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# Trust as Governance Tool in Hybrid Organizations: A Case Study for the Dance Industry in the Netherlands

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## Abstract

The organization of Electronic Dance Music (EDM) events requires much flexibility, due to the need to be able to quickly respond to new market trends. It induces high specificity in organizing these events. Our case study for the Netherlands, which is the world's market leader in hosting these events, shows that hybrid forms of cooperation between producers facilitate this flexibility and adaptability. From the perspective of transaction cost economics this article focuses on the role of trust as governance tool of hybrid organizations. Trust between the collaborating event agencies has a reciprocal effect on perception of risk, therefore decreasing the need for comprehensive contractual governance or hierarchical control. We show that different types of trust can be *sufficient* as governance mechanism. The EDM event industry is a community-like creative sector in which calculative drivers such as repeated interaction and the importance of behavioural reputation add to trustworthiness between partners. In addition, social drivers such as a shared artistic vision lead to incentives to behave according to ex ante agreements in the design and creation of new, ground-breaking music sensations. From that perspective, we identify the factors that enhance the development of trustworthiness between partners in a hybrid organization.

**Keywords:** governance of organizations, transaction costs economics, hybrid organizations, electronic dance music (EDM) events, trust, contracts, alliances

## 1. Introduction

Transaction costs economics (TCE) asserts that transaction costs are decisive whether production is organised horizontally through the market or vertically through the hierarchy of the firm. This notion is based on pioneering work on firm behaviour of Ronald Coase (1937). In addition Coase can also be considered as one of the founding fathers of the New Institutional Economics (Williamson, 2000; Ménard, 2005). Moreover Williamson (1975, 1985, 2010) explicitly discusses the link between TCE and management and organization theory: the decision to organize production via the hierarchy or via the market determines the industrial organization of production.

However, the choice between market and hierarchy is not the only strategic decision the management can make in the organization of production. In today's world of fragmented trade and innovation a sharp distinction between organizing via the market or via the hierarchy is no longer viable. Many different kinds of cooperative organizational forms have emerged. These so-called hybrid organizations, which vary from cooperatives, partnerships, joint-ventures, alliances, networks and so on, can be considered as forms of organization in between the market and the hierarchy. The selection of the most appropriate form of organization depends on the skills of managing transaction costs resulting from transaction attributes, knowledge sharing and corresponding risks in the specific institutional set up of the industry (Ménard & Shirley, 2005; Den Butter, 2012).

Hybrid organizations have emerged in nearly all sectors worldwide over the years (Ding et al., 2009). Organizational management practices are no longer focused on operating independently, but strategies are increasingly focused on flexibility and interdependency to obtain a long-term competitive advantage. However, interdependencies between two or more firms lead to transaction costs that need to be managed. These transaction costs stem from all time spend on negotiating, communicating, dispute solving, coordination and controlling the hybrid organization.

This article analyses why Electronic Dance Music (EDM) events in the Netherlands are organized in hybrid forms of organization, and how transaction costs play, albeit intuitively, a major role in the selection of the governance structure. Our study aims to complement the understanding of hybrid organizational governance by exploring both formal and non-formal governance mechanisms in hybrid organizations, consisting of two or more actual or potential competitors. The focus of our attention is on the development and working of trust as non-formal governance tool for reducing transaction risk and costs in hybrid organizations. In case of the Dance industry a major part of costs consists of the costs of coordination, organization and of being creative in inventing new concepts which may attract lots of visitors. All of these costs can be summarized as transaction costs. That is why the TCE perspective seems especially suitable to study the strategic decisions on the appropriate governance form of organization.

Greif (1993, 1994, 2000) has shown that in the selection of the appropriate form of governance, institutions play a crucial role in order to satisfy the basic condition for exchange, namely to be able to commit to a trade contract. Such institutions are a solution to the “game of trust”, which is needed to make contracts enforceable. In the early Middle Ages Jewish merchants-the “Maghribi traders”-were bound to keep their promises on trade agreements through family ties and other social networks, even though their deeds could only be controlled much later because of the large distances and travel times. Later, this institutional system of using family ties was replaced by legal systems as institutions. Today trust formation and the resulting reputation of trustfulness play a major role in reducing transaction costs of internet transactions (Resnick et al., 2000; Brown & Morgan, 2006; Saeedi et al., 2015). In this article we focus on how trust is institutionalised in the relationship between partner event agencies in the Dance industry. In order to study this role of trust in the hybrid organizations of the Dutch EDM industry we conducted a case study consisting of nineteen semi-structured interviews with key players in the industry.

The remainder of this article is organized as follows. Section 2 reviews the literature on the role of trust in the governance of transactional relationships in hybrid forms of organization. Section 3 introduces the EDM event industry context and discusses the link between organizing these events and TCE. Section 4 describes the methodological approach used in this study, which includes the research design, data gathering and applied data analysis strategies. Section 5 presents the findings of the interviews and distinguishes between the role of trust as governance mechanism to minimize organizational transaction costs and the drivers of trustworthiness between partners in a hybrid organization. The findings teach us how the theoretical argumentation on the management of transaction costs translates to practice for these new and innovative forms of organizing production. Recurrence to trust instead of formal contracts seems to be a dominant element in cooperation between firms in the EDM industry. In most cases intrinsic motivation and the costs of loss of reputation underlie and enhance these trusted relationships. Finally, section 6 summarizes the main findings.

## 2. Trust and Governance of Hybrid Forms of Organization

### 2.1 Trust as Informal Governance Mechanism

The role of trust as governance mechanism in hybrid organizations, versus the more formal control-based workings of contracts and quasi-hierarchical governance bodies, is the centre of an ongoing debate in TCE (Jolink & Niesten, 2012). Trustworthiness of a partner refers to the extent to which the trustor *perceives* the trustee’s behaviour to be positive and reliable in the partnership before the trustor can monitor such behaviour (Gambetta, 1998; Judge & Dooley, 2006). A major reason for considering trust in TCE is that it may be helpful to avoid costly *opportunistic behaviour*. Opportunistic behaviour denotes the way in which both parties exploit contractual ambiguities in a self-interested sense, leading to problems of hold-up. One partner may for instance withhold crucial information and/or resources from the alliance or partners may try to renegotiate contractual agreements after large investments have been made (Judge & Dooley, 2006). In line with Nooteboom (1996), Das and Teng (2001) and Langfield-Smith (2008) this study distinguishes the *goodwill*- and *competence* dimensions of trust. Goodwill trust can be seen as the partner’s *intention* to perform according to the agreement. Competence trust relates to the confidence in a partners *ability* to perform according to the agreement.

Most economic theories, including traditional TCE, have for years focused on the assumption of natural untrustworthiness between business partners. However, Williamson’s (1975) assumption of natural human untrustworthiness and the notion that firms can only protect themselves with legal and contractual means has been challenged recently. Some researchers have argued for a substitutive nature of trust versus formal control because contracts signal a lack of trust (Gulati & Nickerson, 2008; Malhotra, 2009), though this notion seems especially applicable in Asian societies with weaker legal protection such as China (Kong, 2011; Wang et al., 2011; Yu et al., 2006). Others have argued for a complementary functioning of trust and more formal

governance mechanisms in exchange relationships and alliances (Aalbers, 2010; Cao & Luminea, 2015; Zheng et al., 2008).

