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Performance promises and pitfalls in hybrid organisations: five challenges for managers and researchers

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Performance promises and pitfalls in hybrid organisations: five challenges for managers and researchers

Chris Skelcher and Steven Rathgeb Smith

Public and non-profit organisations can contain apparently irreconcilable institutional logics – such as public service and market survival. These logics can hybridise to frame the organisation’s work and the identity of employees, volunteers and clients in particular ways. These offer both performance promises and performance pitfalls. We identify five challenges of hybrid organisations for managers and researchers: measuring performance, innovation, governance, regulation and sustainability.

Keywords: Hybridity; performance; public; non-profit; management

Hybridity and performance are intimately linked. Public and non-profit organisations face a challenging and turbulent environment characterized by increasing competition for resources, higher expectations for accountability and performance, and citizen demands for greater choice on services. This motivates a greater concern with performance in all its aspects. At the same time, the responses to these challenges take public and non-profit organisations away from the traditional assumptions about how they should be structured, managed, see their mission and engage with other actors. They have adopted market-like strategies, greater workforce flexibility, corporate partnerships, and greater user control over services. This involves accommodating different sets of ideas about management and governance – in other words, hybridisation of traditional and novel ‘institutional logics’, with their complementary or competing perspectives on performance.

Hybridity and performance promises....

The public and not-for-profit literature often conceives of hybridity too narrowly. It focuses on novel organisational forms mix tasks associated with different sectors, as in the public-private partnership or the not-for-profit with a trading subsidiary. Viewing hybrids in this way is more descriptive than analytical. It does not help us explain what happens when an organisations adopts different tasks or ideas about how to improve performance, or prescribe for management and policy. We conceive of hybridity as the working practices, employee identities and organisational structures that arise from the contradictions and complementarities between different organising principles or ‘institutional logics’ – abstract ideas that have practical force when individuals draw on them to shape and legitimise what is valued in the organisation, how it should function, and how it should frame the identities of co-workers, citizens, clients and other stakeholders (Thornton et al 2012).

This way of conceptualising hybrids has two benefits. First, it brings into focus the real life of organisations. It reveals how practices and ‘rules-in-use’ develop in and around the formal structures as individuals seek to resolve the contradictions or tensions between different

institutional logics – for example, between public service and market competition (e.g. Sanders and McClellan 2014) or public administration and managerialism (Meyer and Hammerschmid 2006). One solution may be to structure the organisation so that it separates out competing logics, but this is more likely where tensions are not resolvable. Other times, plural logics may adapt to each other or blend into a new normative framework (Skelcher and Smith 2015).

Secondly, the idea that hybrids involve complementarities and contradictions between institutional logics draws attention to the way in which these may be generative of performance promises as well as performance pitfalls. These arise because an institutional logic is inherently normative (Alford and Friedland 1985). In other words, it offers a distinctive idea about what forms of legitimacy, authority and identity should be valued. Each logic then translates into a desired form of organisation and working practice, and hence it is possible to infer the performance promise offered by that logic (table 1).

Table 1. Institutional logics, performance promises and performance pitfalls.

Institutional logic	Community	State	Market	Profession
Source of legitimacy	Unity of will; belief in trust and reciprocity	Democratic participation	Ability to compete	Personal expertise
Source of authority	Commitment to community values and ideology	Bureaucratic regulation	Market share	Professional association
Source of identity	Emotional connection	Social and economic class	Individual consumer	Quality of craft
Performance promise	Inclusive and responsive	Serving the public interest	Efficiency	Technical competence
Performance pitfall	Emphasis on group minimises hierarchical authority	Emphasis on rules reduced flexibility	Low concern with distributional impacts	Inability to reflect wider public values

Source: developed by authors from Thornton *et al.* 2012, p. 73.

If we take the notion that each institutional logic offers a performance promise, then we can see that their combination – what we call a hybrid – will also have a performance promise (table 2). The ability to mould a hybrid offers the prospect of improved performance as a result of achieving a better fit between an organisation’s mission, its form (governance, procedures, structures, and so on), and its operating environment (Miller et al 2008). This is the essence of the development of hybrid organisations. Fundamentally, they are about overcoming the institutional constraints imposed by thinking about organisations in ways that are rigidly defined by sectoral or operational characteristics. The organisation is merely a container within which to manage the potential tensions between institutional logics. So the performance promise of hybrid organisations fits within the overall NPM and post-NPM move towards greater flexibility in public service organisations in order to increase efficiencies and improve outputs and outcomes.

