009; Reuer *et al.*, 2011). By neglecting the board of directors, JV research can even impede theory development and testing since these boards are featured in alliance contracts, provide opportunities for private ordering, and are structures that can shape cooperative norms and processes between firms (Reuer *et al.*, 2011).

In a first attempt to develop theory on the governance of hybrid organizations and in particular our understanding on boards of directors in joint ventures, it is important to draw from corporate governance research in a deeper manner. Figure 1.2 depicts an overview of some of the most important topics addressed in the corporate governance literature and the considerations we will bring forward for hybrid organizational forms in this essay. We have also indicated the sections in which particular governance topics will be covered. Given that research has yet to be conducted on many of these topics, the figure is intended to be illustrative and suggestive rather than definitive or exhaustive. The categories that are identified in Figure 1.2 tend to appear most frequently in corporate governance research, and we believe it would therefore be important to bring them into the alliance domain. We highlight the domain translation issues of each theme that arise when applied to joint ventures and other types of hybrid organizations.

Research topic	Corporate governance theme	Domain translation issues
Board composition & involvement (Section 2)	• Board composition • Board involvement ○ Monitoring ○ Advice ○ Etc.	• Different types on insiders serving on JV boards of directors • Unique roles of JV boards and their level of involvement
Board leadership structures(i.e. CEO Duality) (Section 3)	• Board leadership structures	• Principal-principal conflicts and board leadership structures • Unique ways to limit CEO discretion via alternative governance arrangements
Interplay of alternative governance solutions (Section 4)	• Substitute or complementary nature of governance mechanisms	• Unique governance solutions in joint ventures: formal and informal governance mechanisms • Inapplicability of some corporate governance mechanisms
Governance of alternative hybrid organizations (Section 5)		• Alliance committees • Board representation on minority equity partnerships

Figure 1.2: Research agenda on corporate governance in hybrid organizations.

For instance, the corporate governance literature has also extensively discussed CEO compensation and stock ownership, as well as director/ CEO succession and board transitions. As a result, in illustrating a number of research opportunities, significant studies or contributions in the field of corporate governance are omitted. This essay primarily focuses on the structural design of boards and its interplay with other governance instruments as well as an overview of governance solutions in other types of hybrids.

The remainder of the manuscript is organized as follows. In Section 2 we will discuss board composition in joint ventures. Like corporations, joint ventures have boards that are composed of insiders and outsider directors, but as we explain the types of insiders that serve on these boards are different. The second part of this section is concerned with board involvement and the unique roles that these directors fulfil. Section 3 discusses the topic of board leadership structures in joint ventures and in particular, the antecedents and performance implications of CEO duality in light of potential principal-agent as well as principal-principal concerns. Section 4 discusses the unique governance mechanisms in joint ventures and how they potentially complement or substitute the functions of boards of directors. In particular, we aim to draw a parallel between the literature in corporate governance research that is concerned with the substitutive or complementary relationship between multiple governance mechanisms and the arguments that have been raised for alliances. While the previous sections are primarily concerned with the governance solutions available for equity joint ventures, in Section 5 we discuss the governance of other types of collaborations, including non-equity alliances and minority equity partnerships. Finally, Section 6 aims to raise a number of unanswered questions that a research agenda on the governance of hybrid organizations might begin to tackle.

In doing so, the manuscript proceeds with the following logical structure. The first and second sections are concerned with the composition and structure of JV boards. In particular, we explain the types of insiders and outsiders on boards and its leadership. This is continued by a discussion on the roles that these directors undertake in joint ventures. The complementary or substitutive role of the JV board is then discussed within a broader set of governance mechanisms that are unique to JVs. We then present a discussion of governance in other types of hybrid organizations.

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