Trust plays an essential role in the start-up phase of hybrid organizations, particularly in searching for and negotiating with potential partner firms (Ménard, 2010; Jolink & Niesten, 2012). Trust alters the perceived risks of opportunistic behaviour and choice for a preferred governance structure, leading to a marginal substitutive effect of trust versus formal governance ex ante to the formation of an alliance (Wallenburg & Schäffler, 2014). In this way trust ‘compensates’ the limitations of incomplete contracts. On the other hand, some basic level of trust generally precedes the signing of contracts because trust enhances the writing of more sufficient contracts (Klein Woolthuis et al., 2005). The other way around, clearly articulated contractual terms can increase confidence between cooperating parties in a hybrid organization, which paves the way for trustworthiness (Cannon et al., 2000; Poppo & Zenger, 2002). Huber et al. (2013) call this the ‘enabling’ effect of trust and contracts. Furthermore, existing trust relations between firms can be an incentive to form new hybrid alliances because of improved information on efforts and expectations, shared rules and norms, and adaptability of unforeseen contingencies of contracts (Hoffmann, 2007).

During a business relationship trust between partners can also function as ex-post governance mechanism. Goodwill encourages the development of shared values and competence enhances faith in the capabilities and benevolence of partners. This makes firms in a hybrid organization better cope with uncertainty. Trust enhances flexibility of anticipation when unexpected challenges occur and it improves communication, which reduces hazards of incomplete information. In a study of strategic alliances in the US healthcare sector, Judge and Dooley (2006) find both contractual safeguards as well as partner trustworthiness to have a negative impact on opportunistic behaviour, which in turn has a significant inverse effect on alliance outcome. Interestingly, trust was found to have a stronger negative effect on opportunistic behaviour than did contractual safeguards. Thus, trust as governance mechanism reduces transactional risk and complements more hierarchical forms of ex-post governance (Gulati & Singh, 1998; Wallenburg & Schäffler, 2014).

## 2.2 Social Versus Calculative Drivers of Trust

In addition to the role of trust in the governance of business relations, there is still considerable debate on the processes that enhance expectations of goodwill- and competence trust. Generally, two points of view can be distinguished; a *social* notion of trust mostly used by sociologists and psychologists-also referred to as relational or personal trust - and a *calculative* notion of trust mostly used by economists (McAllister, 1995; Williamson, 1993). Trust is the expectation of a partner fulfilling a cooperative agreement in a risky situation and relies on the partner’s intention to perform and its ability to do so. Table 1 summarizes the dimensions and components in terms of types of trust, perspectives on trust, and drivers that enhance trust development.

From the social perspective trust can be considered as a process determined by factors such as rules, beliefs, norms and institutions (Barney & Clark, 2007; Beckert, 2009). Goodwill trust in this sense can be strengthened through several mechanisms; developing mutual interest, building individual relations, and engaging in joint dispute resolution. Mutual interests reduce the probability of conflicts and increases interest and care for the partner’s position, which increases goodwill trust. Moreover, joint negotiation of disputes will lead to goodwill trust by providing an opportunity to exchange perspectives and points of view. Competence trust is built through better information about each other’s abilities, routines and management. Transparency of behaviour and frequent interaction or membership of a common formal social structure, such as a trade association, increases this kind of knowledge. For example, Meiseberg and Ehrman (2013) refer to ‘communication capability’ of partners as important for increasing value creating opportunities in a cooperative hybrid organization. Though not referring to the channel of competence trust as such, their findings support the postulation that transparency of behaviour-as a result of enhanced communication skills-adds to a shared understanding of obligations, improve the resolution of interfirm conflicts and provide scope for renegotiations of initial agreements over time. In this way communication capability leads to more intense cooperation among networking firms by lowering the risk of costly conflicts.

However, the social perspective on trust alone seems to not always or completely grasp the different dynamics of diminishing transactional risk. Meiseberg and Ehrman (2013) also study the effect of ‘bonding capabilities’ on tendency to network. Bonding capabilities such as ‘listening to partner’s problems’ are said to help build closer relationships between firms and as such bare resemblance to Barney and Clark’s (2007) notion of goodwill trust. Interestingly, they find rebuttal of the relationship between ‘bonding capabilities’ and intensity of cooperation between firms. For the 348 German SMEs in their analysis the increased risk and impact of exploitation and hold-up by the partner firm overrules the possible benefit of bonding on mutual trust and cooperation.

This finding points to a different approach to the contiguous social phenomena of trust, mostly used by economists. From this perspective trust is the outcome of a *calculative* process which centres on the idea that people (un)consciously assess if the probability the other person will perform in a way that is not detrimental to them is high enough to consider engaging in some form of cooperation with that person (Greif, 2000; Kong, 2011; Barney & Clark, 2007). Managers understand their contractual relationship and manage them in a calculative way. In this process the parties (1) are aware of the range of possible outcomes and their associated probabilities, (2) take cost-effective actions to mitigate hazards and enhance benefits, (3) proceed with the transaction only if expected net gains can be projected, and, (4) if X can complete the transaction with any of several Y's, the transaction is assigned to that Y for which the largest net gain can be projected. In this respect Williamson (1993) has taken a critical attitude towards the term calculative trust, as he argues it's more accurate to label this as calculative risk.

Sustainability of the cooperative equilibrium of this game is guaranteed by the high costs of loss of reputation with the short-term gains of cheating. The threat of reputation damage creates an *ex-ante* linkage between past conduct and future income stream, by which each party can commit *ex-ante* to not behave opportunistically *ex-post*. Reputation in this sense works as a collective measure of trustworthiness constructed by believes of a subset of people. Reputation can also provide information about the partners' levels of goodwill and competence trust, which further reduces uncertainty (Den Butter et al., 2012). This system of calculative trust is self-enforcing if actual and expected behaviour of each individual leads all others to behave accordingly, motivating each individual to assume this expected behaviour in the first place. Thus, the structure that each individual faces induces him or her to behave such that on the aggregate level this structure is maintained. Apart from reputation, crucial here is the mechanism of repeated interaction. The case study of Langfield-Smith (2008) confirms that the potential adverse reputational impact of withdrawing or altering the agreements within a hybrid organization in the construction industry made probability of major hazards low. In this context James (2002) discusses trust and trustworthiness as the outcome of a prisoners dilemma game. He distinguishes four categories of institutional incentives to come to a cooperative solution of this game. Relying on an implicit social contract and repeating the interaction seem the two most relevant categories of incentives when organising EDM events in hybrids.

Table 1. Dimensions and components of trust

DIMENSIONS	COMPONENTS
Types	<ul style="list-style-type: none"> <li>• Goodwill</li> <li>• Competence</li> </ul>
Perspectives	<ul style="list-style-type: none"> <li>• Social; based on norms and values</li> <li>• Calculative; based on net gain</li> </ul>
Drivers	<ul style="list-style-type: none"> <li>• Mutual interests</li> <li>• Building personal relationships</li> <li>• Joint dispute solving</li> <li>• Reputation</li> <li>• Repeated interaction</li> </ul>

Based on Adler (2001).

The distinction between social- and calculative trust stems from the difference between self-interested and socially oriented decision making (Freybote & Gibler, 2011). Calculative trust implies trustworthiness between firms because the cost of opportunistic behaviour through damaged reputation is higher than the potential benefit of cooperating. This perspective views actors as pure self-interested decision makers; if an opportunity to deviate and enjoy higher net gains arises to an actor, this action would be taken. The social perspective on trust portrays actors as socially orientated decision makers; parties develop loyalty to each other not because of expected of future returns, but because of shared and established norms, understanding and friendship. Social drivers might induce an actor to engage in a transaction with a friend, not with the expectation of highest net gain, but because of intrinsic values such as the enjoyment of working with a friend.

Hence, social drivers may affect both goodwill-and competence trust by better informing actors on the intentions and ability of the partner to act according to the agreement, while calculative drivers mainly influence partners' willingness to cooperate and as such enhance goodwill trust. Both the social- and the calculative notion of trust can be valid in particular business situations and strategic alliances. For instance, Claro and Claro (2008) find the

calculative mechanism, as well as social aspects to trust to both have a significant positive effect on channel relationship performance in the Brazilian distribution market of agrochemical products.