Table 2. Hypothesised performance promises and pitfalls of hybridised institutional logics in public and non-profit organisations

		Community		
State	<i>Performance promise</i>	Focus on collectivity enhances democracy		
	<i>Performance pitfall</i>	Complexity of rules to ensure inclusivity Standardization can be at variance with local knowledge	State	
Market	<i>Performance promise</i>	Group orientation moderates emphasis on individual utility	Increases flexibility of public/non-profit organisations	
	<i>Performance pitfall</i>	Inequitable distribution of benefits challenges group solidarity	Organisations subverted to private ends Profit as the guiding organizational goal	Market
Profession	<i>Performance promise</i>	Social goals enriches professions' technical focus	Improves quality of delivery	Increases responsiveness of professional solutions
	<i>Performance pitfall</i>	Tensions between technical expertise and local knowledge	Undermines popular will	Reinforces individualised view of benefits

Source: the authors

..... and performance pitfalls

However, hybrids also hold out the possibility of performance pitfalls precisely because of the contradictions and tensions between the logics of which they are composed (table 2). These arise because the hybrid is by definition contravening the existing institutional framework. For example, some English local governments have corporatized functions that they calculate can generate additional revenue by competing with the private sector (Skelcher 2015). Corporatization changes the governance structure, and typically moves the function from being located with a 'state' logic into a 'market logic'. But since the municipal company is still within the overall corporate structure of the municipality, this new form generates a hybrid 'state-market' institutional logic.

The performance *promise* offered by this hybridisation is that the change of legal status enables the function to trade, generates new incentives on managers, provides them with greater autonomy, and has tax and other fiscal advantages for the municipality. Such hybridisation may comply with the legal rules governing public and non-profit organisations, but sits uncomfortably with their bureaucratic and regulatory norms. The resulting performance *pitfall* is that the company becomes subverted to the private ends of its managers, resulting in a zero-sum game in which managers in the enterprise seek to maximise their autonomy while the municipality seeks to constrain it.

The performance promises and pitfalls of hybridization are also evident in the dilemmas posed for public and non-profit managers by the current push for performance contracting and so-called 'Pay-for-Success' models of service delivery (Roman, et al. 2014). Governments and private funders expect non-profits to measure and identify their contractual outcomes, which can be significantly at variance with their service orientation. For instance, a non-profit may be established to provide workforce training to disadvantaged members of the community, but face performance targets that narrowly focus on quick placement in employment—a measure that may require the non-profit to significantly alter its programming and staffing requirements (Smith and Lipsky 1993). Small non-profit community agencies face special challenges in coping with hybridization. These agencies typically lack a substantial administrative infrastructure and the leadership of the agency including the board of directors may lack sufficient expertise in government policy or the for-profit sector. Consequently, the management of multiple logics within the organisation can present serious difficulties and can contribute to staff and volunteer turnover and internal dissension on agency goals and priorities.

Finally, the ability to achieve the performance promise of hybridisation can be profoundly affected by the need for many non-profit (as well as public organisations) to manage the so-called, 'double-bottom line' - to be guided by market and community norms. This performance pitfall arises from the dual logic apparent in social enterprises that intentionally and very purposively incorporate market and social norms into their operations. A common example is a workforce integration social enterprise (WISE) in which a local community agency may operate a restaurant staffed by disadvantaged individuals who receive training in the restaurant trade as part of their employment experience. But these social enterprises face a delicate dilemma: they need individuals of a certain skill level to work in the restaurant in order for the latter to function effectively; but this requirement may inadvertently exclude more disadvantaged individuals from participating in the program. Thus, at least some social enterprises - especially the so-called WISEs (Hasenfeld and

Garrow 2012; Pache et al. 2014) - may be most effective in serving the more able of the disadvantaged population.

Managing performance promises and pitfalls in hybrids

The knotty performance challenges presented by hybridization require managers of public and non-profit organisations to significantly adapt the staffing and governance of their agencies. Agencies will need to select managers and board members who are sensitive to the complex logics within their organizations. In a more market-oriented environment for public and non-profit agencies, the temptation of hiring committees is to seek individuals with business backgrounds as agency managers. However, many non-profit failures or internal dysfunctions can be directly related to the tensions between a corporate executive guided by a market logic and the community or professional logic of the non-profit organization's staff or volunteers.