### *2.3 Governance of Hybrid Organizations with Several Partners*

Hybrid organizations may entail cooperative alliances or joint ventures consisting of two or more actual or potential competitors in the market. Though much literature focuses on dyadic hybrid organizations, a substantial number of hybrids involve three or more partners. In Gong et al.'s (2007) sample of Chinese hybrid organizations, approximately 30% consisted of three or more partners. In the sample of 80 Spanish hybrids in the study of Garcia-Canal et al. (2003) the multilateral share was 49%, and in the study of Makino and Beamish's (1998) on 737 Japanese hybrid organizations as much as 55% involved three or more partners. The sample of in our study consists of 6 dyadic- and 7 multilateral horizontal hybrid organizations (see Table 2).

In general the complexity of hybrid organizations with multiple partners is greater than the dyadic relationship in hybrids with two partners because of the risks of free riding and the emergence of dysfunctional coalitions (Garcia-Canal et al., 2003). The higher the number of participants in a hybrid organization, the higher are transaction costs of searching, contracting, monitoring, and coordinating (Beamish & Kachra, 2004). Structural change of ownership structures of multilateral hybrid organizations is also accompanied by increased transaction costs as negotiations and reorganizations are associated with changes in strategy, policy, and personnel (Chung & Beamish, 2012). Hence, some studies have found a negative impact of multiple partners' complexity on performance (Garcia-Canal et al., 2003; Hennart & Zeng, 2002), while others have not found such a relationship (Beamish & Kachra, 2004; Park & Russo, 1996). Chung and Beamish (2012) find that two structural changes in ownership structure is the threshold beyond which the negative relationship between the number of partners and performance becomes salient.

## **3. Context: The EDM Event Industry**

### *3.1 Organizing Experiences through EDM Events*

EDM event organizations are no traditional providers of goods and services: they deliver immaterial economic value in the form of experiences. Pine and Gilmore (1998) were among the first to coin the term 'experience economy' to describe a new trend in creating economic value. The experience economy differs from the service industry in that services and products merely facilitate the building of experiences. Services work as the stage and products as the attributes that support the creation of a memorial feeling with the customer. The literature on the experience economy takes different views and perspectives (Candi et al., 2013). The first view sees experiences as the total of delivered services that generate a certain memorable feeling with the consumer. Zomerdijk and Voss (2011), for instance, take this view, sketching the customer experience innovation as the way in which firms systematically design and manage services which focus on customer experience rather than just on the functional benefits following from the products and services delivered. The second view links experiences directly to a brand name and customer's perception of a company. Take as an example the 'Heineken Experience', a venue in Amsterdam where customers pay a fee to 'experience' the Heineken brand. This goes way beyond a simple guided tour of the old brewery: by means of images, sound and all sorts of existing games and rides the visitor experiences something unique. Clearly, the Heineken experience does not focus on the experience as its core product, but as a way of promoting its global brand name.

Both views on experiences take the perspective of service management. A third way to look at the supply of experiences is to see it as a separate branch of products/services which innovates in its own way. This perspective implicitly differentiates between experiential and non-experiential services. Firms in the entertainment branch have already for decades focused on experiences as their distinctive product. Concepts like World Disney or the Hard Rock Café use the ensemble of artists, lights and sound, locations and drinks as the stage and attributes to create a unique experience with the customer. Candi et al. (2013) argue that the potential benefit of experiences can apply to all business. Experiential staging from this point of view is an innovation strategy in which product differentiation is reached by developing experiences.

The multidisciplinary way in which cultural aspects are combined to generate event experiences makes the EDM event industry an example of a *creative* sector within the experience economy. Creative industries have their own unique set of characteristics. Product life cycles in the creative industry are generally very short, organizational performance is primarily based on new product development and managers rather pride themselves as creative innovators (Lin et al., 2012).

An important way of understanding the EDM event industry's conditions and characteristics is by the concept of environmental velocity or speed of change. McCarthy et al. (2010) take on a multidimensional approach in

assessing velocity that captures demand, competition, regulatory, product and technological aspects. Traditionally, high-velocity industries have been considered to be high-technology. This does not apply to the EDM event industry where ‘manufacturing technology’ processes develop slowly. However, on all other dimensions of velocity this industry scores high. New product introductions and product enhancements develop rapidly, for example by developing new elements that will add to the visitor’s experience. Industry demand and competition is also changing with high speed, worldwide as the United States has embraced EDM music as well as within the Netherlands as thousands of small entrepreneurs entered the EDM event market in the last ten years (EVAR, 2012). Regulatory velocity is also dynamic, as the perspective on this industry by the Dutch authorities has developed from ‘hazard to society’ due to safety issues to an acknowledged innovative source of the Dutch economy. In this high velocity industry both strategic flexibility and adaptability are key firm capabilities for EDM event agencies.

### *3.2 Importance of EDM in the Netherlands*

The EDM industry in the Netherlands can be regarded as the world leader in its field. The Dutch market for large EDM events increased between 2002 and 2012 by almost 70% from 82 to 138 million euros (EVAR, 2012). There is no country in the world that both absolutely as well as relatively organizes so many EDM festivals as the Netherlands does. Some concepts even travel the world, like ID-T’s Sensation which is now hosted on 4 continents in over 19 countries. And the EDM event and festival market in the Netherlands has only further exploded as a result of the high demand for EDM events and large inflow of smaller event organizations. At the turn of the century only a few large EDM festivals were hosted, while by the summer of 2013 more than 200 small and large Dutch EDM festivals nourished hundreds of thousands of party people (Yellowtipi, 2013).

The EDM industry accounts for more than one in twenty jobs in the creative industries in the Netherlands. The global market for EDM events is estimated to amount to 3.6 billion dollars at the end of 2012, while the EDM market including revenue from music sales and sponsorships results in a turnover of more than \$ 5.7 billion (EVAR, 2013). A projection of EVAR (2013) predicts that global sales in 2017 will rise to nearly 6.7 billion dollars for this industry. While the United States takes the lion’s share in terms of market share, South America and Asia are increasingly seen as growth opportunities for EDM entrepreneurs. The leadership of the Netherlands in the global EDM industry is also witnessed by the fact that Dutch Dance DJ’s like Hardwell, Armin van Buuren and DJ Tiësto score high in the international rankings - six Dutch DJ’s appear in the top 10 of the composite DJ Mag (2013) list.

The Dutch market for EDM events has been dominated for a long time by a few large event agencies such as ID & T, UDC and Awakenings. The large inflow of small- and medium-sized firms has made the festival landscape rather competitive. Artists have benefitted heavily from this trend, as event organizations are trying to outbid each other for the most popular DJs. There is a variety of supply for each EDM lover, though there are growing complaints on high entrance fees (Van Terphoven, 2012). The true challenge for the coming years lies with event agencies. For years Dance Valley had been a very successful EDM festival, until 2011 when only half of the 60.000 tickets were sold. In this increasingly saturated and competitive environment firms are more and more exploring new forms of cooperation, thereby acting as game changer, also for other industries.

Cooperation between EDM event related firms in a hybrid setting is seen as the emerging trend of the past 3-5 years. An example is the ‘Valhalla festival’ of December 2012 in the Amsterdam RAI; an EDM event with 18,000 visitors that was realized through the combined efforts of eleven event agencies and eighteen creative agencies. This example shows how the EDM event industry operates in a fast-moving and competitive market. The example of this festival also illustrates that there is a lot of asset specificity in organizing Dance events. Each festival, in order to attract a sufficient number of visitors, should include new features and organisers should be fully aware of the new trends in Dance music. On the other hand, the organisers should also have the reputation in being innovative in this respect, as witnessed by the organisation of similar innovative events in the past.