Managers may also need to be creative with the overall organisational design as this can either help or hinder the ability of agency leaders to effectively manage the different mix of logics. For instance, many non-profits are now pressured to raise market income as a strategy for the diversification of income. But the mix of market and public funding can create tension in the organisation. One strategy to manage these tensions is to create a subsidiary for-profit entity so the market logic guiding the generation of market income is isolated in this entity rather than incorporated in the rest of the organisation.

Multiple logics can easily collide within the board of directors as well. Thus, boards with very different members who embrace different goals and visions for the organisation can create havoc, so many non-profits have created advisory committees and community outreach in order to productively engage a wide spectrum of the local community members without promoting internal divisions among staff and volunteers. For instance, many non-profits have created fundraising committees to raise revenue so the work of raising philanthropic funds is not solely the responsibilities of the board of directors and the staff. This kind of segmentation separates out the multiple logics operant in the organisation and thus potentially reduces the performance pitfalls.

Five challenges for managers and researchers

What are the agendas for policy-makers, managers and academics in managing and researching performance in hybrid organisations?

1. *Measuring performance*

Public and non-profit organisations are increasingly expected to demonstrate positive outcomes. However, many performance regimes associated with performance contracting and social impact bonds require non-profits to adopt public priorities (Smith and Phillips 2016). Further, many non-profit social enterprises now receive public funding to offer services that often combine market income with public priorities (Garrow and Hasenfeld 2012). These social enterprises are often evaluated on the basis of their performance on indicators such as the placement of disadvantaged adults in employment. Yet, little consideration is often given to the social capital and community contributions of non-profits. More attention needs to be devoted to ways in which performance management strategies can measure non-profit impact more broadly defined. This effort would also

help non-profit managers and board members manage more effectively the multiple institutional logics within the organisation.

2. *Organisational innovation*

Hybridity can be conceptualized as a response of non-profit and public organisations to a turbulent and unpredictable environment where revenue diversification is encouraged and market income is promoted as a strategy to enhance efficiency and effectiveness. Innovation in structure and programs reflecting hybridity then is the outcome of an organisational adaptation process (Coule and Patmore 2013). However, hybridity can also be regarded as a cause of innovation: multiple logics within an organisation force the agency to restructure and develop new affiliations and subsidiaries in order to adequately cope with the governance and management imperatives of hybridity (Smith 2014).

3. *Governing hybrid organisations*

Management scholars have noted the emergence of collaborative networks among public and private organisations - including new policies to integrate local health and social services (Smith 2016; Kania and Kremer 2011; OECD 2015). The pressure for collaboration often now co-exists with greater competition for resources. Given these contradictory pressures, non-profit and public leaders now need to carefully structure their governance including their boards of directors and organisational chart. Yet many models of non-profit governance are based upon a traditional view of non-profits as guided by a community logic. Research on new models of effective governance that allow non-profit leaders to balance competing logics is needed to inform theory and practice in non-profit organisations (Skelcher and Smith 2015).

4. *Regulating hybridity*

Understanding how hybrid organisations should be regulated has lagged substantially behind actual practice. Both public and non-profit organisations have adopted more complex structures to contain public service/community and market logics, complicating oversight and accountability. These structures include Community Interest Corporations (CICs) and L3c's (a new US tax code provision for a low profit limited liability company designed to attract private investments and philanthropic capital in ventures designed to provide a social benefit). More research on the regulation of hybrid organisations and strategies to ensure accountability, transparency and effectiveness would be very useful for policymakers and practitioners. This type of research could also inform the design of regulatory regimes governing non-profit and public organisations.

5. *Organisational development and sustainability*

Many non-profit organisations are initially established as relatively informal groups and entities focused on a particular community of interest (Smith and Lipsky 1993). As non-profits obtain public and private grants and contracts, they tend to formalize and adopt new governance policies and procedures. As non-profits evolve into more mature organisations, they are also likely to be encouraged or pressured by funders to adopt more sustainable business models, especially since many non-profits in their earlier years depend upon relatively short-term grants and contracts. In this context, hybridity can be regarded as an outcome of the organisational development process, with non-profits striving to diversify revenue and engage in new partnerships and collaborations.

More research on the relationship between organisational development and the adoption of hybrid models would help inform the theory and practice of non-profit and public management.

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