### *3.3 The Role of Trust in the EDM Industry*

Trust plays a role in organizing EDM events in various ways. Firstly the distinction made in Bohnet and Croson, (2004) seems relevant, namely (i) risks (which is, as mentioned before, related to opportunistic behaviour), (ii) culture, and (iii) repeated interaction. Partnerships in the creative and high velocity EDM industry are, for an important part, based on trustworthiness; in some cases partnership contracts are not even drafted or signed. For this reason judgement the skill of properly and adequately assessing the counterpart’s trustworthiness and risk of betrayal becomes a key competence for agencies, artists, and suppliers in the EDM industry. Social distance between agencies especially applies to the cultural aspects in the EDM industry and its effect on trustworthiness.

Although the Netherlands is a relatively small and densely populated country, geographical distance also still affects the willingness to trust, as social distance grows with geographical distance. This is especially true for the EDM industry at an international level. Furthermore, house music is an umbrella concept comprising dozens of different subcategories, such as techno, dubstep, and hardstyle. The social distance between artists or agencies focussing on different subcategories can adversely affect the willingness to trust. Lastly, as indicated before, the notion of repeated interaction is key to the functioning of the calculative aspect of trustworthiness and therefore relevant for this research.

Secondly hosting EDM events requires that organisers, in one way or another, and often intuitively, find a solution for what Greif (2000) has labelled the game of trust, or what Berg et al. (1995) have introduced as the trust game (see also Kleine et al., 2014). In this research calculative trust is viewed as one of the solutions to the game of trust, as repeated interaction and the threat of punishment enables partners to engage in a cooperative agreement. The trust game, on the other hand, rules out repeated game reputation effects and punishment threats. Instead its centres around the notion that reciprocity exists as a basic element of human behaviour, which provides a basis for trust between counterparts. Moreover, social history can strengthen beliefs of reciprocity and trustworthiness. Hence, the trust game bears more resemblance to the social notion of trustworthiness than to its calculative character.

### *3.4 Trust and Social Media in the EDM Event Industry*

On the promotional side of events, the development of social media has drastically changed transaction costs of searching, attracting and retaining visitor communities. Trust plays a major role in this way of using social media to reduce transaction costs. Visitor communities regenerate themselves every three to five years (Van Veen, 2013). For the EDM event industry it is highly important to constantly find and bind visitors to their brand. In the early '90s building a visitor community was rather time consuming and costly as all promotion channels were physical, such as the collection of postal addresses or distribution of flyers and posters. In other words, building a visitor community used to entail considerable transaction costs. Nowadays, physical promotion merely supports the far more important channels of online promotion. Every weekend the Dutch audience can choose between numerous events, clubs and DJs. For this choice it is not only important which DJ is playing, but even more so where all your friends and fellow party people are going to. And it is evenly important that this information on social networking can be trusted.

Facebook works as a platform to build such an (online) community against low transaction costs. All promotional event information can be communicated to the audience in an interactive way, for instance by uploading teaser movies, polls, links to the music pages of artists or pictures from previous events. Visitors that consider attending the event are notified of other people from their online network that might attend. Like and share competitions rapidly extend the event's promotional reach and any visitor is free to invite other potentially interested people from their own community. In addition, people can like an event organization's page on Facebook, which will automatically update them with information about new events. The best part is that this online 'buzz' can be created while making hardly any expenses. Facebook ads do entail costs, but are way more effective than newspaper ads for they can be focused on a target group specified by age, sex, and interests.

Against this background, it is not surprising that some event organizing start-ups are spin-offs of online magazines or other online communities. Next Monday's Hangover started out as Overdose.am; a popular online magazine with blogs about art, fashion, music and other cultural aspects of Amsterdam. In 2010 it started developing offline activities and was able to grow rapidly, not only due to its creative concept, but also through using its already established online marketing channel. Another example is Sekoia, which strategically chose to first build an online community from which to launch offline events. In 2012 it started a Facebook page for sharing a specific sound of EDM, which in a year grew to over 4000 likes. Today Sekoia entails an online community with its own website, interviews, broadcasting, and its own party nights. In addition, Sekoia is developing its reach and reputation by participating in some large and well-known Dutch festivals such as Next Monday's Hangover, Welcome To The Future, Best Kept Secret, and Soenda. Another Facebook page that has witnessed rapid growth is the 'Deephouse Database' page. What started out as a school project has developed into a Facebook page of almost 20k of music sharing members. The business model behind this online community is first of all to attract event agencies willing to pay for promotion of their event on the Facebook page, and secondly to channel members towards events that are been organised by the Facebook platform itself. Recently there is a proliferation of such Facebook communities in the Netherlands. Nowadays numerous Facebook communities exist for each specific subtype of dance- or house music as well as a variety of geographically targeted platforms. However, not all of these platforms have the size or the ambition to host their own events.



#### 4. Methodology for Case Study

Given this prominent role of trust and of being trusted in TCE, and given the specific forms of hybrids organizing Dance events, we test the following hypotheses in our case study:

H1: *Various types of trust are relevant in controlling transaction costs of organising Dance events in hybrids.*

H2: *Trust is an important substitute for contracts in the EDM industry.*

Along these lines our case study aims to validate how trust and becoming trustworthy contributes to the reduction of transaction costs through the organisational innovation in the Dutch EDM industry. It is investigated how relying on trust acts as an alternative to a formal contract when specialists and experts join together in hybrids for the organisation of a Dance festival.

##### 4.1 Research Design and Data Collection

A semi-structured interviewing method has been adopted as this allows for collecting data on certain key factors while leaving room to let new topics or insights emerge during the interview. The research population consists of all hybrid organizations of EDM event organizers in The Netherlands. A non-random purposive method of sampling has been used. The advantage of this type of sampling is that participants can be identified on the basis of their presumed contribution to the research question, which in the case of an explorative study is particularly beneficial.

The strategy of non-representative purposive sampling in this study builds on a number of steps. First, a list of all *outdoor* EDM festivals in the Netherlands in 2013 is used to identify those events that are possibly organized by multiple cooperating firms in a hybrid setting. In order to identify these EDM festivals, the website of each event was considered to see if at least two firms are mentioned as either direct organizing partner or as stage hosting partner. Such a 'hosting' partner is responsible for managing the acts and decoration of a specific stage during the event. The result of the website analysis is a list of a subset of hybrid organizations in the Dutch EDM event industry.

The second step is to contact the identified hybrid organizations. In total 110 unique organizing or hosting firms were identified, making up a total of 27 hybrid organizations were. Either the hybrid organization itself was contacted, or, in case of missing contact information at least one of the participating firms was contacted. This resulted in a subset of 28 organizations of 24 listed hybrids that was contacted. These 28 organisations consisted of either the hybrid organization itself, or in case of missing contact details, of at least two major participating firms of the hybrid organization. Firms of the remaining three hybrid organizations were contacted in a later stage of sampling. Non-response of this round of sampling is 68%, as only 9 out of 28 firms were willing to participate. Contacting was done in the first and second week of July 2013. These weeks fall in the middle of the Dutch festival season which starts late in May and ends halfway September. Although most EDM event organizations were enthusiastic about the study, the high non-response must be attributed to the timing of this stage of sampling.

Another round of sampling was undertaken to enrich the sample of participants with some key players in the industry. The Dutch EDM event industry is characterized by strong social ties, so snowball sampling has been used to come into contact with managers and sector specialists with a lot of experience in the EDM sector. Snowball sampling is a way of purposive sampling in which each participant is asked to suggest someone else who might be willing to appropriate for the study. From halfway July to the end of September 2013 another 11 participants were added by this method.

In total nineteen semi-structured interviews were conducted during the course of this research. Fifteen participants are managers of EDM event firms that at the moment of interviewing were respectively engaged in 13 different hybrid organizations. The remaining four participants (firm #12, #16, #18 and #19) were interviewed because of their extensive knowledge of the EDM event business; these four industry experts were not engaged in a hybrid organization. Table 2 provides an overview of the interviewed participants engaged in a hybrid organization for the development and execution of an EDM event. Three of these hybrid organizations can be characterized as joint-ventures in which equity is shared in an independent legal entity. The remaining ten hybrid organizations are non-equity sharing strategic alliances. Half of the hybrid organizations consist of bilateral collaborations of two independent EDM event agencies, the other half consists of collaborations of more than two firms.

Interview duration ranges from 32 minutes to 89 minutes, with an average of 59 minutes. About one third (7/19) of the interviews were conducted by Skype, all other interviews were face-to-face. More than half of the interviewed participants operate in Amsterdam, which is not surprising since the Dutch EDM industry is highly

clustered in this area. Other operating cities of EDM event organizations are Utrecht, Delft, Rotterdam and Groningen. In accordance with the high speed in which the Dutch EDM industry is growing, the majority of firms (11/15) are not older than five years. The oldest participating and still active firm in this study was founded in 1997.

Table 2. Participating firms to the interviews

Type of cooperation	Event agency	Part of Hybrid Organization	Location EDM event
Bilateral	Meubel Stukken	Valtifest*	Amsterdam
	ZeeZout & Elevation Events	Ohm festival	Delft
	Sekoia	Inmotions	Utrecht
	Give Soul	Glow in the dark	Utrecht
	Vers Vermaak	Stekker in het park	Utrecht
	Club Lux	Toffe Peren	Utrecht
More than two firms	Next Monday's Hangover	Buiten Westen*	Amsterdam
	Apenkooi & GirlsloveDJs	Amsterdam Open Air*	Amsterdam
	Feestjes Met Korting	FMK Invites	Amsterdam
	Morgen.am	Festival het Alternatief	Amsterdam
	BandjeBandje	De Zon	Amsterdam
	Paradigm	Paradigm Festival	Groningen
	Kranck Jorum	Avant Garde	Utrecht

\* Joint-Venture.

#### 4.2 Methodology for Data Analysis

The data analysis in this study reflects the qualitative nature of the research strategy. A range of semi-structured questions with a focus on organizational transaction costs, governance, trust, and trust development were employed. Those questions, for example, included: 'What risks do you perceive of cooperating in a hybrid organization?', 'What are the role of contracts in this hybrid organization?', 'What role does trust play in the establishment of this hybrid organization?', 'How does trust develop over time?' The recordings of each interview are transcribed. The interview transcripts are subsequently coded with MAXQDA. A codebook of relevant labels is developed in an iterative and inductive process of continuous redefining categories, codes, and sub-codes. The codebook is available upon request. After selective coding a content analysis is done in which frequencies are counted and sequences of words are looked for. All interviews were in Dutch, the vernacular of the interviewer and interviewees. All quotes in the following sections are translated from Dutch to English. In order to enhance reliability all procedures for selecting respondents, conducting interviews, and analysing data are documented as transparent as possible. More information on the methodology of conducting and analysing our interviews, and references to the literature, can be found in Den Butter and Joustra (2014).

### 5. Analysis of Interviews: How to Govern Horizontal Hybrid Organizations

This section reports on the role of goodwill- and competence trust as governance tools, and the different factors that enhance trust development in the Dutch EDM event industry. Hence, interviewees in this study were asked about the function of and relationship between transaction attributes and trust as governance mechanism versus more formal control mechanisms such as contracts, quasi-autonomous decision bodies, and equity joint venture structures in the governance of their hybrid organization(s). Subsequently, firms were asked about the different drivers of trust towards their partners both prior as well as during the cooperation in the hybrid organization.

#### 5.1 Goodwill Trust

To leave interpretation of trust as open as possible, participants were asked on their personal perception of the development and function of trust in the hybrid organization. From the transcripts of interviewees it can be concluded that both goodwill trust and competence trust can function as governance tool. Starting with *goodwill trust*, more than 85% of the participants named goodwill as important in the establishment and/or governance of the hybrid organization. Participants specifically mentioned two aspects of goodwill trust which lead to lower organizational transaction costs of the hybrid organization.

First of all, goodwill trust diminishes behavioural uncertainty in the hybrid by mitigating the risk of opportunistic behaviour (firm #2, #3, #4, #8, #15, #17). *'I think an important aspect of good collaboration is to trust that you and your partners wish each other the best of luck. Some of our partners are really close friends; we believe they will not deceive us'* (firm #15). When goodwill trust is high, agreements do not have to be specified in lengthy and detailed contracts. Not all decisions and actions of the partner firm need to be double-checked. Time spend on controlling partners in the hybrid is reduced, as firms have confidence in each other's effort to behave according to the benefit of the total organization. As firm #2 mentioned; *'no contracts were signed, no terms of payments were specified, we knew our partners well enough to believe they would deliver on their promises promptly'*

Secondly, goodwill trust lowers time spend on dispute solving (firm #5, #8, #17). Hardly any hybrid organization in this study shared office space with their partner companies. Coordination was done through telephone, email or meetings. Cooperating without geographical proximity makes it more difficult to check each other's (daily) effort and input into the project. When goodwill trust is low and the hybrid organization encounters a setback, it is possible that one firm starts questioning whether or not its partner put in their best effort to make the event a success. This can lead to serious time-consuming conflicts. When goodwill trust is high, firms positively perceive one another's intention to behave according to the agreement. Even if disagreements occur, these can be resolved without too much trouble. Firm #5 on goodwill trust: *'If something is bothering you, you grab a beer together, discuss it, and then it's done. For instance if you're unhappy about the initial agreement on the distribution of earnings, you discuss it and reach a compromise; that's trustworthiness and the relationship you have built with your partner'*.

### 5.2 Competence Trust

In addition, more than two thirds of the participants in this study quoted *competence trust* as important in lowering organizational transaction costs. Competence trust relates to confidence in a partner's ability to perform according to the agreement.

First, competence trust decreases transaction costs by diminishing behavioural uncertainty (firm #1, #5, #7 #9, #10, #13, #17): *'If you know your partners well you'll be able to work more efficiently. You don't have to worry if something has been taken care of properly or not, you don't need to double check the work of your partner'* (firm #1). Being able to trust a partner not to default on appointments and deliver quality work is crucial to the hybrid's efficiency. Furthermore, firms need less control over their partner's behaviour if competence trust is high, which means tasks can be split up without significantly increased coordination costs.

Secondly, competence trust lowers the probability of time-consuming negotiations on strategic decisions (firm #5, #14). During the organization of an EDM event, numerous strategic choices considering line-up, promotion, stage design etcetera need to be made. Competence trust increases the likelihood that firms will share the same vision. In this way transaction costs that stem from time spend on getting everybody on the same page can be avoided.

Lastly, competence trust lowers miscommunication and coordination costs stemming from differences in ways of doing business (#5, #17). Business routines in the broad sense entail all written and unwritten rules within a firm about ways of working. This may be as simple as setting up a budget plan: *'Everybody assumes that his way of working is normal. If my partner has a different method of preparing and presenting the budget for an event, I subsequently need quite some time to get used to his way of working'* (firm #17). Another example is communication; some managers in this industry are accustomed to discussing matters in an informal setting, while others may value a structure of recording minutes and punctual business meetings. Competence trust will generally be higher when firms are accustomed to each other's business routines.

### 5.3 Social Versus Calculative Trust

Interviewees were also asked about the factors that influence their perception of goodwill- and competence trust towards the partner. These factors are subdivided in social and calculative trust drivers. The former refers to processes that lead to intrinsic motivation of behaving according to the agreement. The latter include all factors and conditions that lower the payoff of behaving opportunistically and in this way lead to calculated goodwill trust. It has been found that the initial level of perceived trustworthiness in hybrid organizations in the EDM event industry is determined both by shared personal characteristics as well as calculative conditions.

First of all, more than two thirds of the interviewees named (i) *shared norms and values* as goodwill trust driver. Many entrepreneurs in the EDM event industry are motivated by a passion for house music and culture, which causes a sense of solidarity (firm #8, #14): *'If you share the same artistic motivation for hosting events - not*

*money but love for the music - trust becomes obvious*' (firm #14). If initial social ties are low, goodwill trust can also be assured by engaging in explorative talks to yield information about norms and values (firm #5, #8, #11, #14). In addition, (ii) *mutual artistic vision* is an important condition for competence trust. This driver was named by half of the interviewed participants. If firms prior to forming the hybrid organization feel they share the same vision of the event, they are more confident that lengthy discussion will not be needed: *'You don't have to agree on all things, but you must be able to create something where you are both equally proud of and satisfied with. I definitely need some overlap in vision'* (firm #5).

The EDM event industry is a creative sector with much social interaction that makes (iii) *social ties* important in generating trust (firm #1, #2, #5, #8, #15). More than 75% of the participants quoted social ties as an important factor in making the hybrid organization work. Through informal ties firms learn about each other's behaviour, which helps to build goodwill and competence trust. These social relationships are established when entrepreneurs meet each other in informal settings, either during day-time, but also in the small hours while attending one another's event. At these parties, 'social networking' is as social as it gets, as friendships are formed by sharing ideas and business opportunities while enjoying a couple of beers.

Furthermore, strong community-like ties characterize the EDM scene, especially in Amsterdam and Utrecht. Participants do not consider other firms only as their competitors, but rather as their colleagues: *'In that sense Utrecht is just as a village, if you occasionally organize an event or visit a club, you will definitely get to know each other at some point'* (firm #5). Social ties may originate from prior business interaction (firm #1, #3, #4, #5, #8, #14). This can take the form of stage hosting, i.e. being responsible for the artistic content and design of one of the stages on the partner's festival, as well as more arm-length's business such as designing a poster or flyer for the promotion of the festival. This type of non-integrated cooperation allows firms to gain knowledge about the counterpart's ways of doing business and may lead to personal friendships (firm #1, #2, #8, #11, #13).

On the other hand social ties can be seen as calculative trust driver for two reasons. First of all, information flows rapidly through the Dutch EDM event industry due to the dense network of social ties: *'The music business, it's a small world'* (firm #14). If firm A behaves opportunistically, firm B can easily spread the news by telling his befriended colleagues and let gossip do the rest: *'If for several times you fail to pay on time, in no time everybody in the industry will know this about you'* (firm #3). Secondly, social ties enhance goodwill trust in a calculative way because managers anticipate their befriended partner will not default on his or her promises because the direct and indirect costs of breaking a friendship are significant. Although the old adage 'don't mix business with friendship' endorses the possible negative impact this could have on the friendship itself, from a business perspective social ties strengthen (calculative) goodwill trust as governance mechanism.

Another calculative driver of initial perception of trust is (iv) *importance of reputation*. Goodwill trust is enhanced by the importance of reputation as it assures firms face considerable sanctioning in the form of reputational damage if they decide to behave opportunistically (firm #1, #2, #3, #5, #8, #9 #13, #14, #15). As other EDM event organizations hear about misconduct they will exclude the relevant firm from any interesting possibilities in the future. Moreover, key suppliers, such as large production companies, may also exclude such firm from business: *'Eventually, it will only work out negatively for a company that behaves opportunistically. What I notice is that it changes their opportunities, things do not come their way anymore'* (firm #8). In this way a cooperative equilibrium of goodwill trust develops because the threat of long-term reputation damage creates an *ex-ante* commitment to behave according to the agreement *ex-post*. On the other hand, as firm #1 and #4 mention, the community-like characteristic of the sector may also undermine sanctioning, as time heals wounds: *'If someone takes advantage of your trustworthiness, you'll not be so eager to work with that partner again. However, sooner or later you will meet again in this sector, so you also have to be somewhat cool about it'* (firm #1).

Firm #13, a start-up firm that is partner to a larger firm in a hybrid organization, made an interesting point in this respect. This firm had not signed any contractual agreement, while all ticket revenues were deposited on the account of its larger partner. Apart from goodwill trust developed from social factors, this company had considerable calculative goodwill trust in its partner because the latter had way more to lose in terms of reputation: *'To cheat on us does not benefit them, it rather hurts them. If our partner would behave opportunistically, we could go to the press; they have way more to lose'* (firm #13). Hence, calculative trust can be especially important to start-ups firms which cooperate with larger and longer established firms, as the long-term loss in terms of future business due to damaged reputation is larger for the established firm if it chooses to behave opportunistically.

Like in a community, firms can also use reputation to value competence trustworthiness of other companies (firm #1, #3, #4). Firms can rank each other on subjects like amount of visitors, the DJ line-up, or the exclusivity of the location. If a firm has the reputation to sell-out its events, most likely other firms will have considerable competence trust in this firm (firm #2, #10). Social media makes it possible to gain insights into brand recognition and visitor communities, for instance by looking at the amount of 'likes' of an organization's Facebook page (firm #1, #9). The working of reputation as collective measure of both goodwill- and competence trustworthiness is quite strong in the EDM event sectors of Utrecht and Amsterdam: *'Reputation is really important. In the future you may want to cooperate with other firms to do something bigger, so it's vital that you are perceived as credible and trustworthy. Of course you can 'steal' 10,000 euro and deal with all the trouble, but why not share that 10,000 euro and the next time help each other earn 25,000 euro'* (firm #5).

Lastly, in today's competitive EDM event market cooperation is an increasingly valid strategy for business growth. This leads to the calculative condition of repeated interaction or (v) *interdependence among firms* (firm #1, #8, #9, #13, #15). Firms in the Dutch EDM event industry account for repeated interaction for business opportunities now or in the future: *'You never know when you'll need each other. So yes, good behaviour is not always sincere; sometimes it's nepotism. Everybody acts nice towards each other because we all want something'* (firm #1). Repeated interaction is a necessary condition for the calculative trust mechanisms of reputation to work.

Participants also quoted a number of factors which have an effect on developing trust during the life-cycle of the hybrid, many of which overlap with those for the initial perception of goodwill trust. Not surprisingly, goodwill trust is enhanced by (vi) *development of social ties* over time when working closely together (firm #1, #8, #11, #13, #15, #17). Also, firms value (vii) *transparency* of the counterpart's behaviour because it diminishes negative gut feelings about time and effort spend on the hybrid's goals or any suspicion about opportunistic behaviour (firm #3, #13). In this sense the development of social ties and transparency lead to better information sharing on the counterpart's behaviour, leading to higher goodwill- and competence trust. Moreover, as partners get to know each other and friendships develop, the scope for more cooperation increases: *'It just feels right to work with these guys; we're already talking about more cooperation, that's just really nice'* (firm #17).

On the calculative side, for the same reasons (viii) *development of social ties*, (ix) *importance of business reputation* and (x) *interdependence among firms* can increase goodwill- and competence trust. Interestingly, firm #9 mentioned that companies might repeatedly interact with each other in different hybrid organizations at the same time, which increases goodwill trust in a calculative way. If one firm would behave opportunistically, all other firms in all other hybrid organizations would be notified, thus effectively placing a bomb under all collaborations. Finally, (xi) *stable business success* increases goodwill trust. When events are successful, firms will anticipate on expected high and stable future profits by not behaving opportunistically. However, if an EDM event becomes less successful the incentive to behave opportunistically in order to gain short-term benefit will be larger. This worsens the trustworthiness between firms in a hybrid organization (firm #8, #15). On the contrary, rapidly growing concepts are prone to renegotiating efforts of hybrid participants (firm #3).

#### 5.4 Quasi-Autonomous Decision Bodies and Equity Joint Ventures

Quasi-autonomous decision bodies are formed when partners shift some of their decision-making rights and responsibilities to a central committee that coordinates the hybrid organization. Only three interviewees use such a structure to coordinate their hybrid organizations (firm #8, #9, #15). These firms are all in hybrid organizations with three or more partners, which raises the need for more hierarchical control and decision-making: *'I've noticed discussions get more complicated as the number of partners involved is larger. So I think it's good to have some structure, leadership, and decision-making. I can't imagine sitting with four different organizations in a room discussing everything, that's not going to work'* (firm #8). Firm #9 even installs an external manager to overview the hybrid cooperation. This benefits the organization as all partners can focus on their core responsibilities without the project becoming too fragmented. In this respect Den Butter and Ten Wolde (2014) show how an intermediary may lower organizational transaction costs by managing the comprehensive process of cooperation. In short, hierarchical coordination lowers transaction costs of communication, negotiation and coordination in a hybrid organization with more partners.

Although other interviewees did not mention the use of a quasi-autonomous decision body, the interviews enable to make some interesting observations about hybrid coordination in general. First of all, in a large number of hybrid organizations decision-making is rather flat (firm #4, #5, #13, #17). The benefit of such a structure is that decisions are made in a very transparent setting in which all partners have equal influence. This decreases behavioural uncertainty, as all participants are able to monitor and evaluate each other's strategic considerations

in the decision-making process. Some form of leadership may arise when firms have invested an unequal part in the hybrid; still horizontal decision-making remains an important way of keeping all partners committed to the organization (firm #1, #5, #15). Secondly, installing financial checks can minimize organizational transaction costs. For instance, managers from participating firms may share the responsibility to set-up and execute the budgetary plan. Financial transparency decreases the risk of opportunistic behaviour (firm #8). On the other hand, firms #4 and #17 let all receivables and payables flow through their own account, which one-sidedly diminishes risk of opportunistic behaviour of the counterpart: *'I like to keep control. In almost any cooperation I collect all revenue and do all payments. If that wouldn't be the case, I would be more cautious'* (firm #17).

Apart from independent decision-boards, hybrids can be set up as independent private companies; the equity joint venture. Two of the three hybrid organizations with a quasi-autonomous decision body, and one additional hybrid organization in this study employed this governance structure in order to mitigate organizational transaction costs (firms #3, #8, #9). Motivations to take on this governance structure are to lower financial risk due to environmental uncertainty of long-term hybrid organizations. The disadvantage of equity joint ventures lays in the costs of setting-up the private company as well as lack of flexibility. However, when transaction costs of financial risk, opportunistic behaviour and uncertainty outweigh those of committing to partners in an equity joint venture, this governance structure is to be adopted. An equity joint venture is especially advantageous to larger firms who run several event concepts at the same time: *'We prefer to structure every event or cooperation as independent as possible, so that the risk of one separate event failing does not affect the financial feasibility of all our other events'* (firm #9).

### 5.5 Trust Versus Contracts

There is evidence in the literature on both a substitutive effect of trust versus contracts (Gulati & Nickerson, 2008; Malhotra, 2009; Wallenburg & Schäffler, 2014), as well as on a complementary relationship between trust and contracts in the governance of hybrid organizations (Aalbers, 2010; Cao & Luminea, 2015; Zheng et al., 2008). The following analysis of the interviews suggests that trust can both substitute as well as complement incomplete contracts.

First of all, contractual agreements between partners in the EDM event industry do not always exist (firm #4, #5, #9, #13, #17), or in many cases are not more than confirmed arrangements by email (firm #1, #2, #3, #7): *'We do an event here, a cooperation there, and we should have contracts for all those activities, but in reality ninety percent of them are only based on trust'* (firm #3). Drafting detailed contracts entails considerable costs (firm #3), and bounded rationality implies that not all possible terms and conditions can fully be specified, which leaves loopholes open for renegotiation and opportunistic behaviour (firm #8). Moreover, an inverted relation exists between the perceived level of trustworthiness of the partner and the emphasis on contracts in the Dutch EDM event industry (firm #5, #11, #8, #13, #14, #17). In the creative EDM event industry too much emphasis on the contract can be a sign of distrust to the partner (firm #14). Firm #13 underlines that its perceived goodwill- and competence trustworthiness of the partner ex ante was high enough to participate in the hybrid without having signed any cooperation agreement, even though its partner in the hybrid organization collects and controls all event revenue.

Secondly, trust is used as complementary ex post governance mechanism for contractual agreements between partners. Trustworthiness secures that in case structural changes or conflict situations arise, partners will have less difficulty in coming to a mutually respected solution with the contract functioning as guidance (firm #1, #3, #5, #4, #8, #13). When conflicts can be mitigated on the basis of trust instead of diving into the details of the contract, significant negotiation costs can be saved. Especially small entrepreneurs lack the financial resources to prove their contractual rights in court when needed (firm #4). For these reasons, eight out of fourteen interviewees in this study value trust as more important than contracts for controlling their hybrid relationships. Another four participants assess trust as equally important to contractual agreements.

Three factors underlie the lack of reliance on contractual agreements. First of all, participants indicate that an email confirmation counts as valid proof in court. However, since many firms lack the resources to go to court, firms emphasize the ex post complementary role of trust to the paper or email agreement. Secondly, the EDM event sector is a high velocity industry, where time and resources to set-up detailed contracts often do not match with the pressure of event deadlines. As a deadline approaches all focus is put on promotion and production of the event; specifying the cooperative agreement itself tends to lose priority (firm #3, #9, #14, #17): *'Either you spend time finishing your artist line-up for the event, or spend time on the alliance contract; at that moment the booking of artists for your line-up gets priority. Before you know it the event has taken place and you haven't signed any contract. Nine out of ten times that's how it works with us'* (firm #3). Thirdly, experience plays a role

in entrepreneurs' perception of transaction risk and the applicability of trust as governance mechanism. Start-ups seem to rely more on trust compared to their more mature colleagues. As start-ups grow in size most of them come across some sort of opportunistic behaviour. These experiences can make them better informed about the net transaction costs of trust versus contracts as governance mechanism (firm #1, #2, #7).

## 6. Conclusion

Firms in a hybrid organization face interdependencies towards each other that lead to organizational transaction costs. These costs include all time and expenses spend on negotiating, communicating, dispute solving, and controlling relational risks. Our study complements the literature on governance of alliances/hybrids by analyzing fifteen in-depth interviews with managers of thirteen horizontal hybrid organizations in the Dutch EDM event industry. Additionally, in-depth interviews were conducted with four industry experts. Particularly, attention was paid to the working and development of trust as non-formal governance tool for reducing transaction risk and costs in hybrid organizations.

Analysis of the interviews suggests that trust and trustworthiness among partners can be a sufficient condition for setting up a hybrid organization, while contractual agreements generally need to be complemented by some level of trust to function effectively. Hence, trust both substitutes contracts ex ante to the formation of the hybrid organization, and acts as an ex post governance mechanism to complement incomplete contracts. Therefore our study shows that trust as governance mechanism both acts as substitute and as complement to more formal governance mechanisms in horizontal hybrid organizations in the EDM event industry. In general, it can be concluded that trust plays, in a variety of forms, a most prominent role in governing hybrid organizations in the EDM event industry and reducing transaction costs of organizing these events. Eight out of fourteen interviewees in this study value trust as more important than contracts in controlling hybrid relationships. Another four interviewees assess trust as equally important to contractual agreements.

More specifically, the case study shows that sufficient levels of goodwill- and competence trust between partners can function as ex ante satisfactory condition for setting up a hybrid organization without drafting contracts or using hierarchical control. Trust has a reciprocal effect on perception of transaction risk, therefore mitigating the need for more formal governance mechanisms. Moreover, an inverted relation exists between the perceived level of trustworthiness of the partner and the emphasis on contracts in the Dutch EDM event industry. The caveat here is that experience, or professionalism, of a firm can have an influence on how it perceives risks and weighs different levels of trust in the hybrid organization. Moreover, the high velocity characteristic of the EDM event industry causes firms to rely proportionally more on trust as governance mechanism because practical organizational aspects of the event often have priority over drafting contractual agreements between partners in the hybrid. Hence, hybrid forms of organization based on trust foster flexibility and adaptability in the organization of EDM events.

With respect to the "game of trust", goodwill- and competence trust function as ex post governance complements to more formal governance mechanisms by lowering transaction costs of opportunistic behaviour, re-negotiations, and coordination. Goodwill trust lowers behavioural uncertainty in the hybrid by creating positive expectations on the partner's intention to contribute to the success of the hybrid organization, thereby mitigating the risk of opportunistic behaviour. Competence trust lowers transaction costs of coordination and miscommunication resulting from differences in ways of doing business. Furthermore, high levels of either forms of trust lower the probability of time-consuming negotiations on strategic decisions and dispute solving. In terms of formal governance mechanisms only three hybrid organizations in our sample employ a quasi-autonomous decision body as ex post governance; all of these hybrids consist of three or more partners, which raises the need for more hierarchical control and decision making. Moreover, two of these hybrids, and one additional hybrid organization, have set up an equity-sharing joint venture structure to mitigate the transaction costs of financial risk, opportunistic behaviour and uncertainty.

Our case study shows that the initial level of perceived trustworthiness in hybrid organizations in the EDM event industry is determined both by social characteristics as well as calculative conditions. First of all, more than two thirds of the interviewees named (i) *shared norms and values* as goodwill trust driver. If initial social ties are low, goodwill trust can also be assured by engaging in explorative talks to yield information about norms and values. In addition, (ii) *mutual artistic vision* is quoted as an important condition for competence trust, as lengthy discussions on promotion and production characteristics of the event can be limited. The EDM event industry is a community-like creative sector with much social interaction which make (iii) *social ties* important in generating both goodwill- and competence trust. It should be mentioned that social ties as driver of trust can be categorized as working in both a social as well as a calculative manner.

Another calculative driver of initial perception of goodwill- and competence trust is (iv) *importance of reputation*. The importance of reputation assures that firms face considerable sanctioning in the form of reputational damage if they behave opportunistically. This role of reputation to lower organizational transaction costs can be compared with the reputation of a local butcher or bakery: the gain from ‘cheating’, i.e. not comply with the required standards is lower than the loss of reputation due to mouth to mouth chatter. Moreover, for attracting customers to the festivals, firms in the EDM event industry make use of reputation build up through the social media to signal the quality of their festival. Here the reputation mechanism to enhance trustfulness looks like that used by virtual marketplaces in online shopping (see e.g. Resnick et al., 2000; Brown and Morgan, 2006; Saeedi et al., 2015). Lastly, in today’s competitive EDM event market cooperation is an increasingly valid strategy for business growth. This leads to the calculative condition of repeated interaction or (v) *interdependence among firms*.

Participants also quote a number of factors which have an effect on developing trust during the life-cycle of the hybrid, many of which overlap with those for the initial perception of goodwill trust. Not surprisingly, goodwill trust is enhanced by (vi) *development of social ties* over time when working closely together, in part contradicting the findings of Meiseberg and Ehrmann (2013) on the role of bonding and tendency to cooperate. Also, firms value (vii) *transparency* of the counterpart’s behaviour because it diminishes negative gut feelings about time and effort spend on the hybrid’s goals or any suspicion about opportunistic behaviour. On the calculative side, for the same reason (viii) *importance of business reputation* and (ix) *interdependence among firms* can increase both goodwill- and competence trust. Finally, (x) *stable business success* increases goodwill trust. When events are successful, firms will anticipate on expected high and stable future profits by not behaving opportunistically. This list of ten trust drivers provides a comprehensive confirmation of our hypothesis (H1), namely that various types of trust are relevant in the hybrids organising Dance events: both social and calculative drivers lead to the development of trustworthiness between partners in the hybrid organization in the EDM event industry. Moreover the lack of reliance on contractual agreements, noted in the case study, confirms our second hypothesis, H2, namely that trust is an important substitute for contracts in the EDM industry

Our findings on the importance of shared values, norms and visions for developing trustworthiness between partners in a hybrid organization link to the results of Jolink and Niesten (2015). In their meta-analysis of 90 studies they find proof for the positive effect of shared partner understanding and shared alliance objectives on *alliance performance*. By sharing information partners gain understanding about common interests and a mutual understanding of the terms of the alliance relationship. The success of an alliance will increase when partners share values because they will identify with one another and be more committed to the alliance. This reduces the likelihood of opportunistic behaviour, of which our results suggest this is -at least partly- due to the working of enhanced goodwill trust. Additionally, Jolink and Niesten (2015) find a shared business vision and shared methods for problem solving to be important for alliance success. Our results suggest That this is, at least partly, due to the working of enhanced competence trust.

In summary, to effectively manage organizational transaction costs entrepreneurs possess a diversified set of tools. Selection of these tools is done with entrepreneurial intuition, which seems in line with Furubotn’s (2001) notion on how a “neoinstitutional” firm reaches its allocative decisions. The true challenge lies in balancing the costs of the flexible, adaptable and smoothening characteristics of trust as ex ante and ex post governance mechanism with the costs of the more rigid but comprehensive formal governance mechanisms such as contracts or shared equity structures. It makes transaction cost management a central part of business conduct in the EDM event industry. Our findings show that research on the characteristics of trust as governance mechanism is both important and necessary to fully understand and advice on new forms of cooperative hybrid organization.

From that perspective, future research in this field could address: (i) the role of trust versus more formal governance tools in low-velocity and/or non-creative industries, (ii) empirical testing of the importance of goodwill- and calculative trust versus more formal governance tools for lowering organizational transaction costs, and (iii) empirical testing of the effect of management experience/maturity on the choice of governance structure for start-up firms. Moreover, our study refers to the way the EDM event industry is organised in hybrids in the Netherlands. Up to now Dutch EDM event organisers dominate the world market for such events-e.g. the Dutch DJ Hardwell had two shows in Vancouver, Canada in the end of December 2015. The question, however, is whether this cooperative and informal way of organising EDM events will still remain dominant when the world market for such events increases even further and organisers from other countries enter the market.



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## Appendix

### Participating hybrid organization

# (random)	Hybrid Organization	Firms	Bi / Multi	JV / Alliance
1	Festival het Alternatief	Morgen.am*, Zeezout, Tomorrow is now Kid	Multi	Alliance
2	Toffe Peren	Toffe Peren*, Horizontaal	Bi	Alliance
3	Avant-Garde	Kranck Jorum*, Apollo Events, Supernatural	Multi	Alliance
4	De Zon	BandjeBandje*, Pleinvrees, Next Monday's Hangover, Chasing the HiHat	Multi	Alliance
5	Inmotions	Sekoia*, Claydrum	Bi	Alliance
6	Feestjes met Korting Invites	Feestjes met korting*, KRÄK Festival, Cookieclub	Multi	Alliance
7	Glow in the Dark	Give Soul*, Elevation Events*	Bi	Alliance
8	Ohm Festival	ZeeZout*, Elevation Events*	Bi	Alliance
9	Buiten Westen festival	Next Monday's Hangover*, Pleinvrees, The Good Guyz	Multi	JV
10	Paradigm festival	Paradigm*, Pole Group, Moral Fiber, Break-fast, Up-projects	Multi	Alliance
11	Valtifest	Meubel Stukken*, MTV	Bi	JV
12	Stekker in het park	Vers Vermaak, Triomf Productions	Bi	Alliance
13	Amsterdam open air	Apenkooi*, GirlsloveDJs*, Chasing the hihat, Plak, Carnivale, SFRMKRS, Strafwerk, Diepzinnig, Air, Nachtspele, Baws, MTV, Format	Multi	JV

\* Interviewed participant of this study.

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